



Australian Government

Australian Trade and Investment Commission

ENTERING THE GERMAN MARKET: A GUIDE FOR AUSTRALIAN TECHNOLOGY COMPANIES

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SECTION 1

INTRODUCTION

// ABOUT THE GUIDE

Entering the German Market: A Guide for Australian Technology Companies is designed to help export-ready technology businesses and innovators understand the potential benefits of the German market as a means for scaling their business internationally.

With the assistance of Australian businesses and professionals in Germany, we have updated the original 2022 Guide compiled with Betahaus to provide you with essential information and advice about selling into and entering the German market. The report identifies important differences between regions, hubs and industry verticals and will help you navigate the sometimes complex technical side of establishing and running a business in Germany, from taxes to data privacy to intellectual property. Additionally, it offers insights into: how Germany views innovative foreign companies; pathways for finding funding, partners, and clients; and the importance of incorporating your business in the market.

The report illustrates what innovative Australian tech companies can expect from German business culture, including dispelling some common misconceptions and sharing important tools for building commercial connections and a robust network. Most importantly, it outlines the keys to success for Australian companies entering the German market, including:

- Being *in Germany* – the investment (time, resources and capital) required to effectively grow a network and sell into the market is considerable, and relies heavily on having a face-to-face presence.
- Seeking out local experts and digital hubs (each of which is tailored to a specific industry) and contacting them directly in order to build your network and put your business on the map.
- Joining a trade association in order to gain visibility in your industry and build connections with potential customers and partners.
- Establishing professional relationships before rushing into deals and always striving to articulate how you can help potential partners' specific business.
- Presenting hard data that demonstrates your product's viability in Germany to potential partners and investors.

- Consulting qualified legal advisors familiar with German law before signing any business deals, in addition to investing in a dedicated accountant.
- Ensuring sufficient insurance coverage to manage business risks and penalties that may arise.
- Considering the impact of transferring data to and from Germany and taking the necessary steps to ensure compliance with the General Data Protection Regulation (GDPR) ahead of your arrival.
- Incorporating in Germany in order to access additional advantages (eg, government funding opportunities, limit your tax burden).

Austrade recognises the amazing potential of innovative Australian tech companies and hopes that this report will help you fulfill your potential on a global scale.

About Austrade

The Australian Trade and Investment Commission (Austrade) is Australia's leading trade and investment agency. We are experts in connecting Australian businesses to the world and the world to Australian businesses. We have a proud history of helping Australian businesses pursue their global ambitions and have the power to open doors, unlock opportunities and help Australian businesses go further, faster. We help attract game-changing investment to Australia, to support new industries, enhance existing ones and bolster our world-class research and development – strengthening global supply chains, creating local jobs and boosting the economy.

With over 80 offices around the world, our experts in Australia and abroad collaborate to provide the best 'in-country' advice. Our diverse team, consisting of country experts, industry specialists and trade and investment analysts, provides clients with actionable macro and micro insights. From trade and investment processes to protocols and regulation - we help Australian businesses, big or small, navigate complex overseas markets and make it easier for them to go global.

About betahaus

Betahaus is a community and coworking space in Berlin for people who want to work on their own projects and businesses while exchanging knowledge, ideas and inspiration with other. Betahaus is there to open doors and to expand possibilities. We foster entrepreneurship, creativity, rapid prototyping and innovative product development.

Our community consists of entrepreneurs, startups, freelancers, innovative corporate teams, designers and makers of all kinds, who to various degrees collaborate and cooperate. We currently offer coworking in Berlin, Hamburg, Sofia and Barcelona. Our community in Berlin currently consists of over 500 members.

Acknowledgements

We would like to gratefully acknowledge the input we received from the following companies and organisations, and thank them for helping other Australian companies to succeed in the German market.

- base2Services
- Liquid State
- Smart Parking
- SPEE3D
- The German Australian Business Council (GABC) and its members

SECTION 2

HOW GERMANY DOES BUSINESS

A. Business Culture

From outside the country, German business culture is often viewed as strongly adhering to rules, structures and procedures: companies are well-organised, have strictly-defined hierarchies and place trust in senior executives to make important decisions. While this may be the case in some areas, German business culture has evolved greatly over the past decade or so thanks to the digital and technological transformation of manufacturing and business processes under Industry 4.0.

These days, German tech business culture has a strong focus on innovation, sustainability and efficiency, as well as a drive to ensure a healthy work-life balance. Companies recognise the importance of net zero targets, and actively look to reduce waste, source clean energy and reduce their carbon footprint. While it's true that German workplace culture often has a strong sense of hierarchy, with clear lines of authority and respect for seniority, there is also corporate commitment to empower employees to take ownership of their work and contribute ideas to the company's overall strategy. German tech companies prioritise research and development and are investing in advanced technologies such as Artificial Intelligence, machine learning, and the Internet of Things.

Australian businesses should still be aware of some important differences. Compared to Australia, there may be a stricter division in Germany between professional and personal lives. This is changing but Australians can find situations where small talk is rare in business meetings and speaking about work at social gatherings is frowned upon. Germans themselves are conscious of this division: younger Germans in newer sectors tend to see work relationships similar to those in Australia, while older Germans in more traditional sectors may still take weeks or months to develop a personal relationship with a business contact, if at all.

German firms tend to be risk-averse, and always want to be wholly convinced before engaging in a partnership. As a result, the pace of doing business is somewhat slower than in Australia. Many Germans view success simply in terms of whether or not a business is sustainable – bootstrapping, demonstrating your product's viability and creating jobs are good ways to garner a positive reputation. Risk-taking purely in the name of rapid growth or focusing

too much on securing funding can reflect poorly on your business and may scare away potential partners.

To ensure you put your best foot forward, it is essential to be punctual, respectful of counterparts' position and responsibilities, and well-informed about the task at hand when conducting business. Australian tech companies should stick to prepared agendas, use a professional communication style, try not to rush to convert a sale and focus on what is most important to potential partners: articulating how you can help their specific business.

More than half of the German population speaks English, and it is even more prevalent in cities and within the business culture so, in a practical sense, language should not be an obstacle.¹ However, learning a basic level of German is useful, at the very least, when greeting and welcoming counterparts. More importantly, it demonstrates that you respect their culture and can go a long way toward establishing professional relationships. Be sure to always address business associates by their formal title (Herr, Frau, Herr Dr., Frau Dr.), and if speaking in German it is best to start off with the formal form of address ('Sie' for 'you').

Germans greatly value honesty and social responsibility, and that's especially true in business. Business meetings tend to be focused, rarely stray beyond the agenda and participants use a direct tone when speaking. The market is highly regulated, so you should expect that your German counterparts will thoroughly analyse business deals and investment contracts before signing – and they will expect you to do the same. Australian companies should consult qualified legal advisors and dedicated accountants with cross-border experience (ie in both German and Australian law). Unethical behavior will permanently tarnish a company's reputation and make it nearly impossible to continue doing business in Germany.

¹ European Commission, 'Europeans and Their Languages', *Special Eurobarometer 386*, 2012, p. 21.

B. Germany's *Mittelstand*

The *Mittelstand* (that is, German firms with fewer than 500 employees and less than €50 million in annual revenue) accounts for 99% of German companies², with the vast majority still owned or managed by their founding families. Over decades of operation, they have fostered high levels of trust with consumers and made workers feel valued by maintaining a 'family feel'. They also account for over 80% of apprenticeships and with Germany recording one of the lowest youth unemployment rates in Europe, this further contributes to their status as the backbone of the economy.

Both traditional SMEs (*Mittelstand*) and start-ups are crucial drivers of innovation. *Mittelstand* companies have long been at the forefront of developing new technologies especially in manufacturing, chemical products and mechanical and electrical engineering. However, the digital demands of the 21st century exposed the *Mittelstand* as poorly positioned to adapt their business models and continue to compete globally. In an effort to address these emerging challenges of the fourth industrial revolution (also referred to as Industry 4.0), innovative tech companies have begun to partner with the *Mittelstand* and spearhead advancements in automation, artificial intelligence and the Internet of Things (IoT). German start-ups and international tech scale-ups brought with them new skills and a nimble mindset, while the *Mittelstand* offered access to vast professional networks, highly-developed infrastructure and impressive manufacturing capabilities. Just in the last decade, such partnerships have produced positive results, and they are expected to continue to become even more common in the future. For Australian B2B companies in particular, partnering with a *Mittelstand* company in-market is an attractive option for introducing and adapting products to a new market, and tapping into a vast network of clients across Europe.

The *Mittelstand* can be difficult to penetrate if you do not know how to establish connections. 'Cold calling' and 'cold emailing', for example, are frowned

² Bundesverband der Deutschen Industrie, *Der Deutsche Mittelstand: ein wirtschaftliches Erfolgsmodell*, BDI website, accessed July 15, 2021

upon. Germans and German companies prefer to foster relationships through trusted advisors. Australian tech companies should seek out local city or state business centres, Digital Hubs (see Regional Hotspot section) and trade associations (which SMEs trust and rely on for potential partners) whose recommendations will give their business credibility.

C. Big Players to Know

Alongside the SME majority, there are a number of multinational corporations with significant influence in the German and global economy. These include the Big Three automakers Volkswagen, Daimler and BMW; industrial conglomerates Siemens and Bosch; insurance giant Allianz; and telecommunications firm Deutsche Telekom.

Many of these companies grew out of the *Mittelstand*, and their size and revenue have helped them establish an even greater reputation as catalysts for innovation. They invest heavily in emerging technologies by operating accelerators, incubators and venture client units (a new corporate venture model in which a multinational helps fund a startup's research and development, before purchasing a majority share once a solution is proved viable). Through these programs – as well as coworking spaces and innovation hubs – Australian tech companies are able to develop or tailor their products, gain access to high-quality talent and build their professional network. For Australian companies in particular, corporate accelerators are an excellent way to adapt their product for the German market and establish connections with key players.

Furthermore, corporate venture capital (VC) firms account for roughly a quarter of all German VC funding.³ Similar to approaching SMEs, it is best to reach out to these corporate VCs through a common connection or in a professional setting such as a trade fair; just be sure to come prepared with a watertight elevator pitch (see pitch section) and an understanding that your business or solution matches their specific investment criteria.

³ White Star Capital, *German Venture Capital Landscape 2020*, White Star Capital, 2020, accessed July 12, 2021

D. Importance of *Verbände*

There are more than 15,000 German trade associations, or *Verbände*, and they play a key role in making the economy work.⁴ In addition to lobbying the government and EU, they conduct industry research, identify economic trends, boost networking, foster strategic partnerships between member companies and mitigate potential conflicts between members. They can also sometimes act as gatekeepers into their industry, which is why engagement is important.

For members, trade associations serve as a gathering point to discuss ideas, learn from one another and build connections. It is not uncommon for members in the same industry to partner on new projects if it is mutually beneficial, especially as a reaction to industry reports from the trade associations that forecast the need for greater collaboration. While large trade associations have considerable political power, Australian companies are usually better served joining a smaller association or organisation that more concisely matches their vertical in order to foster more personal connections and gain access to relevant advice. An example of this would be the German Australian Business Council.

Verbände are eager to welcome new members, especially those within emerging industries. Membership fees vary depending on the trade association, but occasionally offer lower rates to new members – Australian companies should be sure to inquire about special offers before joining. For foreign companies in particular, the networking benefits are profound, not to mention potential insights into regulation, investment opportunities and international growth strategies. Joining a trade association is one of the best ways for innovative Australian tech companies to gain visibility in an industry, as well as build connections with *Mittelstand* firms and potential customers. Without a trade association, the networking that is essential for success in Germany becomes much, much harder to do.

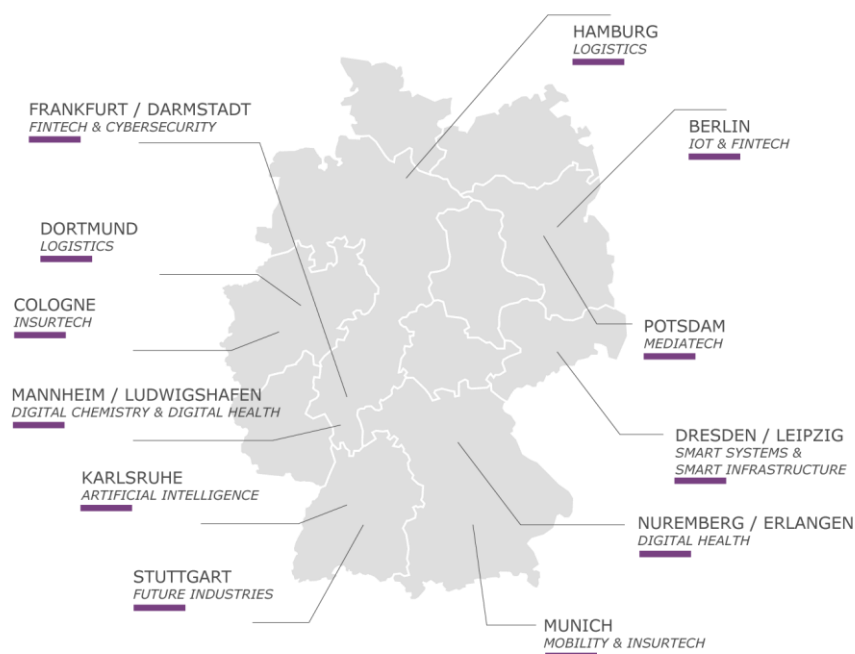
⁴ Deutsche Verbände Forums, *Die Anzahl der haupt- und nebenamtlich geführten Verbände - Entwicklung seit 1990*, Deutsche Gesellschaft für Verbandsmanagement e.V., 2018, accessed July 15, 2021

SECTION 3

INNOVATOR AND TECH CULTURE

A. Regional Hotspots and Differences

A map of Germany's 12 digital hubs and their industry focus



Much like the country's economy in general, different regional ecosystems tend to specialise in different verticals. To help support innovative foreign tech companies entering the German market, the government has founded the Digital Hub Initiative (<https://www.de-hub.de>), which seeks to connect these companies with SMEs, corporates and investors. It features 12 hubs in different cities across Germany, each specialising in a specific industry.⁵ This is a key resource for new entrants to the market and the benefits of these hubs for Australian companies cannot be overstated – they actively help post job offers, find clients, build partnerships and gain visibility among established players. Australian tech companies should seek out the hub that best fits their business and contact them directly to better understand which advice and assistance they can offer.

There's no doubt that Berlin is one of the country's most prominent tech ecosystems. The capital is fast-paced, teeming with international talent and

⁵ Federal Ministry for Economic Affairs and Energy, *Digital Hub Initiative* [website], [de-hub.de/en/](https://www.de-hub.de/en/), n.d., accessed July 20, 2021

ranks highest in absolute growth and investment.⁶ Non-Germans account for over 40% of employees and English is the company language in two-thirds of tech offices, twice the national level.⁷ Additionally, founders are considerably more willing to take risks than in any other city. This environment makes Berlin an excellent location for incubation and early-stage collaboration. However, an Australian company that has already developed their product and established themselves abroad may find more success in another German market that specialises in their vertical.

Munich is home to Siemens, BMW and Allianz – among other German multinationals – which offers unique opportunities for tech companies to test their product and take it to market. Many of these multinationals operate their own corporate VCs and offer additional support in the form of accelerators and incubators. The region's industrial infrastructure has helped produce a significantly higher share of B2B companies than Berlin or Hamburg. It has produced nine unicorns, with HealthTech, Mobility and GreenTech among its most prominent verticals.

Frankfurt's central location, status as the financial capital of the EU and the presence of the European Central Bank, in addition to its significant network of angel investors, make it especially welcoming for FinTech and logistics companies, while the broader Frankfurt Rhein-Main metropolitan area is home to several multinational corporations and respected research institutes. The port city of Hamburg, meanwhile, has long been known as a hub for international business, and is also Germany's media capital. Its ecosystem has emerged as one of the best for gaming, FinTech and InsurTech.

Beyond these big cities, there are a number of smaller startup hubs across Germany. One in five startups is located in North Rhine-Westphalia, which boasts prestigious universities, digital hubs in Cologne and Dortmund have the highest share of GDP of any German state.⁸ The Ruhr area in North-Rhine Westphalia is a growing hub for B2B innovation. Stuttgart and Karlsruhe (both in the state of

⁶ White Star Capital, *German Venture Capital Landscape 2020*, White Star Capital, 2020, accessed July 12, 2021

⁷ Bundesverband Deutsche Startups e.V., *Deutscher Startup Monitor 2020*, Bundesverband Deutsche Startups e.V., 2020, accessed July 12, 2021

⁸ Bundesverband Deutsche Startups e.V., *Deutscher Startup Monitor 2020*, Bundesverband Deutsche Startups e.V., 2020, accessed July 12, 2021

Baden-Württemberg) have emerged as hubs for information and communication technology and DeepTech powered by leveraging relationships with well-respected SMEs, corporates and research institutes.

B. Unicorns and Prominent Players

The distribution of unicorns in the market further demonstrates the decentralised nature of Germany's industries. Once again, Berlin leads the way in total number of unicorns, but several prominent unicorns have emerged from the smaller ecosystems.⁹

Automotive car trading platform Auto1 Group, FinTech giant N26 and prosthetics company Otto Bock – were all founded in the capital. Otto Bock is somewhat of an anomaly, though, having been founded in 1919. Amidst its steady rise in valuation, it continued to significantly invest in inventors and startups, as well as its own research and development division. This ultimately is what allowed it to outcompete rapid-growth focused competitors.

Other Berlin-based unicorns include online retailers Zalando and home24, as well as FoodTech pioneers Delivery Hero and Hello Fresh. These companies were able to take advantage of Berlin's leading investment ecosystem to secure late-stage funding, attract international investment, and ultimately secure their exits.

Inter-city mobility service company FlixBus (Munich), booking website Trivago (Düsseldorf), and excursion marketplace GetYourGuide (Berlin) have emerged as leaders in the travel tech space, while sustainable aerospace company, Lilium (Munich), has caught international attention for its vertical take-off aircraft. Other notable unicorns include video conferencing software developer TeamViewer (Baden-Württemberg), online music platform Soundcloud (Berlin) and digital insurance company wefox (Berlin).

One of the highest-valued new German tech companies is SaaS company Celonis. Founded in Munich in 2011, they developed their data process mining

⁹ White Star Capital, *German Venture Capital Landscape 2020*, White Star Capital, 2020, accessed July 12, 2021

software with the help of an SAP accelerator. This helped them gain access to corporate clients including Siemens and BMW, and forgo outside investment for the first five years of their existence. During this period, they adapted their optimisation tool for use across a variety of industries, including supply chain management, financial reporting and customer support. By the time they raised their Series A funding in 2016, they were well on their way to unicorn status – and in 2022 they raised US\$1 billion in funding at a \$13 billion valuation.¹⁰ They are still located in Munich – and now have subsidiaries in New York, Madrid and London, among other cities.

A number of Germany's unicorns raised large amounts of funding in 2022, including: Personio (HR tech - US\$200m at an \$8.5bn valuation); Volocopter (flying taxis - US\$182m); and WeFox (\$400m at a \$4.5bn valuation).¹¹

What does this mean for Australian tech companies? Their success illustrates the advantages of focusing on product development and client acquisition rather than trying to secure outside funding right away. By pivoting from a solution for a single industry (automated customer support) to one that can be adopted across many, they were able to ultimately achieve unicorn status and expand across the globe. This growth trajectory and their success in attracting late-stage funding from German (and international) investors would not have been possible, though, if they had not demonstrated the sustainability of their business model in Germany first.

C. Incubators, Accelerators and Coworking Spaces

Many accelerators require applicants to be incorporated in Germany, or (especially in the case of pre-seed startups) will help founders incorporate as a first step in order to gain access to government funding at the national and European level. Finding an accelerator that best suits a startup depends largely on its vertical, to-date funding and ambition. This is especially important for Australian companies to consider – being in the appropriate location is crucial to

¹⁰ Celonis, <https://www.celonis.com/press/crunchbase-celonis-raises-1billion>, accessed March 1 2023

¹¹ Financial Times, *German Tech in 2022*, <https://sifted.eu/articles/germany-tech-in-review-2022/>, accessed March 1 2023

helping kickstart network-building and finding mentors to help adapt their product for the German market.

Some notable programs include German Accelerator, TechFounders, Next Commerce Accelerator and the media-for-equity program ProSiebenSat.1 Accelerator. Plug and Play, meanwhile, offers programs in Stuttgart, Munich, Frankfurt and Hamburg that focus on mobility, Insurtech, FinTech and supply chain management, respectively. Other accelerators, though, focus on specific stages of development rather than industries. Programs that target growth-stage companies are often backed by corporate VCs or state investment banks, making it easier for participants to engage with SMEs and multinationals.

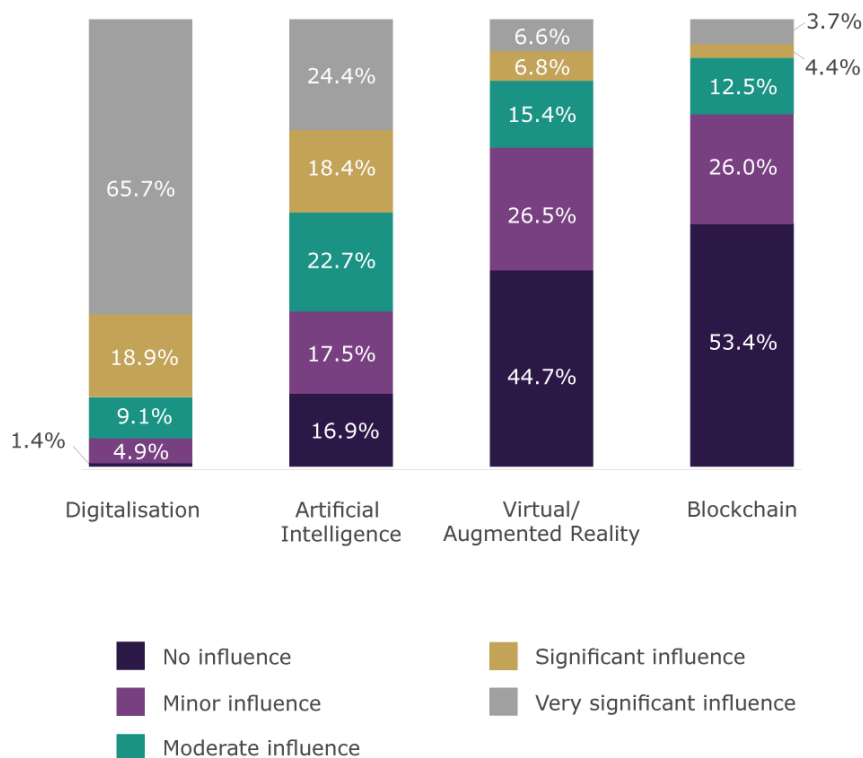
Additionally, companies incorporated in Germany can take advantage of EU programs. The European Institute of Innovation and Technology (EIT), which has a hub in Munich, offers significant support through a variety of different programs in the urban mobility, health and FoodTech sectors. A full list of other EU initiatives (which tend to be industry-specific), can be found here: https://europa.eu/youreurope/business/finance-funding/getting-funding/access-finance/index_en.htm.

D. Prominent Industries

The emerging importance of artificial intelligence within the German ecosystem cannot be overstated. Well-established multinational companies and a steady stream of highly educated workers from German universities provide an ideal framework for investments in AI research and development. In this space, it is therefore important for Australian companies to be aware of competitors in-market, both new and established, and be able to completely distinguish themselves in order to compete for funding. The success of Blockchain and DeepTech startups, too, has grown significantly in recent years (both Celonis and wefox are recent examples of unicorns who relied heavily on automation and machine learning in their technologies). Over 40% of German startups now say their business model is influenced by AI technologies, and digitalisation is a

consideration in two-thirds of startups' business models.¹² This shows that successful founders have recognised the economy's demand for digital solutions and are reaping the rewards.

Influence of Digitalisation/New Technologies on Business Model (Source: Deutscher Startup Monitor 2020)



In addition to the market's support of digital solutions, the last decade has seen a growing interest and investment in climate- and sustainability-focused companies. These issues have long been important to the German people, and innovative tech companies have had success developing sustainable solutions for traditional SMEs and corporates.

More generally, the German ecosystem is particularly known for its plethora of B2B companies. The country's extensive network of manufacturing SMEs, industrial capacity and high trade surplus mean companies are always looking for new products and services which can help them grow their footprint

¹² Bundesverband Deutsche Startups e.V., *Deutscher Startup Monitor 2020*, Bundesverband Deutsche Startups e.V., 2020, accessed July 12, 2021

across Europe. This makes Germany particularly enticing for innovative Australian tech companies who identify and demonstrate that their product or service can provide a solution for German companies.

E. Building your Network and Finding Talent

In order to successfully build a network in Germany, it is most effective to *be* in Germany. Unlike in some other markets, it is not possible to stay for a few months, set up a dozen meetings and build the connections you will require to grow. The investment (time, resources and capital) required to effectively grow a network in Germany is considerable and relies heavily on having a face-to-face presence.

Successful foreign tech companies have highlighted the importance of finding a local partner who is well-connected, experienced and speaks the language. This could be a cofounder, mentor or advisory board member, but what matters most is their knowledge of the relevant industry and ecosystem – they are essential to ‘bridging the gap’ between German parties (partners/customers/investors) and foreign companies new to the market. Again, contacting local digital hubs and state-backed business portals will help identify partners, talent and investment opportunities and post job listings. In addition to attracting junior talent from respected universities and research institutions, these hubs will connect you with qualified candidates at the management level, which Australian companies must hire to meet requirements to incorporate a German subsidiary (see business structure section).

It is vital to recognise that engaging talent in Germany is very different from Australia. German labour law contains strong restrictions around the use of short-term contracts, and the increasing and decreasing of permanent staff comes with significant liabilities for companies that get it wrong. Potential employees see many benefits (i.e. health insurance, annual leave) as standard and will be reluctant to work for a company that doesn’t match local industry. Bringing Australian employees to Germany also requires knowledge of German visa requirements. Australian companies looking at hiring local staff should consult legal advice prior to making any decisions.

Once initially established in the market, Australian tech companies can take advantage of Germany's vast array of networking events. The country is known internationally for its plethora of trade fairs and expos, which are an important tool for business development. The country hosts 160 to 180 trade fairs annually, attracting 180,000 exhibitors and almost 10 million visitors.¹³ As it applies to new market entrants, German events tend to be smaller (the most prominent of which are Bits & Pretzels, PIRATE Summit, and Tech Open Air), but there are also a number of prominent European fairs (Web Summit, Slush, and The Next Web, among others) which offer opportunities to increase brand awareness and recognition.

Demonstrated local success is key and is dependent on how effectively you can grow your network. Even if an Australian tech company's product/service is successful in the Australian market, partners, investors and buyers will want to see proof-of-concept in Germany. In this sense, it is important to acquire a handful of clients upon arrival before seeking out medium- and long-term funding or partnership opportunities. Joining a trade association and being active in a city's innovation hub is the most important step to fostering connections and gaining clients, and will help further alert industry leaders of the solutions your company provides.

F. Stepping Stone to Europe and the World

Germany's broader economy has long been known for its manufacturing prowess and trade surplus, and these traits have also helped shape the ecosystem for innovative tech companies. Incorporating in Germany offers Australian companies access to government support, can minimize the tax burden, and limits risk. With an investment community that's particularly supportive of products with scalable, long-term potential, Germany is an excellent stepping stone for companies with European ambitions.

In the last decade, the government has consistently promoted innovative tech companies and views them as necessary for helping the *Mittelstand* adapt to

¹³ Verband der deutschen Messewirtschaft (AUMA), *Germany's Trade Fair Market*, auma.de/en/facts-and-figures/germanys-trade-fair-market, n.d. Accessed July 15, 2021

the challenges of Industry 4.0. By combining their expertise in emerging fields with the industrial capacity of prominent SMEs, the country is catching up with other European powers' digitisation efforts. However, digitisation is not uniform across all sectors of Germany industry, and this opens opportunities for Australian tech companies.

As long as an Australian firm's subsidiary is incorporated in Germany, they are eligible to apply for government initiatives but it is important to check the details with a qualified accountant. Between 2014 and 2018, government agency limited partnerships accounted for a third of venture capital.¹⁴ This includes government-backed *Zukunftsfonds*, or 'Future Funds', which directly target growth-stage tech companies with high capital requirements. These funds are the primary form of government support, but individual states often run their own initiatives too. Australian companies should contact their local digital hub or startup portal to find out about these grant programs.

Furthermore, the EU offers support for European-based startups (including Australian startups with an entity incorporated in Germany) specifically intent on international expansion through the European Investment Fund, European Recovery Program, and the European Regional Development Fund, as well as its EIC Accelerator. Collectively, this highly-connected ecosystem of resources make Germany the ideal place for foreign founders to grow their business on an international scale.

What is important to know, though, is that **all foreign companies** need to make their presence known and demonstrate the viability of their product *in Germany* before they can begin to tap into this network. German SMEs and industry leaders are more willing than ever to turn to foreign tech companies for innovative solutions, but they will not hand over the keys until they're convinced it is mutually beneficial in the long-term. Australian tech companies willing to invest the time necessary to connect with local partners and build relationships stand to reap significant benefits.

¹⁴ White Star Capital, *German Venture Capital Landscape 2020*, White Star Capital, 2020, accessed July 12, 2021

SECTION 4

PITCHING & FUNDRAISING

A. Overview of Market

Given its status as a European superpower with the world's fourth largest economy, Germany is seen as a top destination for companies across the globe. In the past, the market's fundraising ecosystem was generally well-respected, due to its place among the top markets in Europe in total investment. However, at the same time it lagged behind other markets when it came to late-stage funding. Many believe this was due to German investors' general risk aversion – as well as a lack of interest from abroad – but this has already begun to change.

Between 2012 and 2019, the share of seed/Angel funding fell from about 70% to 45%, while the share of Series A funding doubled.¹⁵ As of 2019, the distribution of Series B-E funding was more balanced than ever, more closely mirroring the landscape in countries like the United States and China. It remains to be seen what impact Brexit will have on the funding landscape within the EU, but it has already led to a number of firms relocating to Germany due to regulatory constraints.

Despite fluctuations, Germany still ranks first in the EU in venture capital funding, concentration of unicorns, population of non-native English speakers and has arguably the most qualified talent pool in Europe.¹⁶ German VCs are very targeted with their investments and tend to focus strictly on the industries and business models they've previously invested in. Approaching the wrong firm is a waste of your time (and theirs) and will reflect poorly upon your company.

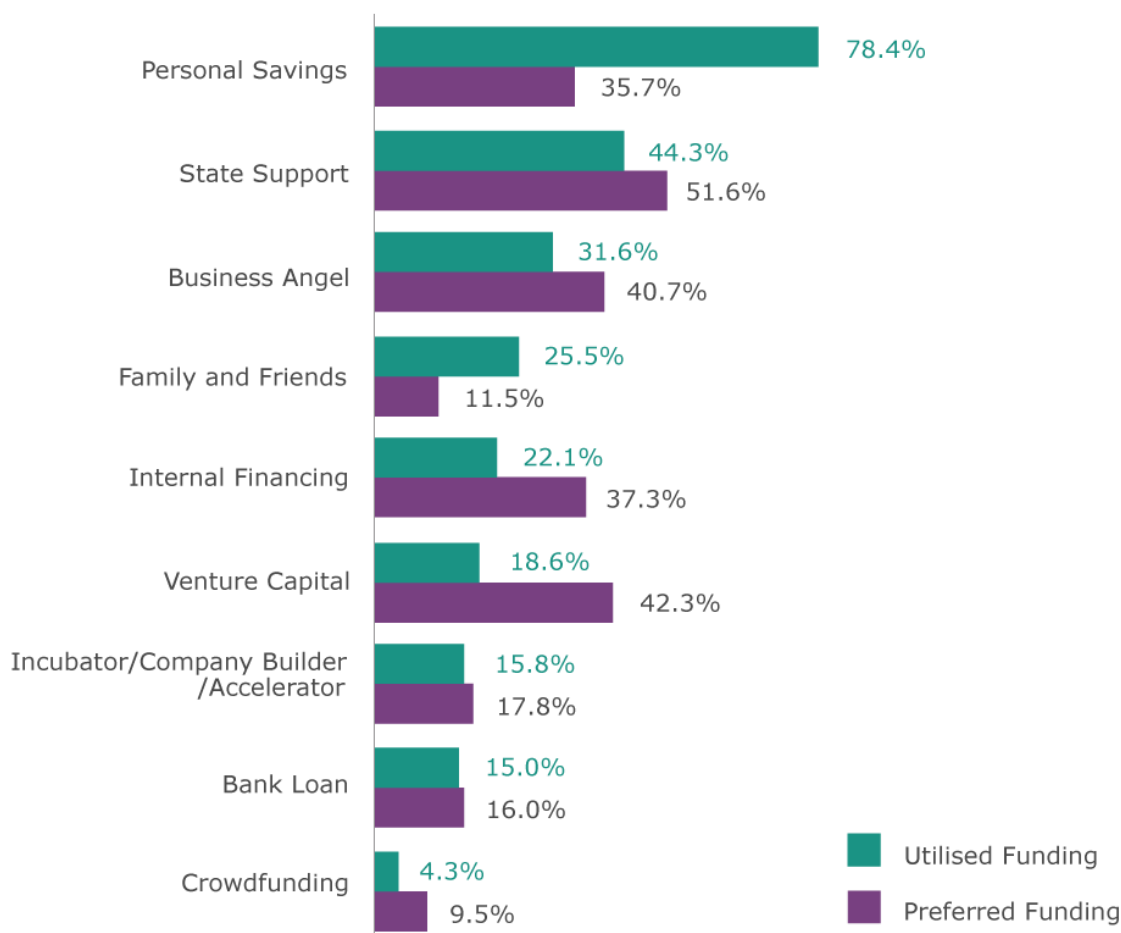
Some experts believe that research and development, which demands significant investment even at early stages, will be bolstered by EU-wide initiatives previously earmarked for the UK. More than 40% of German start-ups rely on some state programs as a funding source.¹⁷ For Australian tech companies incorporated in Germany, these programs can be an important tool for gaining a foothold and scaling up in the European market.

¹⁵ White Star Capital, *German Venture Capital Landscape 2020*, White Star Capital, 2020, accessed July 12, 2021

¹⁶ White Star Capital, *German Venture Capital Landscape 2020*, White Star Capital, 2020, accessed July 12, 2021

¹⁷ Bundesverband Deutsche Startups e.V., *Deutscher Startup Monitor 2020*, Bundesverband Deutsche Startups e.V., 2020, accessed July 12, 2020

*Utilised vs. Preferred Funding Sources
(Source: Deutscher Startup Monitor 2020)*



The mobility sector accounts for the highest level of corporate investment (supported largely by automotive giants BMW, Volkswagen and Daimler), followed by FinTech and B2B software.¹⁸ In the last five years, funds affiliated with Siemens, Bosch and Allianz were among the 10 most active corporate VCs. Traditionally, corporates expressed some hesitancy toward foreign founders, but as their share of the funding landscape has grown in recent years, they've begun to invest more in foreign companies expanding into the German market. Most corporate VC funding occurs in earlier rounds (Seed to Series A), and while this is also true of VC funding generally, corporates offer additional support in terms of mentorship and product development. Late-stage funding, while increasingly

¹⁸ White Star Capital, *German Venture Capital Landscape 2020*, White Star Capital, 2020, accessed July 12, 2021

common among German VCs, is still largely reliant on international investors.¹⁹ If an Australian tech company is able to attract a handful of clients, build a robust network within its industry and prove that its product is viable *in Germany*, they'll be well-positioned to compete with German firms seeking funding.

The coronavirus pandemic had a significant impact on Germany's economy, handicapping many new and innovative companies, and delaying their ambitions. This has meant that roughly half of their founders admitted they'd been forced to postpone funding rounds amid declining revenues, delayed commissions and the cancellation of events critical to expanding their business. With that being said, the German government offered extensive aid to businesses in the form of grants, loans and short-term employment schemes. This support is a significant selling point for Australian companies to incorporate in Germany.

B. Pitching in Germany

Are you an Australia technology company looking for funding or a local partner in Germany? When pitching, investors and corporates across the globe want innovative tech companies to clearly illustrate the problem their business solves. But while investors in markets such as the United States or the UK may be willing to take big risks on new market entrants based on their success abroad or in their home market, German investors tend to be considerably more risk-averse. It is much harder to secure funding (including early-stage funding) or meetings if a foreign tech company (no matter how established) has only just arrived. That makes it all the more important to articulate how the product or service can be successful *in Germany*. Investors want to make absolutely sure their funding is safe, so Australian founders need to present a convincing long-term plan for their business and clearly illustrate how investments will help them reach their goals. Additionally, investors tend to occupy specific 'sweet spots' – as it relates to cheque size, company stage and industry sub-segment – in the market, so it is important to understand ahead of time who to target for funding.

¹⁹ Leah Hodgson, *How foreign investors are tapping into Germany's late-stage VC boom*, Pitchbook website, 2021, accessed July 26, 2021

Roughly a quarter of new German tech companies rely in part on capital from friends and family, which further demonstrates that German VCs tend to require a fair bit of convincing.²⁰ In your pitch, telling a story is important insofar as it can make your company memorable, but when it comes down to it, German investors want to see hard data to back that up and prove that a commitment will be beneficial for them down the line (ie Return on Investment/ROI).

²⁰ Bundesverband Deutsche Startups e.V., *Deutscher Startup Monitor 2020*, Bundesverband Deutsche Startups e.V., 2020, accessed July 12, 2020

SECTION 5

TAX & INCORPORATION

A. Incorporating Your Business

Generally speaking, there are three types of business structures/entities geared towards foreign SMEs: the GmbH (*Gesellschaft mit beschränkter Haftung*); the UG (*Unternehmergeellschaft*); and the KG (Kommanditgesellschaft). The GmbH and UG serve a similar function as legal entities independent of its shareholders, the key difference is the share capital when founded – GmbH companies require at least €25,000, while UG companies only require €1. UG companies, though, are required to retain a quarter of annual profits and can convert to a GmbH once they've reached €25,000 in share capital. Most importantly, both are limited liability entities, meaning that debts are solely tied to share capital, rather than any private assets. The KG, or limited partnership, may also be an option as their could be tax benefits.

Alternatively, an Australian company can elect to establish a branch office or partnership. While the accounting associated with these forms is less extensive than corporations, there are crucial differences in liability. Since branch offices are not independent legal entities, the main Australian office would be responsible for its debts. The liability of partnerships, meanwhile, lie with the individual partners and also extend to personal assets. A branch also carries with it significant administration responsibilities as all changes in Australia need to be reflected in the business register in Germany.

For Australian tech companies, the GmbH is often the ideal legal form. They are more respected by potential investors and partners in Germany (especially compared to UG companies), but more importantly the limited liability means that if expansion efforts ultimately fail, a firm's assets in its home country would not be affected. The process of setting up a GmbH is straightforward: it involves signing a notarised deed of formation and articles of incorporation among shareholders, verifying the share capital requirements and registering at the relevant commercial and trade offices. However, a company will still need to meet Know Your Customer (KYC) requirements to establish the necessary financial bona fides with local institutions and corporates - e.g. to open a bank account at a German bank - and this process may take time. Germany Trade and Invest (GTAI) provides a helpful overview of the necessary steps here:

<https://www.gtai.de/gtai-en/invest/investment-guide/establishing-a-company/company-forms/limited-liability-company-gmbh--65852#74920>.

B. Differences Between Germany and Australia

All business corporations operating in Germany are subject to a corporate income tax of 15% on taxable profits. If a company is incorporated in Germany, this applies to all income earned globally, while companies not based in Germany are only taxed on the income they earn in the country. There is, however, a treaty eliminating double taxation for Australian firms – and Australian companies should rely on a local tax advisor to identify applicable deductions. Given this agreement, Australian companies who chose to incorporate in Germany will have a lower tax rate and, as mentioned before, can take advantage of government support programs both at the national and European level. Just keep in mind that the German subsidiary must have its own share capital and management. As mentioned above, a KG (limited partnership) can also lead to a lower tax rate.

Additionally, all commercial businesses must pay a trade tax in addition to corporate income tax and a solidarity surcharge. The rate varies from one municipality to another (and is usually higher in cities than in rural areas), but is about 14% on average. German companies that distribute dividend payments to a parent company abroad are also subject to a withholding tax. Australia's double taxation agreement with Germany dictates a rate of just 5% (compared to 25%). Taken altogether, the effective corporate tax rate is typically about 30-33%. For Australian companies, the double taxation treaty substantially limits the tax burden of expansion, and further underlines the importance of incorporating in Germany.

Companies in the EU are also generally required to charge a consumption tax (called value-added tax or VAT) for products and services. In Germany (where the rate is 19%), this is incorporated in the price of goods and services sold and passed on to consumers. Companies subject to VAT are also entitled to a refund for VAT paid themselves. Seeking advice from a tax advisor will ensure you understand how each of the taxation regulations applies to your business.

C. Finding the Right Accountant

Germany is well-known for its bureaucracy, but that should not scare off Australian companies. Australian companies new to the German market can take advantage of a number of apps and services specifically designed to help with their bookkeeping; these are generally geared towards early-stage companies and freelancers.

For an Australian company with an already-developed product, it is best to hire a dedicated tax accountant. It is highly recommended to choose someone with cross-border experience on both sides of the border. These professionals do not come cheap (they can often charge €150 per hour or more), but it is absolutely worth the investment. Compared to other third countries, the double taxation agreement provides significant savings for Australian firms setting up in Germany, so it is essential that founders take advantage of these incentives. You can find a register of tax accountants at: <https://www.steuerberater.de>

SECTION 6

DATA PROTECTION AND IP

A. GDPR Explained

The General Data Protection Regulation (GDPR) is a European-wide law governing the collection, storage and transfer of personal data (the law can be read in full here: <https://gdpr-info.eu>). Already, it has had a profound impact on how companies do business, not just in Germany but across Europe. Furthermore, many of the world's leading tech companies from outside the EU have made similar commitments to privacy in order to align the EU's regulations and build trust with consumers.

It can be difficult to discern whether – or to what extent – the GDPR applies to a company, but firms that do not comply can face fines of up to 4% of annual turnover. Australia is considered a 'third country' (a country outside of the EU member states and the European Economic Area states) under GDPR and so the GDPR can apply even if the Australian company is doing business in the EU without a physical presence there. In addition, Germany's approach to GDPR is very strict, and requirements can be significantly higher than the general EU level. This underscores how useful a local legal advisor can be for Australian tech companies to ensure compliance well before entering the German market. The Office of the Australian Information Commissioner provides insight into how the GDPR affects Australian businesses here:

<https://www.oaic.gov.au/privacy/guidance-and-advice/australian-entities-and-the-eu-general-data-protection-regulation/>.

Under GDPR, businesses are required to have a legitimate reason for collecting consumers' data and also take steps to keep it secure. In practice, most firms require consent from users in order to access their data. Additionally, the ePrivacy Directive broadens the scope of GDPR, particularly as it relates to the right to privacy and direct communication (an updated version is expected to come into effect in the next year or two). It offers additional consumer protections and is most commonly known for normalising cookie consent banners. You can find more information on cookie compliance here:

<https://gdpr.eu/cookies/>.

B. Resources for Ensuring GDPR Compliance

The EU offers pretty comprehensive explanations of what GDPR means for employers on its official website. The 'Key Issues' section is particularly useful for Australian tech companies, as it concisely summarises the more complicated legal jargon and presents clear guidelines for how companies can approach data privacy.

Australia has not yet been recognised under GDPR as a third country that offers an adequate level of protection, which means Australian companies must 'ensure in another way that the personal data will be sufficiently protected'. It is imperative, then, that foreign tech companies consider the impact of transferring data to and from Germany. The easiest way to guarantee this is gaining consent from customers and clients, and modelling those agreements on the European Commission's code of conduct. Beyond being a legal requirement, German clients, customers and investors expect compliance from all businesses, foreign or otherwise. Australian companies are highly recommended to hire legal counsel to ensure compliance, even before they arrive in Germany to expand their business.

Businesses whose 'core activities consist of processing sensitive personal data on a large scale or a form of data processing which is particularly far reaching for the rights of the data subjects' must appoint a Data Protection Officer. Given that this person cannot represent a conflict of interest within the company, it is usually easiest for foreign companies to outsource it to a legal professional with power of attorney. Australian tech companies should try to source an officer in advance of their arrival.

C. How to Ensure IP Protection in Germany

Generally speaking, younger Australian tech companies just arriving in Germany should not be too concerned with immediately securing intellectual property, as the market may dictate changes to a product that would deem its protection redundant, or the technology may evolve due to input from investors or manufacturing partners. Nevertheless, it is still important to check with an IP

expert to make sure nothing has been overlooked. However, an Australian tech company that is confident that their technology is fully-developed and scalable, should consider filing a patent application to protect themselves from competitors.

Established tech companies considering filing a patent application can reach out to the German Patent and Trademark Office (DPMA) directly through one of their 20 patent information centers. These regional hubs offer tailored advice to startups and SMEs in particular. You can find a list of the patent information centers here: <http://www.piznet.de/piznet/piznet-mitglieder/>, and individual patent lawyers here: <https://www.patentanwalt.de/en/>. While the DPMA offers protection in Germany, founders can also seek EU-wide protection through the European Union Intellectual Property Office (<https://euipo.europa.eu/>) or global protection through World Intellectual Property Organization (<https://www.wipo.int/pct/en/>).

SECTION 7

HOW AUSTRALIA CAN HELP

A. Helping Plan Expansion

The Australian Trade and Investment Commission (Austrade) is the Australian Government's international trade promotion and investment attraction agency. We deliver quality trade and investment services to businesses to grow Australia's prosperity. We do this by generating and providing market information and insights, promoting Australian capability, and facilitating connections through our extensive global network. More specifically, we:

- Connect export-ready Australian businesses to overseas opportunities and work with them to achieve commercial outcomes.
- Win productive foreign direct investment.
- Work with priority industry sectors to drive sustained long-term growth of Australian exports.
- Reduce the time, cost and risk for our clients doing business internationally.
- Provide authoritative commercial insights and information to help clients to make informed business decisions.
- Inform and influence policy to support positive trade and investment outcomes.
- Provide financial assistance for exporters through programs such as the Export Market Development Grants scheme.
- Support Australia's regional exporters through the TradeStart network.

We also contribute to economic diplomacy and protect the welfare of Australians abroad through timely and responsive consular and passport services in specific locations.

To discover how we can help you and your business visit austrade.gov.au or contact us at info@austrade.gov.au.

B. Partners in Germany

Beyond Austrade's resources and advice, Australian companies expanding into Germany should contact the relevant local trade and investment agencies before arrival. Some key ones are:

- Germany Trade and Invest (federal agency): <https://www.gtai.de/gtai-en>
- Baden-Württemberg Invest: <https://www.bw-invest.de/en/>
- Berlin Partner for Business and Technology: <https://www.berlin-partner.de/en/>
- Brandenburg Invest: <https://invest.wfbb.de/en>
- Bremen Invest: <https://www.wfb-bremen.de/en/page/invest-in-bremen>
- Hamburg Marketing: <https://marketing.hamburg.de/homepage.html>
- Hessen Trade & Invest: <https://www.htai.de/>
- Invest in Bavaria: <https://www.invest-in-bavaria.com/en.html>
- Invest in Niedersachsen: <https://www.invest-in-niedersachsen.com/en>
- Invest in Saxony-Anhalt: <https://www.invest-in-saxony-anhalt.com/contact>
- Invest in Thuringia: <https://www.invest-in-thuringia.de/en/homepage/>
- NRW Global Business Trade & Investment Agency: <https://www.nrwinvest.com/en/home/>
- Saxony Economic Development Corporation: <https://business-saxony.com/en/investors>
- Full list: <https://www.gtai.de/gtai-en/invest/business-location-germany/federal-states>
- Australian companies may also wish to speak with the German Australian Business Council e.V.: <https://gabc.eu>

SECTION 8

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