



Germany's IT Mittelstand

Report on Small and Medium-Sized IT
Companies 2024
Focus: Digital Marketing

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Dirk Röhrborn
Member of Bitkom's Executive Council

Preface

Germany's IT Mittelstand in 2024

Whether on LinkedIn, Instagram, or Tik Tok, social media have become virtually indispensable for many businesses in the digital economy. This is no coincidence: Social media is now an integral part of daily life for a growing number of people – around the globe.

Beyond social media, digital marketing as a whole offers a powerful tool for the Germany's small and medium-sized companies working in IT, the IT Mittelstand, to gain visibility within their target groups. Digital marketing is not merely a nice to have but should be considered an essential component of a company's public image. The benefits are clear: High cost-efficiency, targeted customer engagement, improved scalability, and increased reach all help small and medium-sized digital companies enhance their visibility. What's more, automation tools can massively simplify internal processes in marketing and customer care.

One thing is certain: Our IT Mittelstand is a driving force in the digital transformation of Germany's economy. Without the technologies, applications, and services developed by the IT Mittelstand, the transformation of business models, products, and processes would come to halt – especially amid the current complex geopolitical and economic landscape, which presents significant uncertainties affecting both the IT Mittelstand and its clients.

Together with renowned experts, we have once again conducted a comprehensive analysis of Germany's IT Mittelstand. This year, the focus is on digital marketing and skilled workers.

What is digital marketing? What is its purpose? Who are the key players in the value chain? What potential does artificial intelligence hold in digital marketing? Read on to find answers to these and many other questions.

I hope you enjoy this insightful read!

Experts in the Field

Eight renowned experts have formulated their hypotheses on the current situation of Germany's IT Mittelstand for BITKOM.



Angelika Beierlein
CCO / Managing Director,
Evernine Group



Swantje Kowarsch
Managing Director,
diconium data



Andreas Köninger
Executive Board,
SinkaCom AG



Petra Maelzer
Director of Commercial Strategy,
Inxmail GmbH



Jan Möllendorf
Managing Partner at
DEFACTO X GmbH



Martin Philipp
Managing Director,
Evalanche | SC-Networks

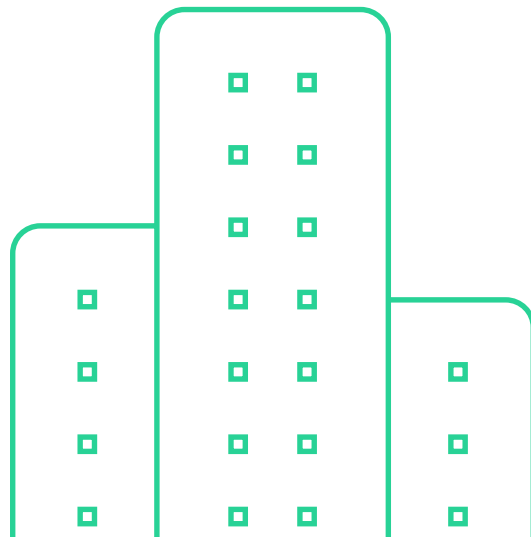


Mischa Rürup
Co-Founder, Usercentrics



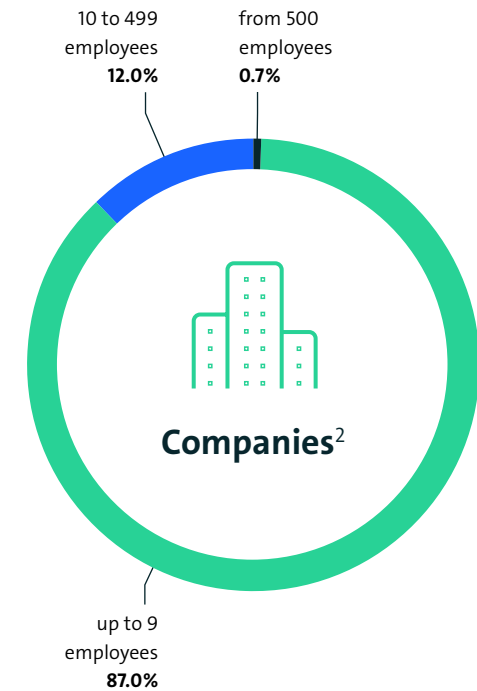
Kerstin Valet
Regional Director Marketing &
Communications, CRIF GmbH &
Chair of the Bitkom Working
Group Digital Marketing

Companies of the IT Mittelstand



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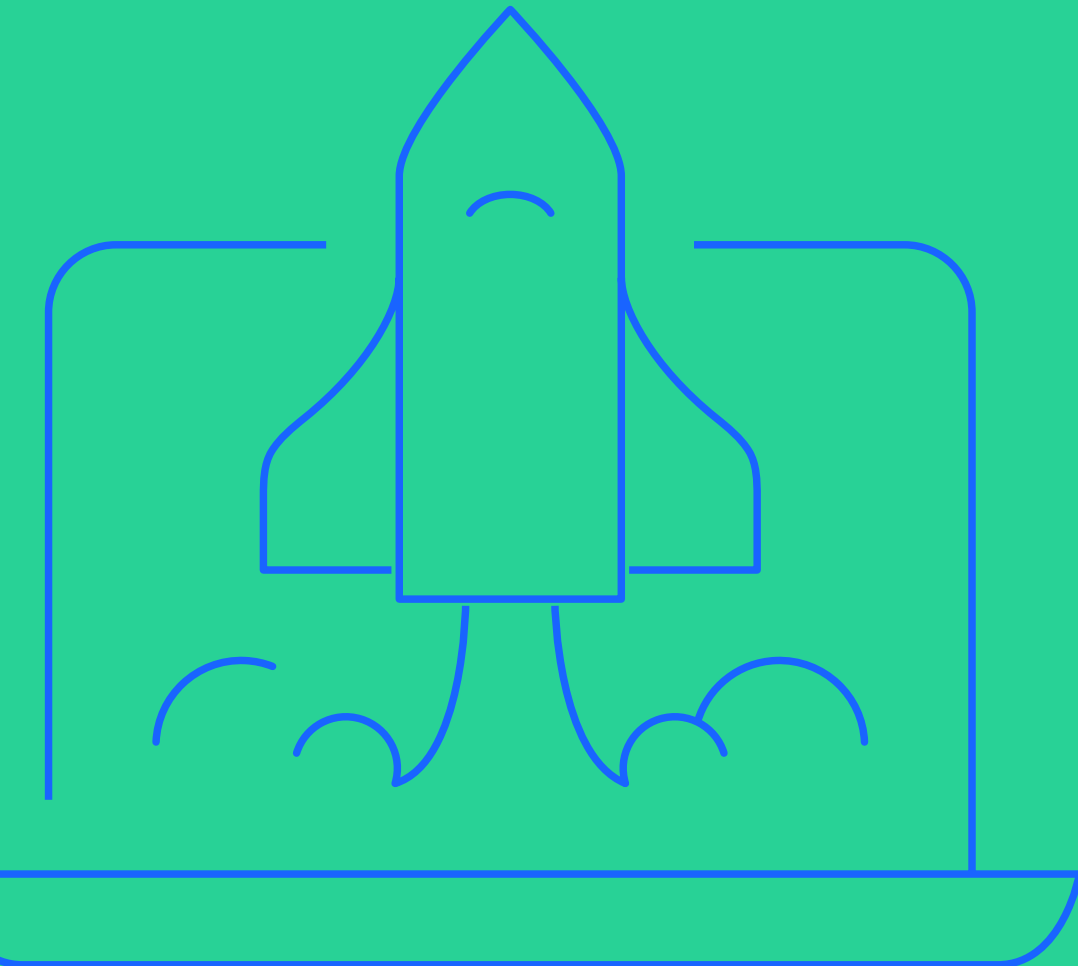
IT companies in Germany employ between 10 and 499 people. This marks an increase of \uparrow 5 percent compared to the previous year.¹



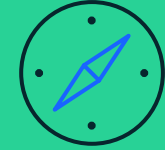
¹ Federal Statistical Office (2024): Business register. Enterprises by business sector and business size class based on number of employees subject to social insurance contributions in the 2022 reporting year.

² The sum does not necessarily amount to 100 percent, as access to the data on the number of employees and turnover might be blocked for reasons of statistical confidentiality.

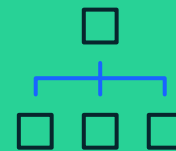
Focus: Digital Marketing



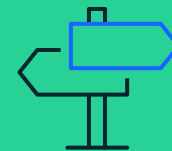
What is digital marketing?



What is the purpose of digital marketing?



Who are the key players in the value chain?



What role does the IT Mittelstand play?



How do providers within the IT Mittelstand sector shape the marketing ecosystem?



What are the greatest challenges?



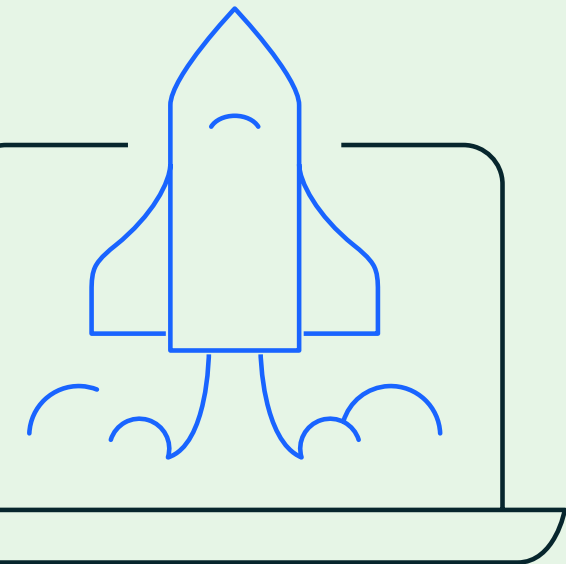
What does the future of digital marketing look like?

What is Digital Marketing?

How Companies Leverage the Internet: A Variety of Digital Channels

In its broadest sense, digital marketing encompasses all activities that a company conducts via the internet and digital technologies. This means digital marketing spans a wide range of channels through which companies can interact with various target audiences. Some of the most important channels include:

- **Search Engine Optimisation (SEO):** Increases search engine visibility through organic search results.
- **Search Engine Marketing (SEA):** Places paid ads in search engines to boost visibility.
- **Social Media:** Provides platforms for direct interaction with users and sharing content.
- **Email Marketing:** Enables personalised communication with existing and potential customers.

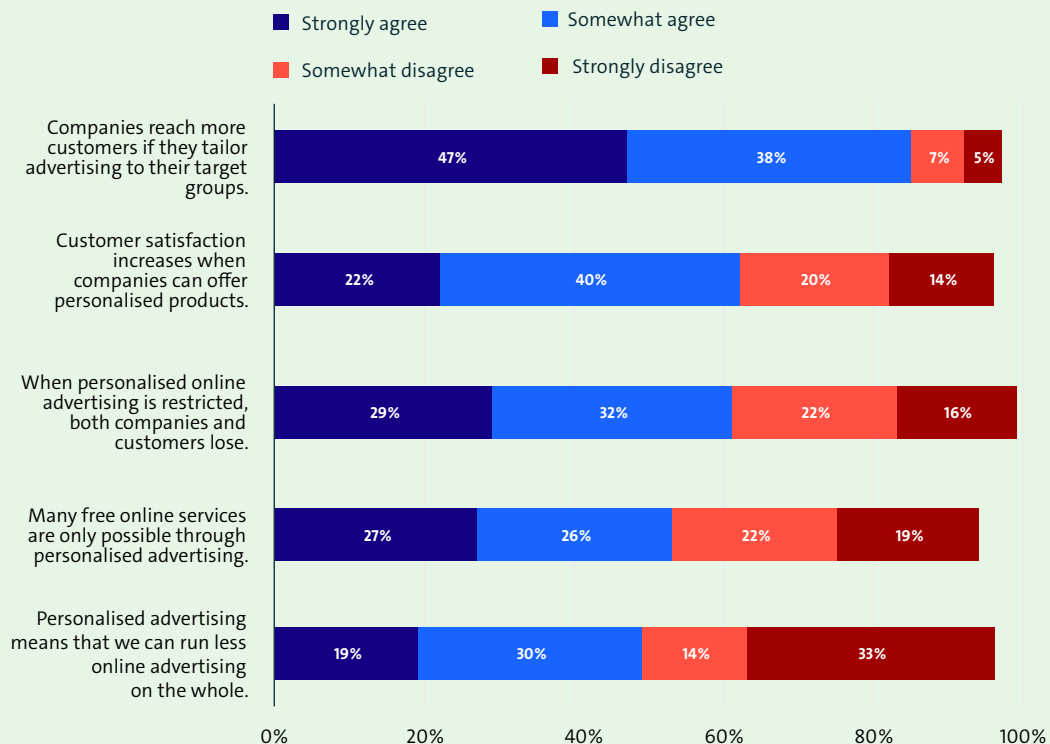


- **Content Marketing:** Helps share expertise and strengthen brand authority through blog posts, videos, and infographics.
- **Websites and Landing Pages:** Serve as central touchpoints for information and sales processes.
- **Influencer Marketing:** Leverages the reach and credibility of influencers to promote products and services.
- **Mobile Marketing:** Reaches users via mobile devices through apps, SMS, and location-based services.
- **Display Advertising:** Places visual ads on various websites to enhance brand awareness.
- **Affiliate Marketing:** Leverages partnerships with other websites to generate traffic and sales.

Digital marketing and online presence are indispensable for businesses today. They facilitate not just the marketing of goods and services, but also encourage active participation in the digital world.

What is Digital Marketing?

To what extent do you agree with the following statements on digital marketing?

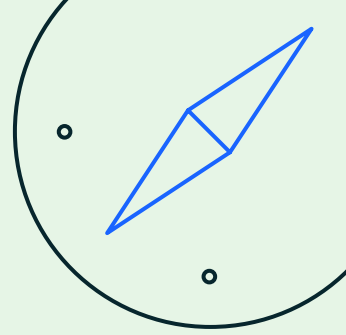


Source: Bitkom Research (2022): The survey included 503 companies with 20 employees or more. The survey is representative of the overall economy in Germany. Missing values to 100 percent = »Do not know / no answer«

Personalised Customer Communication in the Digital Age

- Digital marketing is indispensable for business success today. It enables direct and interactive communication with customers and provides insights into customer behaviour, allowing companies to further tailor their target audience communication. This results in personalised offerings and relevant content that are precisely aligned with customer interests and deliverable via email. These include order confirmations and service emails, as an integral part of digital business processes for medium-sized companies. Digital marketing supports companies in strengthening relationships with existing customers, attracting new prospects, and thus contributing to sustainable business success.

Petra Maelzer, Director of Commercial Strategy, Inxmail GmbH



What is the Purpose of Digital Marketing?

More Than Advertising: Responsibility in the Digital World

Information in the Digital Sphere

Companies offer not just promotional content online but also valuable information for the public. By doing so, they contribute to informed opinion formation and consolidate their role as knowledge providers.

Dialogue With Target Audiences

Digital communication enables companies to engage with a broad range of stakeholders. Alongside customers, they are in dialogue with consumers, companies, institutions, and the general public at large.

Social Responsibility in the Digital World

Companies use digital marketing to communicate their ethical principles and sustainable practices. Transparent and respectful communication builds trust and positions them as responsible actors.

Bridge Between Businesses and Society

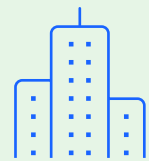
Digital marketing connects companies with the digital society. By acting responsibly, they foster trust, innovation, and competition. At the same time, they support diversity of opinion and the democratic structure of the internet.

Digital marketing today is much more than advertising. Companies position themselves in the digital world and take on their responsibility towards various stakeholders.

Who Are the Key Players in the Value Chain?

Data, Tools, Success: Diverse Collaboration Enriches the Marketing Value Chain

Within the value chain of digital marketing, there are various players, each with an important role:



Companies and advertisers are responsible for promoting products and services and running marketing campaigns to reach their target audiences. This includes manufacturers, retailers, and service providers. Affiliate networks connect brands with partners who help promote their offerings.



Agencies and service providers support companies in planning, implementing, and optimising their digital marketing strategies. This includes creative agencies focused on content creation as well as market research companies that provide valuable data and analyses to help shape marketing strategies.



Technology providers / MarTech offer platforms, tools, and software solutions that assist companies in achieving their marketing goals. These include analytics tools, ad management platforms (including SSP platforms), social media management systems, and email marketing tools. Moreover, data and analytics providers as well as programmatic advertising platforms play a crucial role in the effective planning and optimisation of campaigns.



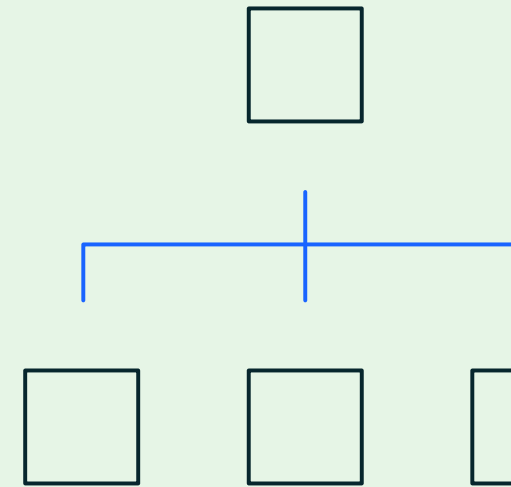
Media platforms and publishers provide advertising space and formats on their digital platforms, such as websites, social media, and apps, where companies can place their messages.



Target audiences and end consumers are the key recipients of marketing messages. Their interactions and responses to these messages are essential to the success of digital marketing campaigns. A deep understanding of user behaviour is therefore essential.



Influencers and content creators are significant players in digital marketing, as they interact directly with specific target audiences through authentic content and reach. They help communicate brand messages effectively and contribute to increased engagement and brand loyalty.

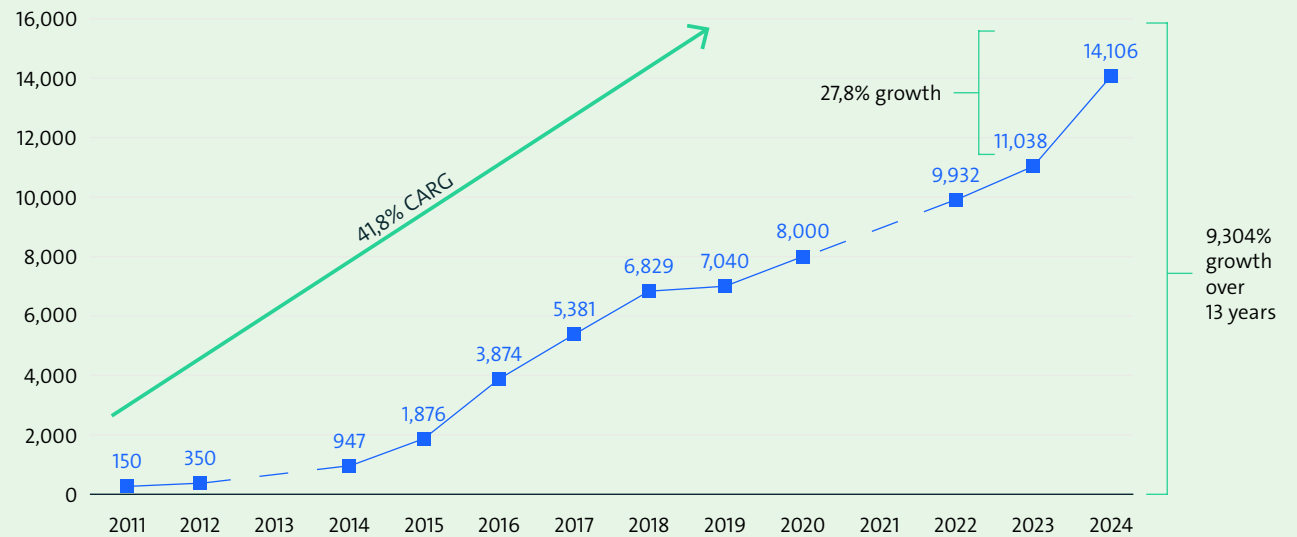
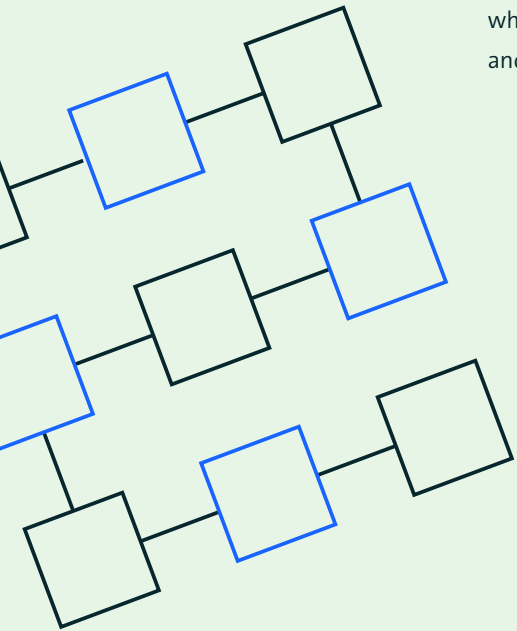


Who Are the Key Players in the Value Chain?

14,106 applications

in the MarTech sector*

The impressive variety of innovative MarTech applications reflects the industry's ongoing dynamism, creativity, and competitiveness, which offers companies numerous opportunities for tailored marketing and encourages innovation.



*Marketing technology products

Source: ↗ 2024 Marketing Technology Landscape by Scott Brinker & Frans Riemersma

What Role Does the IT Mittelstand Play?

The IT Mittelstand: Driver and Beneficiary in the Digital Marketing Ecosystem

IT Mittelstand as Users

The IT Mittelstand is not only a provider of technologies but also an active user of digital marketing strategies. SMEs in IT employ digital marketing strategies to promote their own products and services in a personalised manner. The valuable feedback and practical experiences gathered by the IT Mittelstand contribute to the continuous development and improvement of the deployed technologies. As active users of digital marketing solutions, these companies aim for increased business growth and enhanced competitiveness, while simultaneously driving innovation and progress in digital marketing through their demand.

IT Mittelstand as Providers

As providers, the SMEs of the IT Mittelstand plays a central role in supplying technologies and solutions for digital marketing. By developing and deploying software, data analytics tools, and marketing platforms, they help businesses achieve their marketing objectives. In doing so, the IT Mittelstand contributes significantly to creating the technological foundation for successful, digital marketing campaigns and promotes both the digitalisation of the Mittelstand and diversity and innovation across the entire digital advertising market.

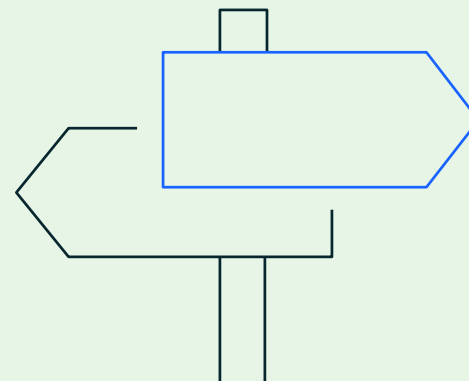
Technological Variety for Tailored Strategies

- Innovations and technological advances make the digital marketing value chain ever more fragmented. In any case, this results in SMEs tailoring the implementation of their digital marketing strategies to their market opportunities with ever more precision.

This offers them significant advantages compared to global competitors that operate in a more standardised manner. On the other hand, the multitude of providers and the competition between them creates considerable opacity when it comes to the contributions of different providers to the value chain in digital marketing.

Continuous monitoring of providers and technologies is becoming a key competence for SMEs.

Jan Möllendorf, Managing Partner, DEFACTO X GmbH



What Role Does the IT Mittelstand Play?

Entrepreneurial Potential through Understanding of Target Audiences

- Bold, agile, and innovative medium-sized companies use the variety of channels and the resulting complexity as an opportunity to specialise within their niche. SMEs leveraging the various communication channels focus on fitting target audiences and position themselves at the forefront of the market.

It's exciting to see how digital marketing disrupts the market order. Size no longer matters; understanding the market and the target audience is the number one success factor. All of a sudden, crafty small and medium-sized companies can overtake the big players and make their large budgets look small through the interactivity and virality of their digital channels. That's the entrepreneurial potential of the Mittelstand – with short, owner-managed decision-making paths, decisions are made, and actions are taken. These are the standout abilities of the Mittelstand. Once again, these underscore the strength and effectiveness of SMEs, whether they are manufacturers, retailers, or service providers.

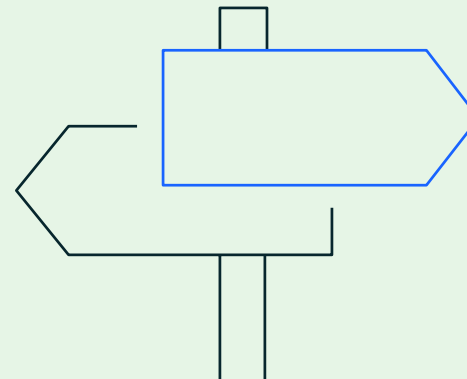
Andreas Köninger, Executive Board, SinkaCom AG

Breaking Down Information Silos, Driving Progress

- It is time among the IT Mittelstand to break up information silos in departments like marketing, development, sales, and also controlling. A central CRM tracking every touchpoint makes it possible to create customer experiences similar to those in the B2C sector.

B2B decisionmakers are ultimately also consumers. This results in a more personalised approach, shorter sales cycles, more efficient marketing measures, and happier customers. An integrated approach not only promotes business growth but also drives innovation and progress in digital marketing.

Kerstin Valet, Regional Director Marketing & Communications, CRIF GmbH



How Providers from the IT Mittelstand Sector Shape the Marketing Ecosystem?

Innovation Driver in Digital Marketing: The Wide Variety Offered by the IT Mittelstand

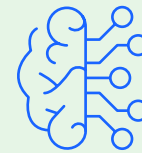
The IT Mittelstand plays a vital role across several key areas within the digital marketing ecosystem. These are the areas where the IT Mittelstand is particularly active:



1. Technology and Platforms

- **Development of Marketing Technologies:** Small and medium-sized IT companies develop specialised software solutions and platforms that can then be used by other companies for their marketing activities and to streamline processes. These solutions feature CRM systems, marketing automation tools, content management systems (CMS), email marketing platforms, analytics tools, and more.

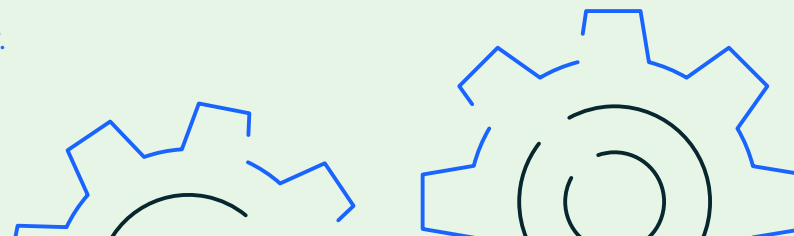
Example: A small or medium-sized SaaS provider develops an innovative marketing automation platform tailored to the needs of other small and medium-sized companies or a certain industry sector.



2. Data Analysis and Artificial Intelligence

- **Data Management:** Small and medium-sized IT companies offer solutions for collecting, processing, and analysing data that are essential for data-driven marketing strategies. They create tools to help businesses efficiently leverage their data and gain valuable insights.
- **AI-Powered Solutions:** Many small and medium-sized IT companies are integrating artificial intelligence and machine learning into marketing processes to facilitate a personalised customer approach and optimise campaigns. Other IT companies apply certain AI models to existing software tools to further refine user outcomes or optimise processes.

Example: A company from the IT Mittelstand develops an AI-based platform that automatically identifies customer segments and creates personalised marketing campaigns.



How Providers from the IT Mittelstand Sector Shape the Marketing Ecosystem?



3. Cyber Security and Data Protection

- **Data Protection Solutions:** Small and medium-sized IT companies offer cloud and hosting services, providing scalable and reliable infrastructure for marketing platforms and tools. This is particularly important when handling sensitive customer data in marketing.
- **Cyber Security:** IT companies provide security solutions that offer protection for the integrity and privacy of marketing data and against cyber attacks.

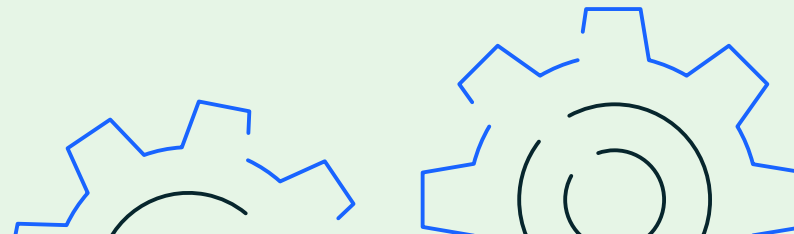
Example: A small or medium-sized company develops a data protection platform ensuring that all marketing activities comply with data protection regulation.



4. Cloud and Hosting Services

- **Infrastructure for Digital Marketing Solutions:** Small and medium-sized IT companies offer cloud and hosting services, providing scalable and reliable infrastructure for marketing platforms and tools. These services enable businesses to perform their digital marketing activities without having to make significant investments in their own IT infrastructure.

Example: A small or medium-sized cloud services provider develops hosting solutions for larger online retail websites and marketing platforms.



How Providers from the IT Mittelstand Sector Shape the Marketing Ecosystem?



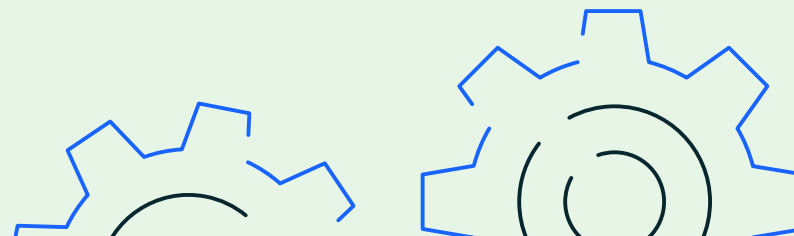
5. Support and Advisory Services

- **Technical Support:** Small and medium-sized IT companies offer technical support and advisory services for the implementation and maintenance of marketing technologies. They help companies select the right tools and use them effectively.
- **Strategic Consulting:** Along with technical support, some small and medium-sized IT companies also offer strategic consulting to support companies with developing and deploying their digital marketing strategies.

Example: An IT service provider develops comprehensive advisory services to support companies in introducing a new marketing automation platform.

Summary

The IT Mittelstand is an indispensable player in the broader digital marketing ecosystem, particularly in areas such as technology development, data analysis, data protection, infrastructure, and technical support. By offering specialised solutions and services, small and medium-sized companies in IT make a significant contribution to enabling businesses to successfully implement their digital marketing strategies. They drive innovation, efficiency, and security in digital marketing, thereby enhancing the competitiveness and diversity of the entire market.



What are the Greatest Challenges?

Digital Progress in the Mittelstand:
Overcoming Barriers, Seizing Opportunities

Data Protection and Compliance

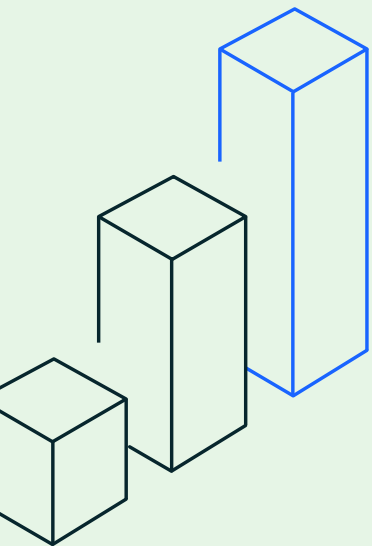
Strict data protection laws like the GDPR pose a challenge to companies. They must ensure compliance with data protection regulation, which complicates the handling of customer data and the personalisation of marketing campaigns. At the same time, responsible handling of data is essential for maintaining customer relationships and a clear stance on enhanced data protection can become a competitive edge.

Information Overload and Differentiation

With the broad array of products and services available, it is challenging for the small and medium-sized IT companies of the Mittelstand to distinguish themselves from competitors and capture the attention of their target audience. Creative and differentiated approaches to marketing are needed if one is to position oneself in a crowded market and reach potential customers.

Rapid Technological Change

The rapid pace of technological change requires continuous adjustments to be made to strategies and tools. The speed at which new platforms and algorithms are created makes long-term planning and implementation of marketing strategies difficult. Other important aspects and drivers of a successful transformation include mindset, skillset, and time. Transformation does not happen overnight, and it requires more than just technology. It is the people who drive change. With this in mind, an open company culture and the involvement of employees – often challenging in practice – are essential for fostering continuous change.

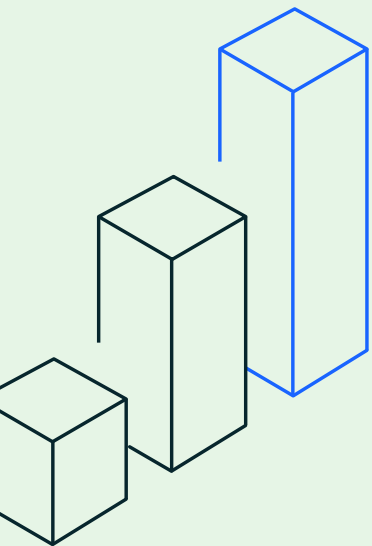


What are the Greatest Challenges?

Digital Progress in the Mittelstand: Necessary Changes in Law, Technology, and Qualification

Data Protection Strengthens Customer Relationships and the Marketing Ecosystem

- Positioned internationally, large platforms often lack the tailored and specialised solutions needed to meet European or German requirements. This gap has given rise to an innovative and potent ecosystem of high-quality, compliant, and efficient MarTech providers, which deliver powerful solutions aligned with European standards and values.



It turns out that privacy, customer service, and successful digital marketing are not mutually exclusive. Quite the contrary, the combination gives rise to robust, respectful customer relationships in B2B and B2C. Thanks to the many open interfaces and systems available, the small, national tools can be used to complement and enhance the large international platforms seamlessly and smartly.

Andreas Köninger, Executive Board, SinkaCom AG

Data Protection-Compliant Marketing Strategies & The Role of Policy

- The German Mittelstand faces significant challenges in marketing due to compliance and data protection requirements. Ensuring adherence to the GDPR and other legal frameworks requires investments in legal counsel and IT adaptations, which can be very resource-intensive, especially for smaller businesses. Simultaneously, it makes personalised marketing strategies more difficult if they are to be grounded in secure and transparent data processing. Nevertheless, the IT Mittelstand produces innovative solutions that respect data privacy while remaining highly effective. It is crucial for policymakers to establish clear regulations that balance data protection with economic interests.

Mischa Rürup, Co-Founder, Usercentrics

What are the Greatest Challenges?

Technology Meets Customer Expectations

With ongoing technological advancements in digital marketing, customer expectations are also changing. Many customers are not satisfied with simply going shopping and consuming. People seek a personal connection and a relationship built on trust to produce meaningful customer and experiences.

Here, data-driven email marketing, combined with AI and/or other channels, offers significant value from my perspective – for both the email recipient and advertising companies from the Mittelstand. This can be through tailored offerings, cart abandonment emails, or order confirmations.

Petra Maelzer, Director of Commercial Strategy,
Inxmail GmbH

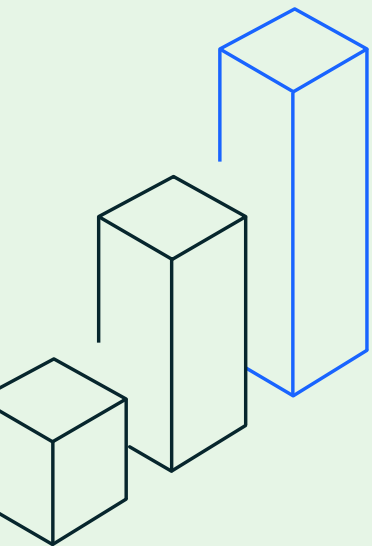
Efficiency and Scalability Through the Step-by-Step Introduction of Marketing Automation

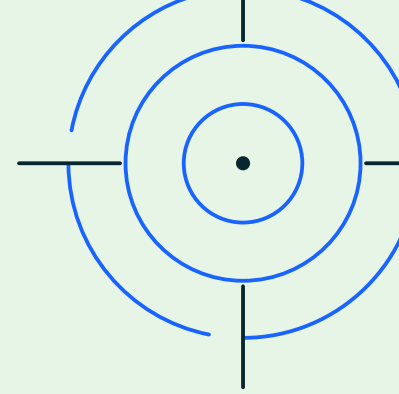
- Marketing automation enables businesses to create more efficient processes and deliver personalised campaigns at scale. At the same time, introducing marketing automation is one of the greatest challenges in digital marketing.

B2B marketers, who often juggle multiple responsibilities, can successfully adopt automation by following a four-step process: Play, Plan, Perform, Progress. Once goals are set and a detailed roadmap is created, it's crucial for marketing, sales, and IT teams to collaborate closely to integrate all content and technical components into the system.

In doing so, B2B marketers should prioritise high-quality content to reach their target audience and generate leads. This should be followed up by implementing the campaign and continuous monitoring of KPIs. This four-step framework allows even time-strapped B2B marketers to effectively adopt marketing automation.

Martin Philipp, Managing Director, Evalanche | SC-Networks





What Does the Future of Digital Marketing Look Like?

Revolution Through Data & AI Opens New Paths

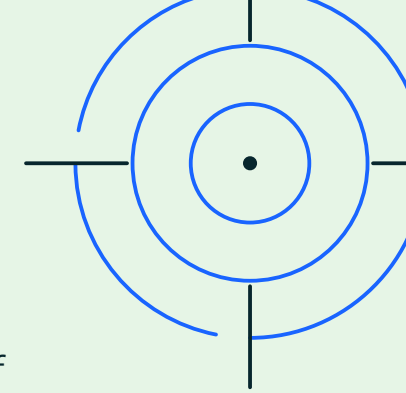
The digital transformation is unleashing the huge potential in the marketing sector and bringing about profound changes. At the heart of these massive changes are data and artificial intelligence (AI), which offer businesses unprecedented opportunities to optimise their marketing strategies and remain competitive.

Transformative Power: Data are the Key to the Future

The future of digital marketing is being shaped to a large degree by the increasing digitalisation and the use of data. This is a doubly challenge for the businesses of the Mittelstand. First, they must establish a robust infrastructure capable of collecting, storing, and analysing large volumes of data. This is not only technically demanding but also requires significant investment. Second, businesses are faced with challenges like navigating strict data protection regulations, such as the GDPR, which ties up extra resources for compliance and legal counsel.

Challenges aside, data unlocks vast opportunities: They facilitate more precise audience targeting, personalised marketing campaigns, and deeper insights into customer behaviour. To stay competitive in digital marketing, small and medium-sized companies must therefore develop strategies that allow them to use data efficiently and securely. They should derive guidelines from these insights to safeguard their future business success:

- **View data protection as a competitive advantage:** Small and medium-sized companies can build trust with their customers through data-compliant practices.
- **Propelling innovation forward with data-driven strategies:** The Mittelstand can strengthen its market position through the intelligent use of data.
- **Implement personalised strategies:** The businesses of the Mittelstand should leverage the use of data to develop customer-centric marketing strategies.



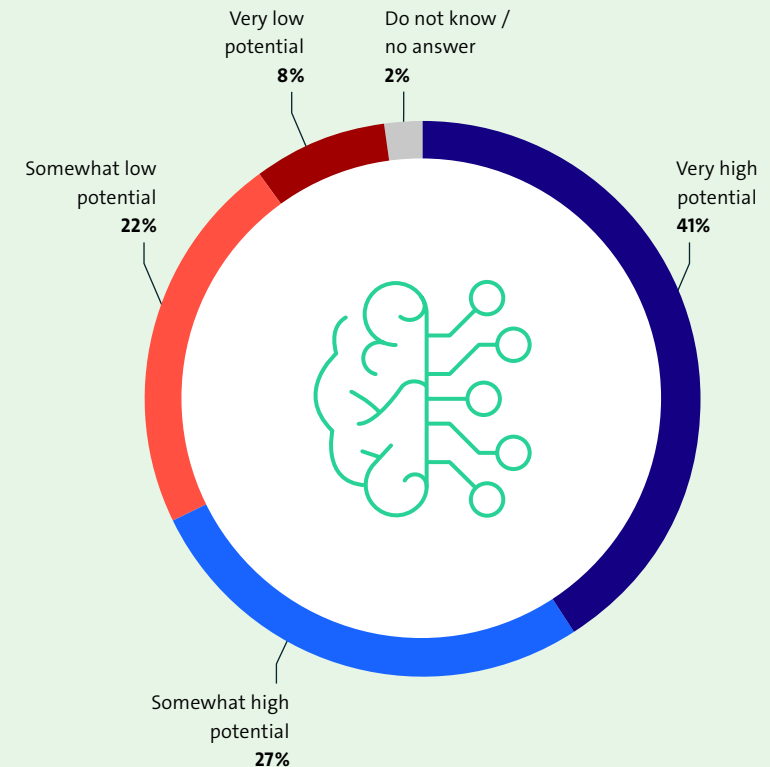
What Does the Future of Digital Marketing Look Like?

The Potential of Artificial Intelligence in Digital Marketing

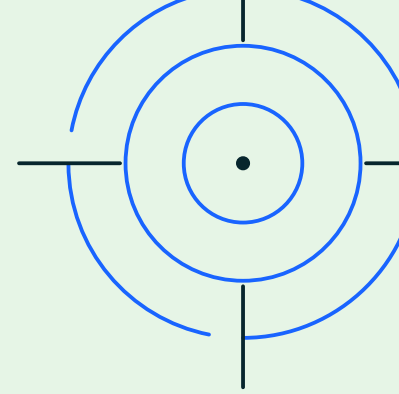
Artificial intelligence (AI) is revolutionising digital marketing by automating processes, reducing costs, and providing entirely new opportunities. AI-driven tools can analyse large volumes of data in real time and use them to generate insights that go beyond what human analysis can achieve. This facilitates not just a personalised customer approach but also the creation of tailored content at scale and with greater efficiency. AI reduces operational costs and enables businesses to manage multiple complex marketing campaigns simultaneously. Moreover, AI is reshaping the workplace: New job roles are emerging that require close collaboration between humans and machines. Marketers must therefore acquire new skills in data analysis and AI applications. For the Mittelstand, which can often respond more quickly and flexibly to technological changes, there is an opportunity to gain a competitive advantage by integrating AI at an early stage and adopting innovative, data-driven marketing strategies. Guidelines can be derived from this as well:

- **Increasing cost efficiency with AI tools:** The Mittelstand can optimise marketing expenditures with AI-based solutions.
- **Utilising resources efficiently:** AI enables businesses to achieve more with less effort, which is particularly relevant for the Mittelstand.
- **Training employees for AI integration:** The Mittelstand should train employees to work together with AI systems in order to fully harness the potential of these technologies.

How do you assess the potential of AI to improve business and management processes in the field of marketing?



Source: Bitkom Research (2024): The survey included 604 companies with 20 employees or more. The survey is representative of the overall economy in Germany.



What Does the Future of Digital Marketing Look Like?

Business Success Through AI and Data (Protection)

Competencies in Marketing

- The future of digital marketing will be substantially shaped by the comprehensive integration of artificial intelligence (AI) and the legal frameworks in place for data processing and use (GDPR, the Data Act, the AI act). The focus here is on personalisation, automation, and optimisation. Forecasts project that approximately 90 % of online content will be influenced by AI by 2026, promising enormous efficiency gains in content creation and campaign optimisation. This development underscores the growing importance of data and AI skills. A solid understanding of AI tools, the ability to analyse AI-generated data, and the effective implementation of both will be crucial.

At the same time, comprehensive knowledge of data protection and the Data Act is indispensable for being able to adhere to legal requirements and safeguard the trustworthy delivery of content. Small and medium-sized businesses should therefore not only rely on technical tools but also strengthen their AI and data competencies strategically to fully leverage AI's potential in marketing.

Swantje Kowarsch, Managing Director, diconium data

Technology Must Support the Creative and Strategic Abilities of Humans

- The new marketing technologies and artificial intelligence do more than optimise processes and allow us to harness the full potential of data. Above all, they reinforce the creative and strategic abilities of humans. As experts in communication consulting, we observe that companies must be led through the digital and cultural transformation. They need to implement effective data strategies and foster a culture of innovation. In this process, creative, interconnected human remains the key factor and is indispensable for staying ahead in a dynamic market landscape.

Angelika Beierlein, CCO / Managing Director, Evernine Group

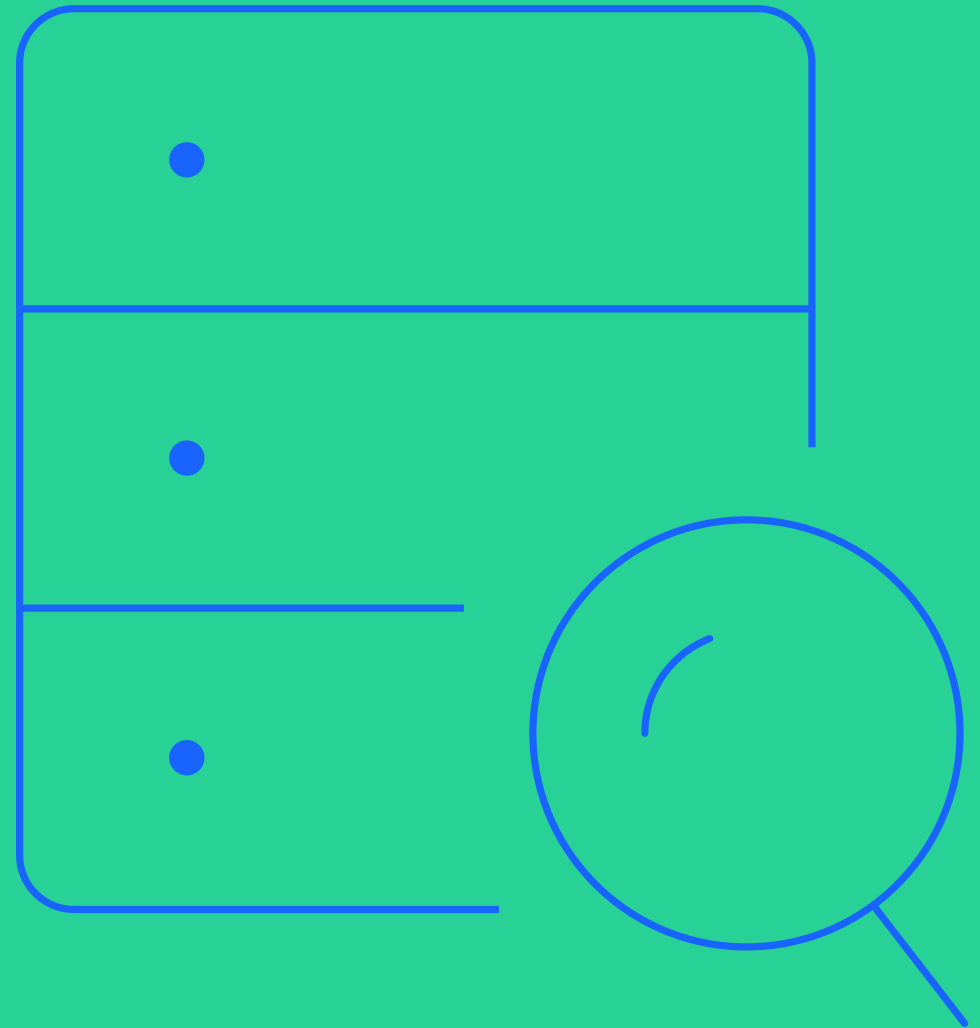
The Business Climate in the IT Mittelstand



Business Climate



Impact on the IT Mittelstand

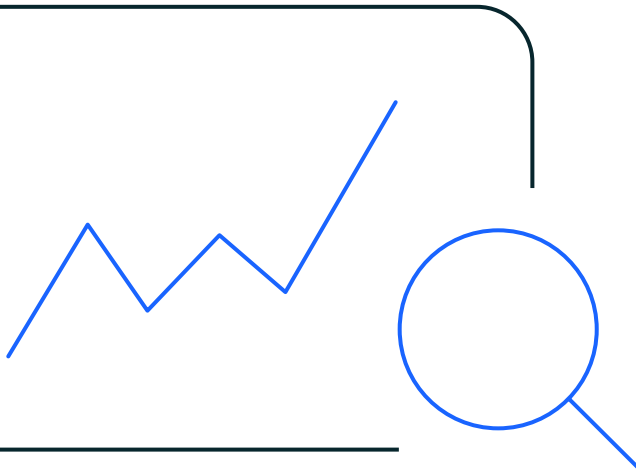


The Business Climate Among the IT Mittelstand Is Impacted by Challenging Conditions

In August 2024, the business climate among the IT Mittelstand stood at

↓ 0.9 points

(-6.1 points on the previous month).



With this, the tight economic conditions in the national economy is reflected in the IT Mittelstand. A year ago, the business climate in August was still at \uparrow 6.7 points.

Larger fluctuations in recent months are a testament to the insecurity of the current environment. Even in these economically challenging times, businesses across virtually all industries recognise the necessity for advancing the digital transformation and see digitalisation as part of the solution to crises.

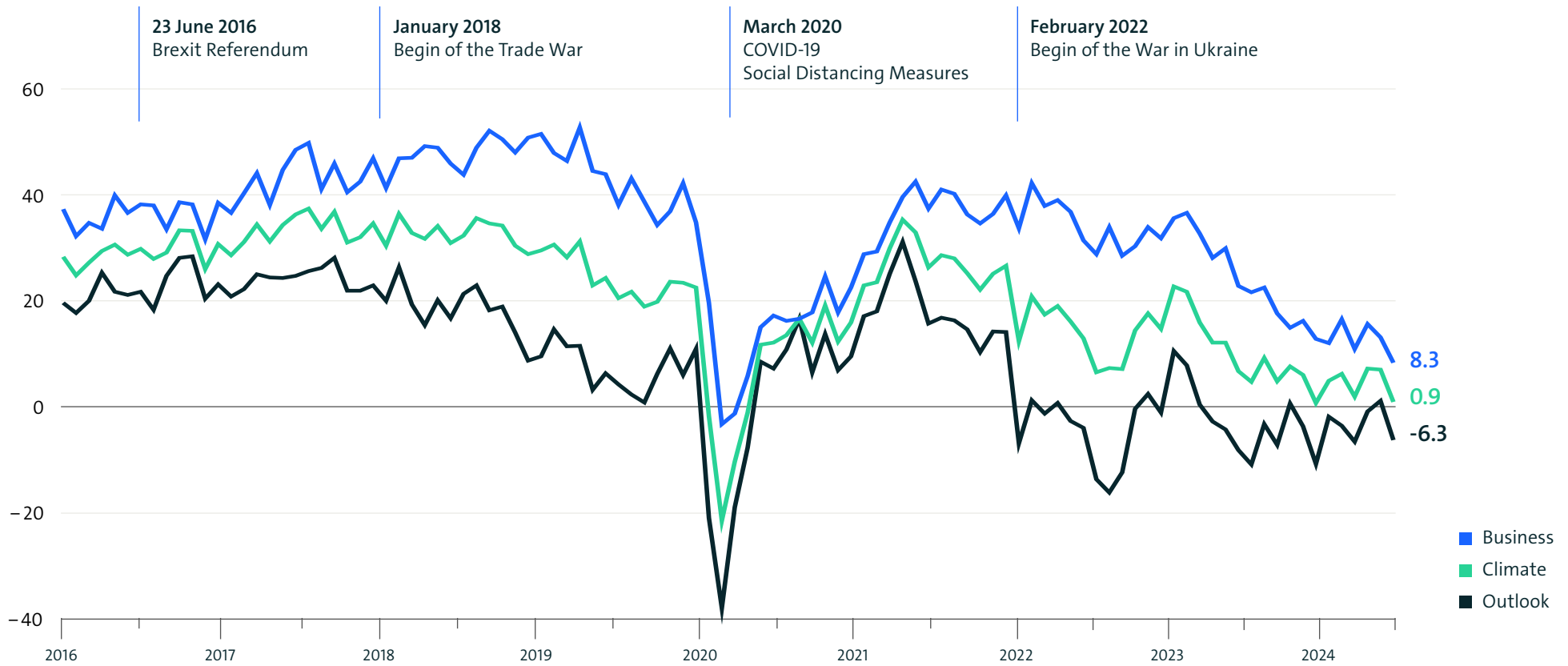
The Bitkom-ifo-Digitalindex is based on the monthly ifo Business Survey and calculates a geometric mean of the index of the current business climate and the business expectations index. It takes in data from small and medium-sized companies in the digital sector, which is made up of companies from the sectors manufacturing, trade, and services. This includes manufacturers of IT and communications technology, consumer electronics, providers of software and IT services, telecommunications services, and the ICT wholesale and retail trade. The index is presented as a balance that can, theoretically, range between -100 and +100. The weights are based on the number of persons employed.

Source: Bitkom, ifo (2024): Bitkom-ifo-Digitalindex, monthly survey of German ICT companies.
The \nearrow results of the Bitkom-ifo-Digitalindex for the entire digital industry (i.e., including large companies) were published for the first time in June 2019.

Declining Business Expectations in the IT Mittelstand

Between July and August, the Business Climate Index fell by 6.1 points to **↓0.9 points**. The current business climate declined by 4.8 points to **↓8.3 points**. At the same time, there is great uncertainty among the businesses of the IT Mittelstand. The business expectations for the coming six months have

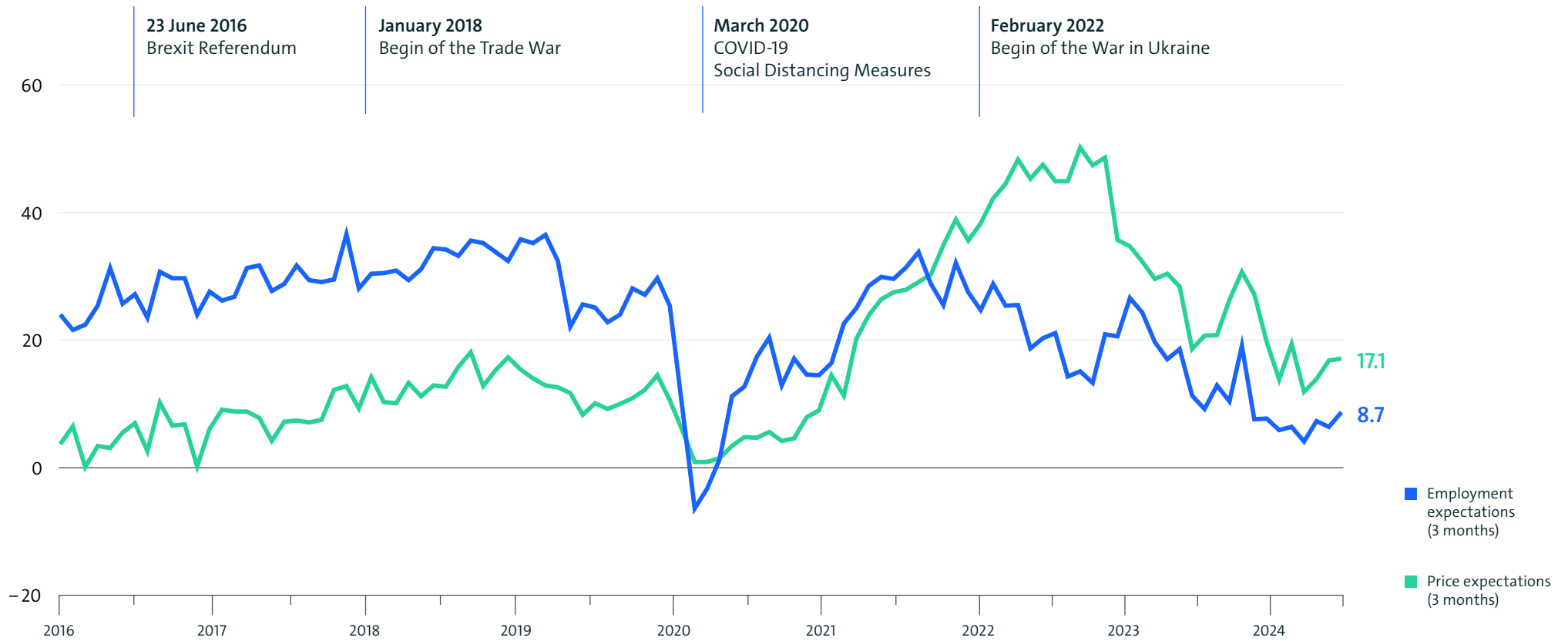
fallen below zero, down 7.4 points to minus **↓6.3 points**. The recent slight recovery trend observed since May has once again lost momentum.



Source: Bitkom, ifo (2024): Bitkom-ifo-Digitalindex, monthly survey of German ICT companies.

Expectations for the Labour Market and Prices Remain Positive in the IT Mittelstand

The employment expectations index saw an increase of 2.3 points to **18.7 points** from July to August. Price expectations have been rising slightly since May, reaching the level of **17.1 points** in August 2024 (plus 0.3 points on the previous month).

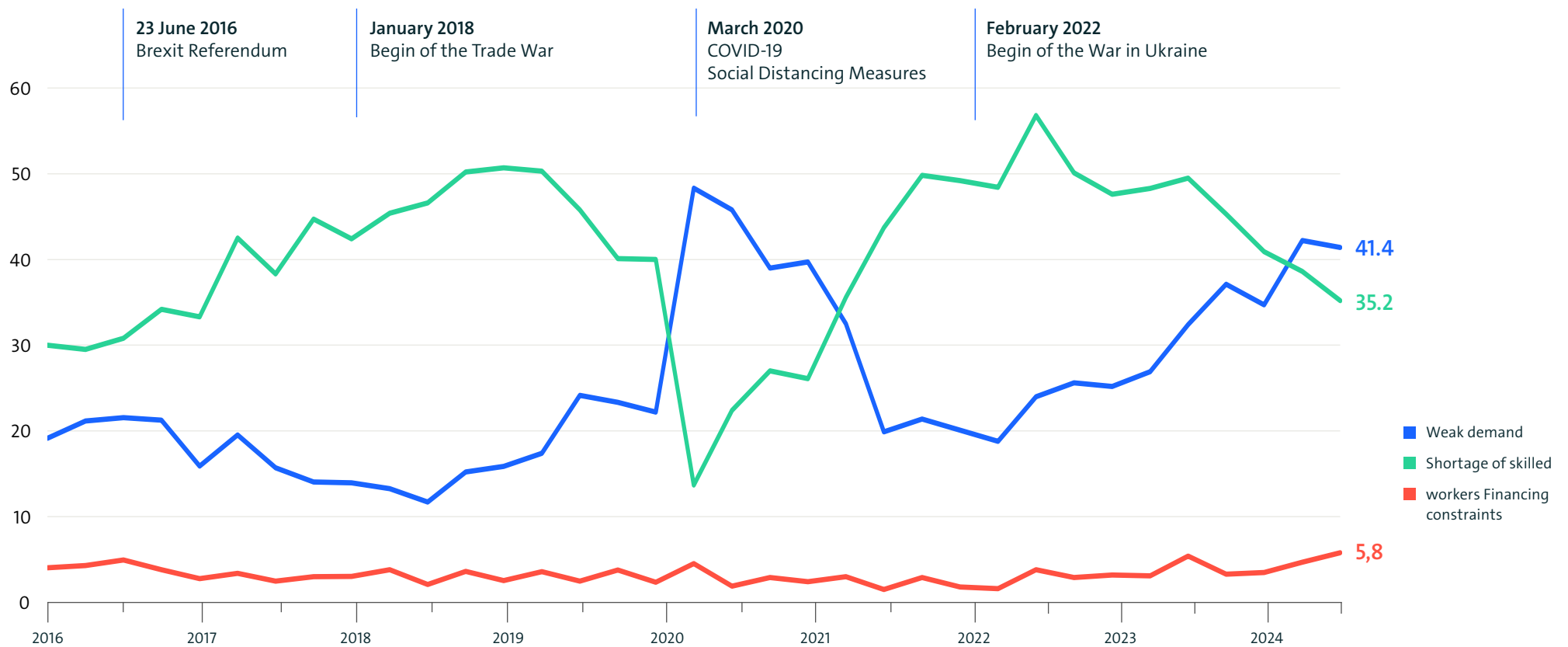


Source: Bitkom, ifo (2024): Bitkom-ifo-Digitalindex, monthly survey of German ICT companies.

Obstacles for the IT Mittelstand

Weak demand in the third quarter of 2024, at **↓41.4 points** (-0,8 points), is the biggest obstacle for the SMEs of the IT Mittelstand, pushing it ahead of the skilled workers shortage. This decreases somewhat

with **↓35.2 points** (-3.4 points), but remains at a high level. Financing constraints remain the smallest obstacle for SMEs in IT at only **↓5.8 points** (+1.1 points).



Source: Bitkom, ifo (2024): Bitkom-ifo-Digitalindex, monthly survey of German ICT companies.

Mittelstand (SME) Policy in Germany

■ The digital transformation of the economy will succeed with the IT Mittelstand or not at all. Every day, tens of thousands of SMEs, large companies, and the public administration rely on the comprehensive support of small and medium-sized IT companies to provide them with tailored development, support, and implementation of AI applications. Key steps in this direction include the German Bureaucracy Reduction Act and the coalition's current growth initiative aimed at a more pragmatic approach to data protection.



Carl-Julius Cronenberg
MP, Speaker for the
Mittelstand and Free Trade
of the FDP

It is clear, however, that this marks the starting block for reducing bureaucracy, not the finish line.

■ As SME Commissioner, I know that we need to succeed in shaping the digital transformation for our economic competitiveness. Achieving a successful transformation requires close cooperation between policymakers and the IT industry.



Esra Limbacher
MP, Mittelstand (SME)
Commissioner of the SPD

There is a need for investments in digital infrastructure, high-performance networks, and sovereign cloud and administrative systems that meet both our stringent standards for data protection and IT security and establish benchmarks for the data economy of the future. In the short term, the focus must be on accelerating the digitalisation of public administration to improve the connections between governmental bodies, the private sector, and citizens, contributing to a significant reduction in bureaucracy.

Mittelstand (SME) Policy in Germany

By introducing the AI Act at the EU level, we have taken an important step towards more legal certainty and clarity in the use of artificial intelligence. Especially for small and medium-sized companies (SMEs), having a clear framework for using AI is crucial for safeguarding compliance. Meanwhile, the shortage of skilled workers remains one of the greatest obstacles to economic growth.



Maik Außendorf
MP, Digital Policy
Spokesperson,
Bündnis 90/ Die Grünen

Through the introduction of the Opportunities Residence Law and simplified immigration rules for skilled workers, we have helped address this shortage. Moreover, we have improved the tax conditions for employee ownership, providing especially SMEs and start-ups with additional tools for staff retention

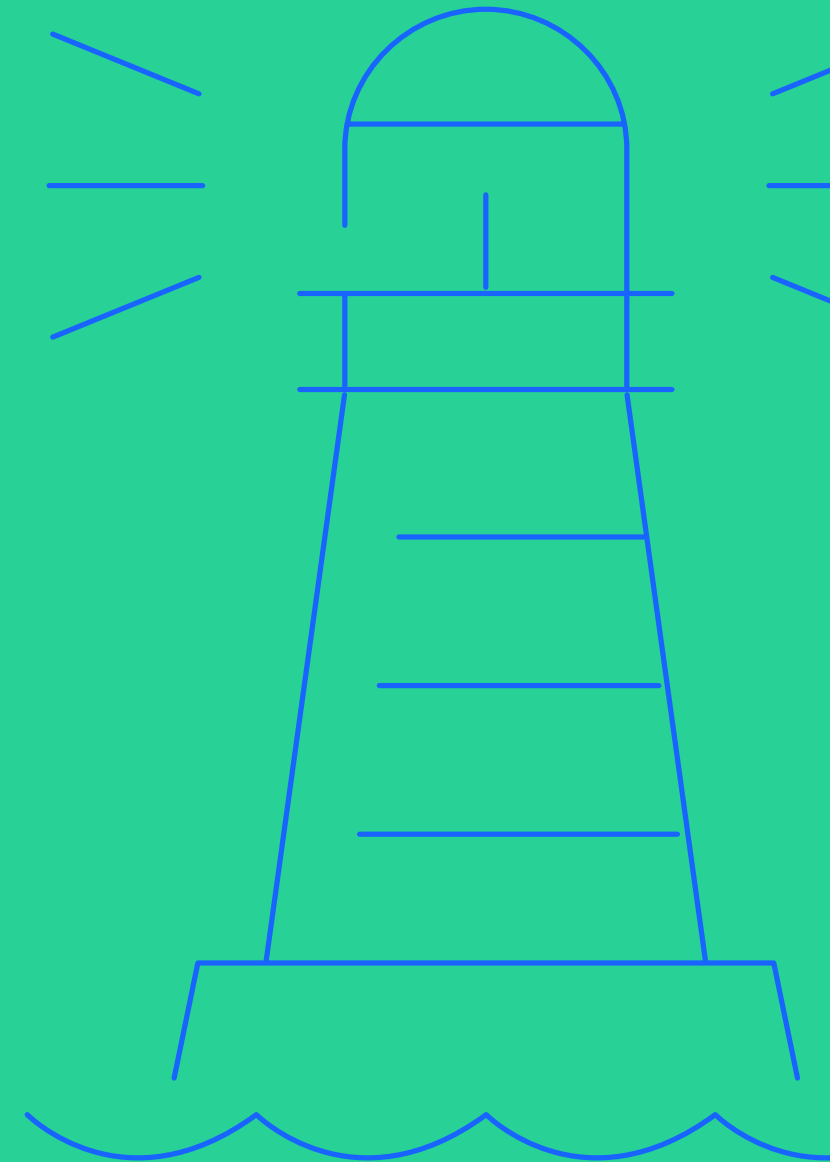
A significant portion of the more than one million employees in the IT sector work in the Mittelstand. Without these businesses and their workforce, Germany's digital transformation cannot succeed. Yet it is the Mittelstand that is struggling the most amid the current crisis. One of the key solutions for overcoming this crisis is digitalisation. Government and administration can bolster the digital transformation within the Mittelstand.

However, the Mittelstand itself must also become digital. Public administration at all levels must become more modern, comprehensively digitised, citizen-friendly, and Mittelstand-friendly. Applying the Once Only Principle can ensure that standard information must only be submitted once, as to not treat citizens and businesses as lackeys of data.



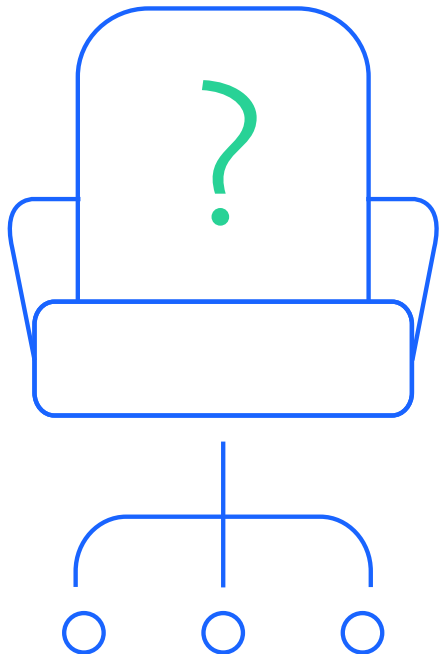
Gitta Connemann
MP, Federal Chair,
Mittelstands- und
Wirtschaftsunion, CDU

Bitkom's Policy Demands for the *Mittelstand* (SMEs)



Securing High-Skilled Workers in IT

Problem Description: The shortage of skilled workers in IT has been worsening for years and is holding companies back. It results in a loss of competitiveness, value creation, economic growth, and overall prosperity. Without those IT professionals, Germany risks squandering its digital future. 77 percent of companies expect the shortage of skilled workers to escalate further. If no action is taken, there might be a lack of over 600,000 skilled workers in IT by 2040. Only half of the expected skilled workers gap will be closed with the available domestic potential.



over 600,000

vacancies for high-skilled workers in IT expected until 2040*

Demands

Strengthening IT Education and Training: There is a need for a mandatory subject in computer science nationwide, along with an increase in professorships in computer science. Efforts should also be made to reduce dropout rates in computer science programmes and to encourage more girls and women to pursue careers in IT. Bitkom is also advocating the introduction of a Digital Pact 2.0, ensuring the comprehensive digitalisation of schools in Germany through an expanded funding framework.

Retaining Older Employees: There is a need for financial incentives to expand flexible part-time and employment models beyond the standard retirement age, alongside a significant reduction or elimination of social security contributions for gainfully employed persons in retirement.

Attracting Foreign Skilled Workers: The Skilled Immigration Act was an important milestone. The next step is to simplify, digitise, and significantly accelerate the visa process. Overall, the equipment and service quality of the immigration offices must also improve.

*Source: ↗ Projection of the QuBe project of the Federal Institute for Vocational Education and Training | Own projections

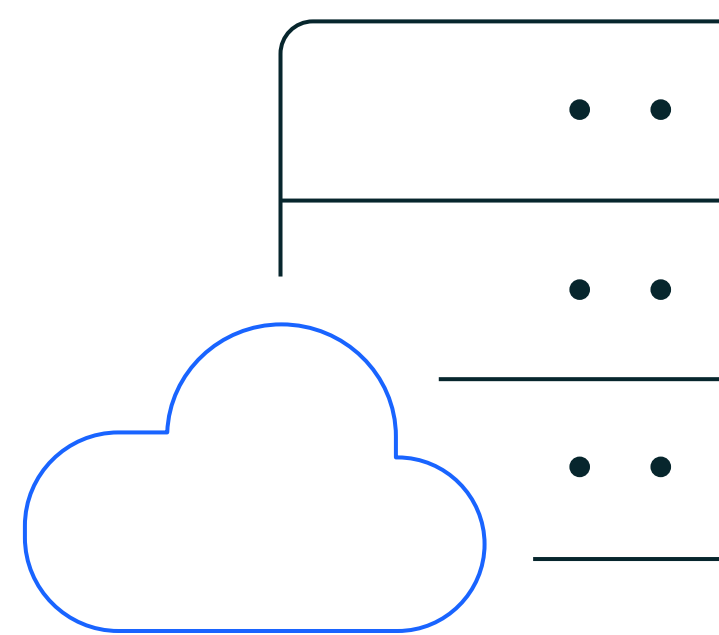
Access to Networks and Data Centres

Problem Description: Predominantly based in rural areas, the IT Mittelstand relies heavily on high-performance digital infrastructure. A nationwide provision of gigabit connections is a prerequisite for most business models. Significant progress has been made in recent years through private sector expansion of fibre optic networks and 5G infrastructure. At the same time, the demand for data centre capacity continues to rise. To be able to meet this demand while maintaining digital sovereignty, Germany must become a more attractive location for data centres.

Demands

Low-Bureaucracy Network Expansion: The federal and state governments have initiated numerous steps to accelerate planning and approval processes. The next step is to implement policy instruments like classifying network expansion as an »overriding public interest« and moving away from the fiction of completeness and approval for mobile masts on location. We advocate for further simplification and digitisation of approval procedures.

Active Establishment of Data Centres: We advocate for the active development of attractive locations for the establishment of data centres. This requires suitable land with a sustainable power supply, fibre optic connections, and the ability to dispose of excess heat. Data centres must be viewed as an opportunity for municipalities. Many data centres wish to donate their CO₂-free excess heat for free, but struggle to find recipients. The consistent expansion of modern thermal networks is a key lever in addressing this.



Revision of the Energy Efficiency Act (EnEfG): National regulatory solo-efforts should not be allowed to discourage the establishment of data centres in Germany. However, the EnEfG is doing exactly that: The required minimum standards for power usage effectiveness (PUE) and the share of reused energy (ERF) are not feasible in practice. The reporting and publication requirements violate business and trade secrets. This results in clear disadvantages for German data centre operators.

Reducing Electricity Costs: The relatively high electricity costs in Germany represent a significant competitive disadvantage compared to other European countries. Relief on electricity tax for the manufacturing sector should therefore be extended to include the energy-intensive digital economy. Technically, the electricity consumption for network operation and the operation of data centres can be recorded separately and cross-sectionally. This would enable targeted relief for ICT companies.

User-Friendly Digital Regulation

Problem Description: 83 percent of companies in Germany consider data protection the greatest obstacle to their digital transformation. This makes data protection requirements the number one problem, even before the shortage of skilled workers. In addition to the GDPR, companies now face additional high regulatory demands from Europe, including the Digital Markets Act, the Digital Services Act, the Data Governance Act, and the AI Act. This results in compliance costs and personnel expenses that hinder the development of innovative business models, especially for small and medium-sized companies.



Demands

Ensuring Legal Certainty for International Data Transfers: It is necessary to create clear legal frameworks to enable companies to transfer data securely and efficiently. Lawmakers should ensure that data security requirements are consistently implemented and take a risk-based approach to prevent overburdening companies, especially SMEs.

Harmonising Data Protection Authorities for Private Entities in Germany: The current structure of the data protection authorities in Germany, consisting of 17 independent state authorities and the Federal Data Protection Commissioner, creates a »patchwork quilt of regulation«. According to Bitkom, 70 percent of companies find this fragmented data protection oversight obstructs the implementation of efficient data protection measures. Therefore, a uniform data protection oversight system is necessary.

Uniform Application of the GDPR within the European Union: According to Bitkom, 57 percent of companies see the inconsistent interpretation of the GDPR across the EU as an obstacle. For this reason, the application and enforcement of the GDPR must be harmonised and simplified at the European level. Especially the collaboration between the supervisory authorities of member states must be improved.

User-Friendly Implementation of the AI Act: We advocate for the German implementing law of the AI Act to be designed in a way that is innovation-friendly, unambiguous, and feasible in practice. The implementation should be consistent with other EU countries and avoid duplicating existing industry-specific regulations. There is a need for clear responsibilities as well as adequate financial and personnel resources for the national market surveillance and notification authorities responsible for the AI Act, as well as to the central point of contact.

Simply Better Working Authorities

Problem Description: The lack of digitalisation in the public administration is seen as an international locational disadvantage by 8 out of 10 companies, and 9 out of 10 view it as an obstacle to their own digital transformation. When high regulatory requirements are imposed, businesses should be able to expect efficient collaboration with the relevant authorities in fulfilling these requirements. This is often not the case. Therefore, Bitkom continues to advocate for the digitalisation of the public administration at all levels to become a greater political priority.

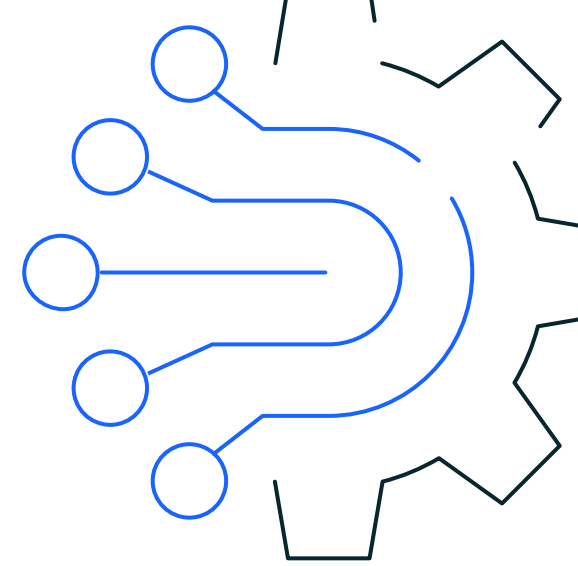
Demands

Modernising Germany's Official Register Landscape: Businesses should only be required to submit data and necessary documentation only once when communicating with authorities (Once Only Principle). For this to work, the public administration must be able to securely and easily exchange data with other authorities. Rapid modernisation of Germany's official register landscape is required to enable digital and connected administrative processes under the Once Only Principle. To increase the pressure for implementation, the federal government and the governments of the Länder must commit to a binding timeline for when users of public administration services can refuse to provide data already stored in public registers.

Nationwide Uniform Enterprise Account: There is a need to create a central enterprise platform, serving as a one-stop point for all enterprise-related public administration services. To do so, the platform must include a nationwide uniform enterprise account, acting as a digital identity that can be used for all enterprise-related administrative services.

Continuous Cutting of Red Tape: The German federal government has announced that it will begin to pass a bureaucracy reduction law every year. Bitkom fully supports this initiative and will contribute concrete proposals. We are especially committed to the abolition of written form requirements.

Simplifying Procurement Processes: The public sector is a key customer of the IT Mittelstand. However, the length and complexity of procurement procedures often effectively exclude SMEs. We advocate the raising of public procurement thresholds for direct awards and the easing of requirements for credentials. The bureaucratic burden could be further reduced by implementing a nationwide prequalification website.



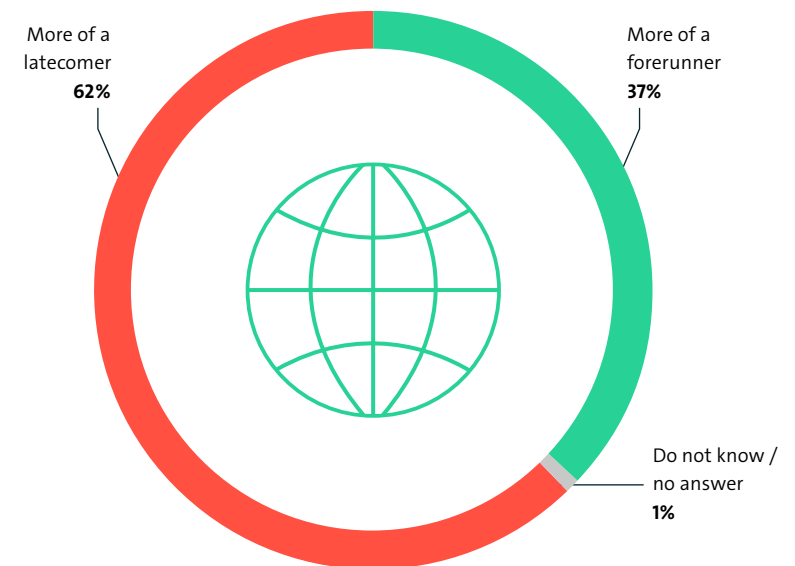
Facilitate Investment, Simplify Taxes

Problem Description: For the German economy overall, 2024 has not been a year of economic recovery but one of continued weak growth. The IT sector remains one of the few growth drivers and, above all, an enabler of productivity increases in other sectors. However, the declining total demand and negative future prospects are also impacting the IT industry. This is unfortunate, as the consistent digitalisation of business models is an important component of the response to problems like the shortage of skilled workers and high energy costs. To empower companies to invest in transformation with confidence, it is precisely this process that needs to be made more appealing from a tax perspective.

Demands

Super-Deduction for Digital Investments: Businesses that consistently work on their digitalisation are more productive, more competitive, and less affected by the shortage of skilled workers. Better conditions for deductions on digital assets free up liquidity and encourage private investments in the digitalisation of the economy at large. We therefore propose a 175 % deduction rate on investments into digital assets and tangible assets. This will support SMEs that are boldly investing into the hardware and software they need to transform their business models. Countries like France and Italy have already introduced super-deductions. In Germany, however, this promise from the 2021 coalition agreement remains unfulfilled.

How advanced is your company overall in terms of digitalisation?



Bitkom Research (2024): The survey included 606 companies with 20 employees or more. The survey is representative of the overall economy in Germany.

Simplification and Digitalisation of Corporate Taxation: Not only does Germany maintain a relatively high corporate tax rate by international standards, it also has a complex tax system. In addition to the tax burden, this results in additional significant compliance costs for companies. We advocate for the implementation of the recommendations of the Expert Commission »Simplified Corporate Tax«. Tax bureaucracy and data exchange with authorities should be made fully digital. This would take the burden off both companies and tax agencies.

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Bitkom represents more than 2,200 member companies in the digital sector. In Germany, they generate around 200 billion euros in turnover with digital technologies and solutions and employ more than two million people. Our members include over 1,000 mid-size companies, 500 start-ups, and nearly all global players. They offer software, IT services, telecommunication or internet services, manufacture devices and components, are active in digital media, create content, offer platforms, or are otherwise part of the digital economy. Eighty-two percent of the companies involved in Bitkom have their headquarters in Germany, another 8 percent come from the rest of Europe, and 7 percent are from the USA. Three percent come from other regions of the world. Bitkom promotes and pushes the digital transformation of the German economy and supports broad societal participation in digital development. The goal is to make Germany a powerful and sovereign digital location.

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