

If your company is looking to expand internationally, Germany is an excellent country to consider for your expansion. There are several reasons why expanding your business to Germany can be a smart move. You can multiply your reach substantially and benefit from Germany's strong economy, skilled workforce, and other assets.

However, doing business in Germany also comes with some distinct challenges, many of which are tied to the country's extensive regulations and responsibilities placed on employers. Understanding both the pros and cons of a German expansion can help you determine if expanding to Germany would [be a strategic move](#) for your company.

Reasons to expand to Germany

Germany [ranks fourth in the world](#) on U.S. News' list of the top countries to headquarter a company. Though the German economy growth rate is stagnating, there are virtually no volatile political issues in Germany affecting businesses. The country offers a stable political and economic climate for expansion. Germany's impressive economy, consumer market, and workforce combined with its strategic position in the European Union (EU) make it a smart choice for companies looking to expand their influence in Europe and across the world.

1. Prosperous economy

Following the reunification of Eastern and Western Germany in 1990, Eastern Germany lagged far behind Western Germany — it took time and expense for the country to unify effectively before both regions could flourish economically. Today, Germany's economy is stable, thriving and known globally for vehicle manufacturers like Volkswagen, BMW, and Daimler, among other prominent brands. Germany has a mixed economy, also known as a “soziale marktwirtschaft,” or social market economy — meaning, a free-market economy that operates within a framework of government oversight and social welfare programs.

Germany boasts the largest economy in Europe and is included among the [five largest economies worldwide](#). In 2019, Germany [accounted for nearly a quarter](#) of the EU's total gross domestic product (GDP). Since the economic crisis concluded in 2009, [Germany's GDP has grown annually](#), up until 2020, due to the global pandemic. Though many countries were hit hard by the Covid-19 pandemic, Germany's 5 percent decline in GDP in 2020 is [among the smallest anticipated declines](#) in Europe, and Germany's GDP [growth is expected to resume](#) in 2021.

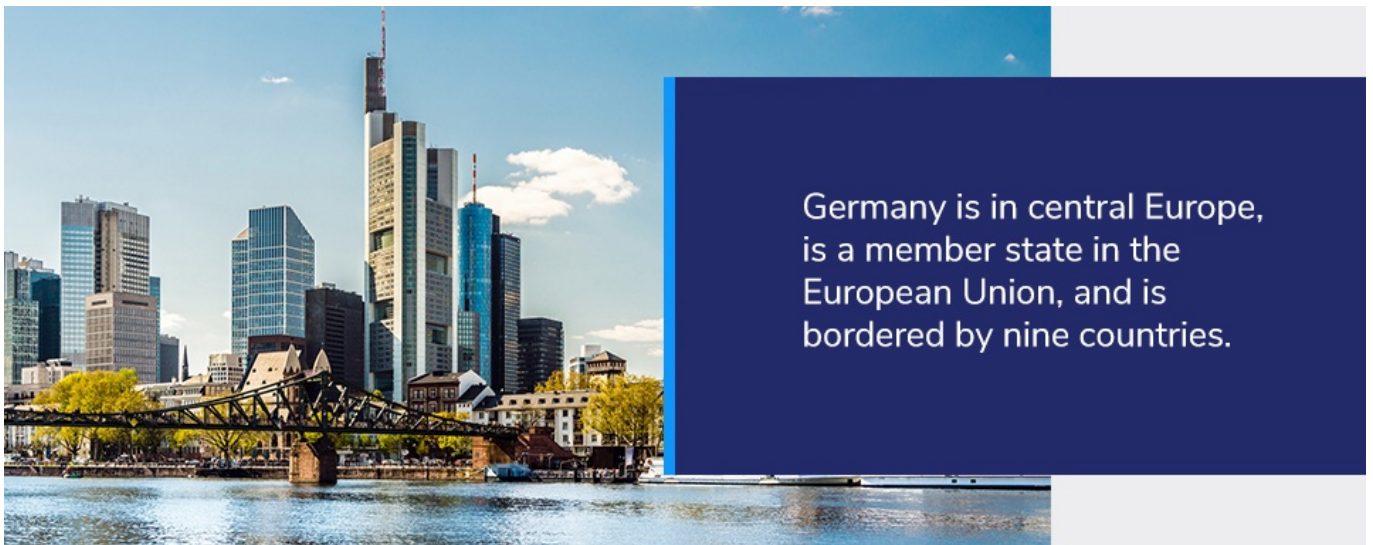
2. Large consumer market

In addition to having the highest GDP, Germany's population of [83.2 million tops the population](#) of all other EU countries, making up 18.6 percent of the EU's total population. This means Germany is the largest consumer market in Europe, both in terms of the number of people and purchasing power. In 2019, quarterly consumer spending in Germany ranged from [over 429.6 billion euros to nearly 431 billion euros](#). Expanding your operations to Germany can give you direct access to this massive consumer base, helping you grow your business.

With [95 percent of German households](#) having internet access, Germans are increasingly embracing e-commerce, creating a major opportunity for e-commerce companies that want to expand their reach. The largest segment of the market is electronics and media, which is expected to reach a [volume of 21.9 billion euros in 2021](#). International e-commerce companies can strengthen their influence among German shoppers by creating a German-

specific website since, [according to a 2018 survey](#), [about half](#) of German e-commerce shoppers would not feel comfortable purchasing from an international website in another language.

3. Strategic position in Europe



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Companies outside of continental Europe that want to enter the European market may want to consider Germany for its strategic geographic location. Germany is in central Europe, is a member state in the European Union, and [is bordered by nine countries](#): Denmark, the Netherlands, Belgium, Luxembourg, France, Switzerland, Austria, the Czech Republic, and Poland.

Germany is also a popular location for trade shows and other industry-wide events. According to the Association of the German Trade Fair Industry (AUMA), Germany hosts [two-thirds of the world's leading trade fairs](#). German trade fairs welcome approximately 10 million visitors each year. With a presence in Germany, your company has a front-row seat to these events and easy access to a much broader network of European countries that enjoy productive commercial relationships.

4. Skilled workforce

Germany's reputation for productivity and innovation is owed largely to the country's highly skilled workforce. Germany isn't known for exceptionally high levels of educational attainment. [Just under a third of German adults](#) between the ages of 25 and 34 held a tertiary degree in 2018 — well below the average for other Organization for Economic Co-operation and Development (OECD) countries. However, that's due to Germany's robust vocational education and training (VET) system — 44 percent of upper secondary graduates in Germany hold a vocational qualification.

It's also notable that, of those who do pursue tertiary education, [nearly 46 percent obtain a master's or doctoral](#) degree. That's notably higher than the OECD average of 34 percent. Over a third of tertiary-educated adults obtained their degree in science, technology, engineering, and mathematics (STEM) fields. Similarly, engineering, manufacturing, and construction were the subjects of choice for about a third of upper secondary vocational graduates. Another third studied business, administration, and law. The most popular area of study at the postsecondary non-tertiary level is health and welfare.

Top challenges of expanding to Germany

While there are some valuable benefits of doing business in Germany that may draw you to expand your operations to the country, there are also some disadvantages of doing business in Germany. Germany's social market economy may be prosperous, but businesses must contend with extensive regulations and high labor costs. For some companies, the language barrier may also be an issue.

1. Lengthy process for starting a business

One challenge companies will face at the start of their expansion is the long and complicated process of starting a business in Germany. Germany [ranks 125th on the World Bank's](#) starting a business index, which accounts for the time, costs, procedures, and paid-in minimum capital required to start a limited liability company in 190 countries. It can [take several months to set up](#) a German entity, and there is a demanding capitalizing requirement of 25,000 euros.

In addition to requirements at the national level, companies must also contend with complex bureaucratic requirements at the local level, which includes registering with various agencies and with professional associations that apply to their industry. Constructing and registering business locations can also be a headache. Procuring a construction permit and registering property involve a lot of time and paperwork. Companies should budget plenty of time to set up their business before hiring employees and launching their operations in Germany.

2. Robust employee protections

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Companies should also be aware that Germany has some of the strongest employee protections in the world. Employment law sets strict requirements on the rights employers must enforce for their employees. For example, workdays must not exceed eight hours, and employees must receive mandated rest breaks during the day and at least 11 hours of uninterrupted time at the end of every working day. German employees are also entitled to a minimum of **20 days of paid holiday leave** along with **up to 13 public holidays off**, depending on the holidays observed in their state.

Germany does not have at-will employment. Strict rules make it difficult to dismiss employees. In a business with at least 10 employees, any employee who has worked there for more than six months **cannot be dismissed without a socially justified reason**, according to the Dismissal Protection Act. This reason could be a long-term illness or a repeated breach of

conduct, for example. Dismissal should always be the last resort after taking other steps, and the employer bears the burden of proof for why they had to dismiss an employee.

3. High cost of labor

Germany's laborforce is a draw to international investors, but its cost of labor is not. The average hourly [cost of labor in Germany is 35.6 euros](#), which is considerably higher than the EU average of 27.7 euros. Germany's national minimum wage is currently [9.35 euros](#) per hour and is set to increase to 10.45 euros by mid-2022.

High payroll taxes add to the cost of employing German workers. Employers pay into pension, health, unemployment, nursing care, and accident insurance. Overall, employers must [contribute an additional 20.7 percent](#) on top of employees' salaries to go to social security. When hiring in a new country, companies should also factor in recruitment costs, which [one study found averaged 4,700 euros](#), or more than eight weeks of pay in Germany.

4. Complicated tax laws

Setting up your business isn't the only source of bureaucratic complexity for companies. Germany's fiscal system is notoriously convoluted, so international companies are advised to partner with local finance experts to help them organize their finances and file their taxes. German employers must also withhold the correct amount of taxes and social contributions from their employees' paychecks since Germany uses a Pay As You Earn (PAYE) system.

German companies must pay a business tax, municipal business tax, and a solidarity surcharge. You may also have to pay a dividend tax, capital gains tax, and trade tax. The good news is that, while taxes in Germany are complicated, they are not especially high, particularly when it comes to taxes on corporate profits. A [2017 study compared taxes](#) in Germany vs. the U.S. and found that U.S. corporations were paying higher income taxes.

5. Language barrier

For some companies, another notable challenge in expanding to Germany is the language barrier. [More than 95 percent of the German population](#) speaks the country's official language: German. German is also an official language in Austria, Belgium, Liechtenstein, and Luxembourg and an unofficial language in Switzerland.

Fortunately for English-speaking companies, Germany ranks well on the English Proficiency Index (EPI), a language evaluation from Education First (EF). Germany [currently ranks eighth out of 100 countries](#) of non-native English-speakers studied, and eighth out of European countries on the list, earning it a “very high proficiency” rating. English is most common in city centers, such as Berlin and Bavaria. As English is not an official language in Germany, however, you may still need to enlist a translator's help to conduct business there.

Using an EOR to simplify an expansion to Germany

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There are several instances where working with an EOR makes sense. Here are a few of the most common scenarios:



You want to hire remote employees



You want to test the market



You want to start hiring right away



When you're creating a global expansion strategy, you must weigh all the potential benefits and drawbacks of expanding to a country. In the case of Germany, the disadvantages aren't necessarily reasons to cancel your expansion plans. Look for ways to capitalize on Germany's benefits while minimizing its drawbacks. An excellent way to do that is by working with an Employer of Record (EOR).

An EOR, also known as a professional employment organization (PEO), is a company that offers a streamlined solution for businesses that want to operate internationally. There are several instances where working with an EOR makes sense. Here are a few of the most common scenarios:

- You want to hire remote employees: If you wanted to build a remote team in Germany for their German language skills and other qualifications, the EOR could serve as your employees' official employer while you manage the work they do. This prevents your company from having to establish an entity in Germany and saves you from having to manage payroll, taxes, and other complicated tasks.
- You want to test the market: Partnering with an EOR can be a smart move, even when you plan to establish your own subsidiary in Germany. Working with an EOR first gives you a safer and more simplified means of testing out the market and refining your strategy. You can still hire the employees you need for your new operations, but you haven't made a long-term investment in case you decide to go in a different direction.
- You want to start hiring right away: Even if you fully plan to establish your company presence in Germany, setting up your business can take a long time. If you want to start hiring right away, the best way to do so is with an EOR. You can transition your employees to your company's payroll when the time comes.

Note that Germany has [Arbeitnehmerüberlassungsgesetz \(AUG\) licensing requirements](#), which dictate that seconded employees will automatically become the end company's employees after they've worked on that company's projects for 18 months. If you want to use an EOR for more than 18 months, you must ensure that your EOR has an AUG license and knows how to comply with the regulations, so employees stay on the EOR's payroll, no matter how long they work for your company.

Expand your company to Germany with Globalization Partners as your EOR

For a smooth and efficient expansion to Germany, consider partnering with Globalization Partners. As a global EOR with a presence in Germany and more than 185 other countries worldwide, Globalization Partners is an EOR you can trust to help your company grow. Our local team can handle everything from payroll to enforcing legally compliant employment terms for your workers every step of the way. Globalization Partners also has the necessary licensing and expertise on AUG compliance.

To learn more about hiring in Germany and other locations across the globe, [download](#) our Global Hiring Handbook.