"*REIMAGINE THE FUTURE*
– How To Rethink Tomorrow For You and Your Organization"
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Session "Profit – After Corona more important than ever"

Interview and Discussion with Prof. Dr. Dr. h.c. mult. Hermann Simon

Moderators Prof. Dr. Marcel Hülsbeck WIFU, Prof. Dr. Kai Thürbach, TH Köln

INTRODUCTION of the session and the panelists by Stuart Crainer, Thinkers 50

Stuart Crainer:
Welcome to the "Reimagine the future" summit. This is our seventh session of the morning, afternoon or evening, depending on where you are. We have had some great sessions so far that have taken us to Sydney, Singapore, Australia, North Carolina, Paris, London, and now we're heading to Germany. Remember during the session please feel free to send in your questions to the Q&A box at the bottom of your screen. Let us know where you're watching from in the chat box. Remember that all the profits from this event are going to charities, which are alleviating the impact of COVID-19. One of the charities I am just looking up is "No Kid Hungry", which had currently serving 3.3 million healthy meals a day to Americans. So, ask questions and enjoy the session. We're joined for this next fifty minutes by an intriguing trio. We have Hermann Simon. Hermann Simon is the chairman of Simon Kucher & Partners. Hermann is someone we inducted into the "Thinkers 50 Hall of Fame" deservedly last year in 2019. The first German inducted in the hallway of fame. He is the author of „Hidden Champions", a really influential global book. Also, he is the author of "Power Pricing" and "Confessions of the Pricing Man". Hermann is joined by Kai Thuerbach, Professor of Entrepreneurship at TH Köln and by Marcel Huelsbeck, Academic Director of the Witten Institute for Family Business. They're going to be talking about "Profit – After Corona more important than ever". And, as we established in our conversation beforehand, there is no question mark after that statement, it's an exclamation mark!

Part I: Interview

Prof. Dr. Marcel Hülsbeck:
Thank you very much for the kind introduction, Stuart. Just before we start with our little talk here – what is our idea of this session: We would like to give you a head start by picking Hermann's brain on the relevance of profit, before and after Corona, but then we're counting on you as the audience to put your questions in the Q&A box. We have reserved ample time of the session to look after your questions and try to get the most out of the session for you. Okay Hermann, let me start with a simple question as an economist reading your new book about profit: How do you define profit? What is profit for you?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
There is only one true definition of profit. Profit is what the owner of a company can keep after the company has fulfilled all obligations towards employees, suppliers, banks and the state. All other profit definitions, such as EBIT, EBITDA and extensions are not profit. For instance, the company WeWork uses a "Community Adjusted EBITDA", which includes marketing expenditures as profit and Groupon reports an "Adjusted Consolidated Segment Operating Income", which includes customer acquisitions costs. Is

this profit? I don’t think so. Only what the owner can keep after having fulfilled all his responsibilities is profit. Nothing else is profit.

Prof. Dr. Marcel Hülsbeck:
Okay, so we have to divide the politics of profit from real profit in your view. You talk about economic profit in your book. What do you mean by that?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Economic profit is a more demanding benchmark. It’s the profit that exceeds the cost of capital, the so-called weighted average cost of capital. You could say that only economic profit is real entrepreneurial profit. Because if you don’t exceed your costs of capital, you better invest your capital elsewhere and not in your company.

Prof. Dr. Kai Thürbach:
Hermann, in preparation for today’s session you said: Everyone talks about the Corona-crisis. I will keep my mouth shut about it. But what significance has profit for business in times of crisis?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
The Corona-crisis brings the hour of truth, and it’s exactly now. Companies which weren’t profitable in the past and have no reserves are the first to fail. After the crisis, profit will become more important than ever because making profit will be for recovery, for instance, to pay back incurred debt. That will be the second hour of truth.

Prof. Dr. Kai Thürbach:
So what is the actual profit situation of companies? Could you share some empirical evidence? You also questioned people on the street about how much profit they thought companies earned. Do they have a realistic perception of what’s going on?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
In Germany people believe that the net profit margin, after all costs and all taxes, is 23%. The real margin over many years is 3.4%. Similar in the US. The belief is 32%, the real net profit margin is 4.9%. The record holders in misperception of profit are the Italians. They think that the margin is 38%, the reality is 5%. There are two messages: In most countries true net margins are 5% or less. People overestimate profit margins by 600%. That's unbelievable.

Prof. Dr. Kai Thürbach:
All right. And according to your research there seem to be very significant differences in profitability between countries, between industry sectors and between different companies. Is that right?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Yes, that's absolutely right. The differences are indeed staggering. Switzerland is very profitable with a net margin of almost 10%. That's the average of Swiss companies! At the very bottom is Japan with 2.4%. The US reaches 4.9%, not great either. Actually, the margins in larger countries tend to be lower. That's probably due to more intensive competition. On the other hand, larger countries take advantage of economies of scale, but the net effect is that in larger countries margins are lower. When it comes to sectors, pharmaceuticals is usually one of the most profitable industries with net margins of 20%. Automotive is rather average with around 5%. Airlines are really bad: In the hundred years of their

existence their accumulated profit is around zero, probably after Corona even slightly negative. So, their problem is not confined to the current crisis.

Prof. Dr. Kai Thürbach:
So what are typical reasons for low profitability?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
The main reason are wrong goals: market share, revenue, sales orientation instead of profit orientation. This is exacerbated by conflicting goals between functions, for instance, between finance and marketing. Of course, wrong incentives such as stock options or sales-based commissions are closely related. Being in the wrong sector is also detrimental to profits – Airlines are an example. Overcapacities are another very effective profit killer. Then, social values play a big roll. That's one reason for the differences between countries. In Germany for example profit is a kind of social taboo. In other countries it's highly valued by people. That has an effect on the actual behavior.

Prof. Dr. Kai Thürbach:
What about size? Are large corporation more profitable or what is it then that drives profitability?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
No, large corporations are not more profitable. The median of the net margin of the Fortune Global 500 is 4.49%. This tells us that half of these giants earn less than 4.5%. Most likely they don't make an economic profit, meaning that they don't recover their cost of capital. That’s the case for half of the Fortune Global 500. The public perception is misguided by a few profit stars. Facebook, for instance, makes 39% net after cost and taxes. Apple and Alphabet make around 22%. These margins are stellar, but they are rare exceptions.

Prof. Dr. Kai Thürbach:
Many of the profit stars seem to be rather young entrepreneurial companies if I understand you right. I'm a professor of entrepreneurship. What is your key message relating to profit for our founders and startup teams? What should I tell them?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Tell them that profit always depends on the combination of three profit drivers and there are only those three: price, volume and cost. And you must pay attention to all three. Stars like Facebook and Google have a unique combination: high prices due to a quasi-monopoly, low marginal costs – often zero marginal costs – and huge customer numbers. That’s the dreamland of profitability! My message to founders: Keep your eye on all three profit drivers and their interrelations. Don't confine yourself to one driver. For example, many startups are proud that they have many customers, but they don’t earn any money from these customers. The number of customers is useless if you don't have a positive margin per customer. Look at all three profit drivers and their interrelations. This is very important!.

Prof. Dr. Marcel Hülsbeck:
Okay. Maybe I can take a little bit of another view. We talked about entrepreneurial firms, about the new economy kind of firms. Myself, as director of our Institute, I work a lot with family businesses who are not Facebook or Google or, in the sense that Kai might say, entrepreneurial. What about older incumbent firms? Are there still profit stars? How do they differ from weaker older firms?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
We cannot make a general statement on your question, but I can respond with some specific observations. If I look at the German situation, margins are generally low, not much better than in Japan. But we have quite a few profit stars, the so-called „Hidden Champions“. These are midsized, little-known global market leaders. Their margins are about three times the German average. They often dominate their global markets. We have profit stars in all countries and usually they are characterized by strong market positions and a good combination of the three profit drivers.

Prof. Dr. Marcel Hülsbeck:
I think a lot of people who are watching us now know your book „Hidden Champions“. What do you think, how can „Hidden Champions“ cope with the crisis? What is your advice? Would they be better off after that or what will happen?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
First, they were profitable in the past and ensuingly have high reserves and an equity ratio close to 50%. Thus, a very solid, strong financing. But the second reason for the ability to cope with the crisis and to survive is that their products are often indispensable. Let me give you a comparison between Toyota and a typical German “Hidden Champion”. If Toyota stopped selling cars today what would happen? Not much! People would by cars from Nissan or from Volkswagen or from somebody else. If the machines of the hidden champion Trumpf, the global leader in laser machines, would vanish today, we would have a real problem. These machines are in so many plants, that a substantial part of the manufacturing in the world would collapse. Trumpf machines are difficult to replace, at least in the short run. You could say they are indispensable. This indispensability makes „Hidden Champions“ resilient. Of course, they are affected by the crisis. Often the purchase of their products can be postponed for some time, but eventually they are indispensable.

Prof. Dr. Marcel Hülsbeck:
So is there a general therapy in your view? What drives profitability for our companies?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
As I said, there are only three profit drivers: price, volume and cost. The question is which one is the most effective? If we improve a driver by 1%, what happens to profit? This is the so-called profit elasticity. And I have a clear answer: 1% price improvement typically increases profit by 10%. Thus, the profit elasticity of price is 10, for costs it’s 6, and for sales volume it's 4. Of course, these are averages, typical for industrial products and also for many services. Therefore, we can summarize: Price is the most effective profit driver, followed by costs and sales volume in the third place. And there is another aspect: speed. Price changes can be implemented faster than changes in cost or sales volume.

Prof. Dr. Marcel Hülsbeck:
Well, on the other hand: When I talk to German family businesses, and lots of these „Hidden Champions“ are family businesses, they take more pride in their social responsibility than in their profitability. Do you see a conflict between your call for profit and the social embeddedness of a company and its business ethics?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
This conflict exists mostly or even only if a company is short-term oriented. Long-term profit orientation largely eliminates the conflict between shareholder and stakeholder value. Of course, a company must satisfy its employees, its customers, its suppliers, not only its shareholders. But never forget, “without

profit no company will survive, because profit is the cost of survival", as Peter Drucker said. And also remember: No company ever failed from making profit. That's actually the title of my German book and in a few months, we will have an American version.

Prof. Dr. Kai Thürbach:
A recent study quoted by McKinsey says only 7% of Fortune 500 CEOs believe that companies should mainly focus on making profits and not be distracted by social goals. What about that?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
I doubt that these are the true opinions of CEOs. For me it sounds more like a tribute to the spirit of the times than as a statement to be taken seriously. I quote here Nitin Nohria, the Dean of the Harvard Business School, who recently said to me, "The first ethical responsibility of a business leader is to make profit." Yes, it's the first ethical responsibility of a business leader to make a profit! And my late friend Peter Drucker joined in when he said, "There is no conflict between profit and social responsibility. It is not a business that earns a profit that rips off society. It is a business that fails to do so."

Prof. Dr. Kai Thürbach:
Very important topic. I also teach leadership and ethics. So, summing up: What should I tell my students about profit?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Tell them that freedom, ethics, and profit orientation are inextricably linked. They are the pillars of each free market economy. And to conclude, let me quote Wallace Brett Donham, who served as the second Dean of the Harvard Business School from 1919 to 1942, so for a very long time. He said, "We want to educate leaders who make a decent profit decently."

Prof. Dr. Kai Thürbach:
Making a decent profit decently, that is the perfect statement to end this first part of the discussion. Hermann, thank you very much for these valuable insights. Now we will open up for questions from the audience. Marcel Hülsbeck will lead us through the questions.

Part II: Q&A

Prof. Dr. Marcel Hülsbeck:
Okay, great. Thank you so far, Hermann and Kai. First, good news: We are doing splendid on time. So, we're going to have lots of time to discuss the questions from the audience. And while the last questions are coming in, I might start with a couple of questions I've read in the chat box and that we have touched up on already. Hermann, you said price, volume and cost are the main drivers. If you take the long-term view, conflicts between shareholders or stakeholders will be smaller and will be alleviated. What do you think how much time horizon does a company need? I talk with many family businesses and they say our company is like an immortal family member to us. If you talk about long-term profit, do you talk about 10 years, 50 years or even about immortality?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Of course, short versus long term is a very fuzzy issue and there is no general definition to it. A family company, which is not exposed to the pressure of capital markets, can afford to have a longer-term value view, in contrast to somebody who has to report on a quarterly base. And of course, if you are developing pharmaceuticals, you need a time horizon of 20 years because that's the time a patent´is valid. You need 10 years to bring the product to the market and then you have 10 years to harvest the profit. So, what short and long term means is a very difficult question without a clear answer. But it's somewhat similar to what Saint Augustine of Hippo said about time: "I know what time is, but when somebody asks me to explain it, I cannot explain it." And that's the same for short and long term. I know for my business what short and long term is, but I don't know it for every business.

Prof. Dr. Marcel Hülsbeck:
Okay, good. Let's pick one question from the audience that just jumps to me right now. I've asked myself the same question: If you talk about economic profit, entrepreneurial profit, we are coming close to the question of innovation. If you take profit as a key benchmark, which is a short-term benchmark in your yearly accounting, what about innovation? What about reinvestment from that profit? How do we deal with that?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
When I decide on a budget for innovation, I have to anticipate the duration of the product's life cycle and do some kind of cash flow and margin prediction. Of course, I would only start an innovation project or launch a product when I have a positive discounted cash flow, a positive profit expectation. This does not mean that I have to make a profit in the first three or five years. Amazon did not make a profit for almost twenty years, but it was growing every year and the shareholders believed that eventually Amazon would become profitable. That has turned true in the last few years. But we have many other companies where I don't see any profit prospects in the longer term. Just to give you an example: WeWork. Their marginal costs are about 80% of their revenue and it's very difficult to become profitable if you have such high marginal costs.

Prof. Dr. Marcel Hülsbeck:
Let me combine the second part of the question from the Q&A with a recent question by a participant in the chat box. These „Hidden Champions" that you have been researching and that we just talked about a little bit, they all took some time to build up. This may include periods may of high reinvestment or low profits. The question is: What are the characteristics of these „Hidden Champions" that make them so indispensable?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
There are three main pillars of their strategies. The first consists of very ambitious goals. They strive to be the best in their markets and to become the market leader. Usually they set these goals very early in their development. How do they achieve this? By focusing. You only become world class by focusing. But focus makes a market small. And how do they make a market large? By globalization. So the three essential pillars of the „Hidden Champions" strategy are: the goal to be the best and market leader and focus combined with globalization.

Prof. Dr. Marcel Hülsbeck:
Good. So, we have a number of questions on the social responsibility, on purpose versus profit. I'm going to show just a short one: Do you have any more thoughts on that?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
We have this famous statement of the Business Roundtable issued in August 2019, which says that the purpose of companies is not to make profit, but to serve all kinds of stakeholders, customers, community, etcetera. Even the chairman of the Business Roundtable, Jamie Diamond, the CEO of JP Morgan Chase, said: "It's common sense". The same applies to the Davos manifesto, which was issued a little later and essentially was the same in terms of content. Of course, any reasonable entrepreneuer and manager does not confine his view and his activities towards the shareholders but tries, as I said, to satisfy customers. Even your suppliers you have to satisfy. Otherwise, they leave and you are no longer supplied. I know cases where suppliers have discontinued the business relationship because there was too much pressure on them, for instance in the automotive industry. You always have to serve the constituency of different groups. I don't say to make them happy, but to build a business relationship, which is satisfying for them. This will lead to profit. Profit is the main goal because it's a condition for survival, but it's also the result of what you do.

Prof. Dr. Marcel Hülsbeck:
There is a number of movements, especially in the European Union right now, who are trying to engage a new green deal for example. They say: Okay, we should not only report our economic profit, that we are talking about right now, but our social or ecological profit that we generate. Our positive footprint for example. Do you think that's a good project? Do you think that's worthwhile?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Of course, we've had these reports on ecology, on human resources, etcetera, for now about 15 to 20 years. But what we don't have so far is an overriding indicator of these activities, which makes them comparable across companies, across industries, across countries. So, I don't see much progress in these reports. When I look at them and read them, they're often a nice collection of words and activities, etcetera. But do they really change the world? No. The activities change the world, but the reporting so far has limited relevance in my view.

Prof. Dr. Marcel Hülsbeck:
Okay. There is another question: What about the Shared Value Initiative with FSG and Michael Porter? This seems to be a direct transfer into your last answer.

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Yes, that relates also to the purpose issue. Profit is not the purpose. Making money is not the purpose of our life. But in business we need measurable, quantifiable indicators. The ultimate indicator of a success of each business is profit. Whether somebody likes it or not. Profit is, as I said repeatedly, the condition

for survival. No company ever failed for making profit, but many, many companies failed from not making profit and from having the wrong goals and the wrong measurements.

Prof. Dr. Marcel Hülsbeck:
So maybe we can get our hands dirty a little bit with more operational questions: If we look at the margin pressure right now and if we look at a shrinking economy post COVID, so to say, what would this do to the margin pressure? This is the first part of the question. The second part of the question is: You've talked about industry differences already. Are there specific differences between B2B and B2C companies?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
First it will be very tough. Quite a few companies already announced bankruptcy or insolvency. We see that the automotive industry is under big pressure. I think in many cases we will see more price wars, where companies fight for market share. Costs will get a high importance, but also smart price moves. Just let me give you one example from the price side: Instead of giving cash discounts, I advise companies to give discounts in kind. This tactic has several advantages. Usually, customers accept an offer of discount in kind. It gives you more work for your employees and you are better off with regard to margin because the discount in kind costs you only the marginal cost, but the customer gets the full perceived value. We did that for a furniture maker. They make rather expensive designer furniture, and they offered an additional piece of office furniture, instead of a price discount. That was accepted by 80% of the customers. The marginal costs are roughly 60%, but the perceived value is 100%. So, you've got a 100% perceived value on the customer side, but you sacrifice only 60%. That's one trick, which is quite useful during a crisis situation.

Prof. Dr. Marcel Hülsbeck:
Great example, thank you. I'm taking another question from the chat box, because I'm interested in this as well. I'm doing a lot of research right now on business model innovation, especially in family firms. What we see there is, obviously they profit from the stable long-term value chain relations that have established themselves, maybe about over the last seventy or a hundred years. Would you say the sustainable value chains are antecedent to profit? Or how can you make profit in a world of disruption, in a changing world, in an uncertain world?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
This leads us again back to short term versus long term. In my „Hidden Champions“ research, I've found that the relationships to vendors and suppliers have been lasting on average for 20 years. If you have such a relationship based on trust, you do not exploit a short-term emergency of your customer nor of your vendor. I think that is a very good example to illustrate the difference between short-term and long-term profit orientation. You may sacrifice some profit in the short term and you get more back in the long term. Many family businesses have exactly this relationship based on trust and avoid short-term exploitation of emergency situations.

Prof. Dr. Marcel Hülsbeck:
We have a question in the chat that takes me from the external stakeholders to the internal stakeholders. Let me rephrase that and let me give you the German example: We have seen little rise in real net wages of employees over the last 10, 15 years in Germany. Some of our viewers are concerned that profits are made on the expense of the employees of the companies. I'm not talking about the family firms. We all know they have, may have a more special relationship. But what do you think in general: Will this crisis be on the expense of the employees?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
It will of course put pressure on the employees. But the pressure in the value chain on suppliers in the various stages will mostly be tougher. If you look, for instance, at typical industrial companies, they save much more by putting pressure on their suppliers than putting pressure on their employees. For automotive companies 80% of the costs come from suppliers and only 20% from the workforce. Furthermore, I don't share the view that real wages in Germany have not been increasing over the last 15 years, that's not true. On the other hand, we observe that productivity and keeping costs low is very important for German companies. I mentioned Dean Nohria from the Harvard Business School. About two years ago he visited „Hidden Champions“ and also some large companies in Germany together with thirteen Harvard rofessors. I asked them: What were your impressions? The general answer was: These companies are trying to do everything a little better from day to day. They are driven by continuous improvements. The second judgement was: They are obsessed with productivity, and that is certainly true. In Germany we are obsessed with productivity and of course that puts pressure on wages. But it puts more pressure on the labor force to be productive. And that's a matter of qualification, of organization, of motivation.

Prof. Dr. Marcel Hülsbeck:
Another German obsession, like you said in one of your last books and in „Hidden Champions“, is globalization, being export orientated. If we see now that global value chains are destabilized, do you think we will see this deglobalization, you can read about in The Economist and so on? Or what’s its impact on the „Hidden Champions“?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Actually, we have seen a kind of deglobalization for 10 years now. If you look at the first decade of the century, the relationship between growth of global trade and of global gross domestic product was 1.9. If the global cross domestic product grew by 1%, global trade grew by 1.9%, roughly double the growth rate. In the last 10 years the growth rates of the two variables has been identical. That's not due to Trump, but it just happened after the financial crisis. What will be the longer-term consequences of Corona? I don't know. I’ve listened to numerous talks and read about twenty articles on what happens after Corona with globalization and deglobalization. I have no idea what's going to happen. I think there will be changes. Let me just give you one example: I often travel to China to give a speech of 45 minutes and then I fly back. Does that make sense? Under ecological aspects, under time aspect, etcetera? Or does it make sense to transport branded soda water around the world instead of using local waters? We will see changes, but they are not only driven by Corona. I think Corona only exacerbates existing trends to rearrange the global value chains.

Prof. Dr. Marcel Hülsbeck:
You said earlier in your talk that organizational conflicts, for example between finance and marketing, could be one big cost driver. Another one could be overcapacity. If profitable organizations are streamlined to efficiency, where do we get resilience in these companies? Where do we get maybe necessary organizational slack?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
We frequently observed goal conflicts on the top management level.. When I say we, I mean our consulting company Simon-Kucher & Partners. With 1500 employees we are the global leader in price consulting. We see very often conflicts between finance, sales, marketing, production, etcetera. To build resilience, I think you have to start there by inducing shared goals on the top level. Otherwise, you will have frictions. You will have fights. Time and energy is wasted. Another typical war is between

headquarters and local subsidiaries. Starting with unifying the goals from the very top is one step towards resilience. Of course, resilience and agility are very complex challenges. Customer needs are central. Customer needs usually do not disappear. The way they are satisfied changes. I mentioned Trumpf, the leader in laser machines for sheet metal processing. 30 years ago, this job was done by so-called mechanical nibbling machines. But the customer needs have not changed. They still process sheet metal. But the technology has changed, fundamentally. It's done with lasers today. Trumpf was able to retain its leadership in the new laser technology. So, if you built your business on customer needs, not on a specific technology, your chances of survival are big because customer needs do not disappear.

Prof. Dr. Marcel Hülsbeck:
Good. Let's turn back to the more societal view. We have one question here on your opinion: What do you think about government supports for not profitable companies? Should we go on with these "Zombie firms"? Should we keep them alive or should we give the free market a chance to reorganize itself?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
I would distinguish between a normal and the current crisis situation. Under normal circumstances, we should not subsidize "Zombie companies". Let's take the case of Italian airline Alitalia. It has been at the verge of bankruptcy for years. The Italian government has been throwing money after Altitalia, now it's nationalized. We have done similar things with the German coal industry by investing more than 100 billion Deutsche Mark or Euros - to no avail. Today we have no more black coal mines in Germany. It was wasted money and the market has to decide. In the current short-term situation, it's more difficult. We don't always know whether a company is at the verge because of fundamental problems or because of the current short-term situation. Lufthansa has been profitable for several years. Now they are in deep trouble because 99% of the business is gone for the time being. The state has to do something. But under normal circumstances we have other airlines which have gone bankrupt like Air Berlin. It was right that the government restraint itself.

Prof. Dr. Marcel Hülsbeck:
Good. So, I'm keeping the society view here because we have one fitting question. Now, we talked about how the government can deal with the deficiencies of industries or companies. If we look at opportunities: What do you think about building better antecedents for profits? May it be economic or social or whatever. What about clean physical infrastructure investments? What are your views on the investments, public investments in education and training? Let's keep it to the last two, because there's already a lot to say.

Prof. Dr. Dr. h.c. mult. Hermann Simon:
I think that public investments in education and training are necessary and highly productive. Let me use the German vocational training system as a case. It consists of a private-public partnership. Apprentices are employed by private companies and get a modest salary. They work for three days per week in the company and for two days they attend a vocational training school, which is run by the government. And after three and a half years they pass their exam as qualified workers. We have the best qualified workers in the world, due to this system. This system would not work without government support.

Prof. Dr. Marcel Hülsbeck:
Okay, great. One last question for you: What have we forgotten to ask you? What is your final message for the audience today?

Prof. Dr. Dr. h.c. mult. Hermann Simon:
We did not discuss the emotional aspects of profit and I think that's very important for each entrepreneur. Some of the biggest frustrations I have seen are entrepreneurs, sometimes founders, who came close to retirement and had no successor in the family. They want to sell their company and find an investor, etcetera. Then it turns out that the company hasn't been profitable for years, and they don't find an investor. That's about the biggest frustration an entrepreneur can experience, that his life work is devalued because he or she did not pay attention to the profit mandate. On the other hand, I see people who are really motivated, satisfied because they have observed the profit mandate and successfully conclude their career. Profit is not only an economic matter, it is a deep matter of emotions, of personality, of reward for your life's work.

Prof. Dr. Marcel Hülsbeck:
…and probably for family firm succession.

Prof. Dr. Dr. h.c. mult. Hermann Simon:
And of course, for the survival, duration, succession in family firms. Let me just add one example. A friend of mine has a company which is not profitable, and the son has taken over about two years ago. Their profit margin is really slim, and the son tells me: I'm demotivated – I work hard and the outcome is close to zero. That's not what you wish as a family company.

Prof. Dr. Marcel Hülsbeck:
Okay, great. Thank you very much. I'm going to hand it back to Stuart.

Prof. Dr. Dr. h.c. mult. Hermann Simon:
Thank you.

Outro

Stuart Crainer:
Well thank you, Marcel and Kai and thank you very much, Hermann. I think what was really engaging about the discussion there was the straightforwardness and the willingness to answer very difficult questions. That goes down to the basis of our response to this crisis. A lot of people have been sitting around thinking how should they work in the future? What is the point of their working lives, what is business for and what is a company for? So, I think this is a very important debate and you are returning this to the first principles of business. And I think that these questions need to be asked all the time. Thank you very much for that. Before we wrap up, we'd love to hear some input from the participants and I should say what an amazingly global list of participants we've had for this session: Sydney, Brisbane in Australia, Porto, Portugal, Switzerland – that is probably from a Swiss pharmaceutical company, I guess. People have been watching from Singapore, Oman, Slovenia, Russia and Guatemala. So, it'd be great from the participants to get their one-word takeaway from this session to generate a word cloud. So please go to menti.com on your phone or laptop and use the code 790000, and we all get an informative word cloud on the essentials of this session.
I see the word decently featuring quite prominent there. It seems to me one of the fundamental questions about decent profits in a decent way. It gets there in the end. Well, thank you for summing up that session for us all the participants out there. Thank you very much once again to Hermann Simon, Kai Thuerbach and Marcel Huelsbeck for a fantastic session. And thank you for all participating. We look forward to you joining us in the future sessions. Thank you.