

Institutionalised networking – The German Hand-in-Handwerker model¹

Lessons for SMEs:

- The advantage of the formalized network model (based on common associations or companies) is the increased predictability both for SMEs and for clients.
- The association of smaller companies make them able to respond to the demand for larger scale projects, while make them less vulnerable to general contractors.
- There is a sensitive equilibrium between creating a lean management system in which the fixed cost of operation is low and both the costs and incomes are tied to projects that are completed together (thus establishing a less formalized, less institutionalized structure with fewer staff), and the need for stable structures and permanent human resource that works for the common interest and not only for the interests of the individual companies (thus establishing a more reliable, more formalized structure).
- Standardizing the main values and procedures of a network model may result in an individual product that can be put on the market as a basis for a franchise system.

The storyline

The Hand-in-Handwerker GmbH Reutlingen was founded in 1983 with 20 stakeholders representing various types of jobs (like craftsmen, architects, engineers). The original association was concentrating on the retrofitting sector. The aim was to create a new business model which is able to overcome the economic crisis of 1982/83. The core of the model was to offer turnkey solutions to the customers by aggregating all types of works needed not only for large scale projects but also for small scale ones like the renovation of a single apartment. By this means the service became a “one stop shop”, within which the customer had to contact only one “general developer” and the output was guaranteed by the association itself.

The concept was distributed throughout a franchise system in which the know-how, the documentation and the use of the brand and the logo was sold for €25,000.

In the beginning of 2015, 41 companies joined, as associated partner to Hand-in-Handwerker (HiH) and approximately 50 other companies were part of similar types of associations like “Die Handwerker”, “Die alles-aus-einer Handwerker”.

The market segment:

HiH mostly concentrates on small to medium sized retrofitting projects, based on the assumption that the competition is the weakest in this segment. However, this seems to have changed recently regarding the targeted market and the scale of operation, as in line with the strengthening institutional framework the local networks are able to implement larger scale projects. Similarly, previously the clients were mostly private building owners, while currently housing associations and companies appeared among them.

The product (value proposition):

Under usual conditions SMEs can only enter the renovation market (in case of more complex projects) if they are sub-contracted by a general contractor. In this case the general contractor creates the network and naturally sets a margin on this service. The assumption of HiH is that the association is able to replace the general contractor and link the SMEs themselves, and by this “lean management structure” a price discount can be achieved while the SMEs become less vulnerable to a general contractor.

SMEs are working in networks all over the world, but these networks are mostly informal: the actors tend to work with those with whom they have good experience. HiH however is a formal network, in which the relationships between the members are formalized and there is a certain know-how and guarantee system attached to the organization.

As it was emphasized before, HiH operates on a franchise basis with local organizations that all have associated partners (in 16 urban areas in Germany). However, not all local branches have the same

¹ The case study was based on the interviews carried out by Klaus Luig (LLL).

structure: some of them establish an independent company for the common activities, while others operate as a loose association under which independent companies cooperate.

The main branch (Hand-in-Handwerker GmbH) has its own staff of 5 employees and it provides umbrella services for the members of the association. In addition there are network-administrators employed part time in some of the local branches of the franchise system, while in some of the branches the network organizers work for free (however this solutions seems not to be sustainable and is currently under reconsideration).

Even if the franchise fee contains the know-how and the brand the institutional solutions, the rules of operation, the frequency of meetings, the fee structure, etc. are different in all local branches.

Despite the differences, the services of the local Hand-in-Handwerker associations towards the clients are the following:

- The offer is organized in a one stop shop manner, meaning that the client has a close contact with one person from the network. However, the client is informed about which companies take part in the project and what role they play, and whether companies or experts outside the association are needed. This amount of transparency proved to be sufficient to provide the client a sense of control; nonetheless, the client does not have to be involved in organizational issues. (There can be projects which companies outside the HiH can join in case there is no valid offer among the members.)
- There are regional and local branches of the association (in 16 regions), thus the service is close to most of the clients.
- The members of the association have to meet certain quality requirements in order to provide adequate services. These can be ensured by accreditation from different associations (e.g. the association of craftsmen), and by being run by experienced, master level craftsmen.
- There is a set of rules developed that is compulsory to follow for all members: e.g. requirements on the reaction time to provide an offer (max. one week), relationship with the client, performing qualities on site, etc.
- Each project has a different composition of companies in order to meet their specific needs. The partners in a certain project monitor one another's performance and in case of poor performance the partner is changed (based on a majority decision).
- As the umbrella organization does not participate in the project (it only generates them) the warranty is provided by the individual companies. (However, there are regional associations that act differently and provide the warranty by the common company they established for the association. In this case the client receives a single invoice, and not the individual invoices of the companies.)

The services of Hand-in-Handwerker towards its members are the following:

- The staff of the association supports the branches by writing offers, answering to tenders, steering the sites.
- The association (and the local branches) have a website for project generation.
- The association also has brochures to be distributed among the clients.
- The association has good connections with the building supply industry which provides trainings and consultancy to introduce the most updated products. These companies also offer extra services, like engineering works tied to their products.

The main organizational goal of the association is to create a lean management system that is very cost efficient, meaning that it has a high rate of variable costs (based on the real project costs) and a low level of fixed costs (incurred from the operation of the association). Thus the association tries to limit the number of permanent employees and activate its operation when a project appears in the pipeline.

In spite of the growing popularity of the HiH system, there are some factors that still remain problematic and may require changes on the long run:

- The system works only if the knowledge of the associated partners is of complementary nature. If there are more companies with similar competencies, the inner competition may destroy the cohesion.
- The system heavily builds on trust (in the quality of performance, in that the companies will prefer other companies inside the association and not outside of it, in the assumption that the companies will bring in large commissions instead of withholding them to avoid paying the fee for the association)

- There are problems in certain local branches due to the lack of paid employees for networking services, and it is not properly done on a voluntarily basis.
- In addition in some local branches there is no precisely defined organizational structure, thus strategic decisions can be made simultaneously by the companies.
- The cooperation of local branches inside the main organization is controversial, as the exchange of experience is sometimes not smooth, as the companies are protecting their position and know-how.
- If the local branches intended to undertake larger scale projects, they would need stronger institutional backgrounds and a paid staff (which can easily become a general contractor scheme with all its drawbacks.)

Pricing:

There is no tendering procedure inside the association; the partners provide offers which are aggregated towards the client. In case a client finds a more reasonable price, negotiation is possible. In general it seems that the clients are willing to pay a higher price for turnkey solutions.

Theoretically the fee of HiH is 10% in each common project, which covers the organization of the offer, the quality control and the operation of the network administration system. This fee is indicated separately in the financial offer towards the client. (In practice, not all local associations apply this rule, or they apply it differently. In some local branches this "overhead" is 4%, in other cases 0% - but in the latter case a new fee system is in development.) There is no membership fee that should be paid regularly by the associated partners, only the required proportion of the income from the common projects.

For more information visit the website of Hand-in-Handwerker: <http://www.hand-in-hand-werker.de/>