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Dark clouds over Switzerland as a manufacturing base

Swiss manufacturing industry posted growth and increases in jobs from 2003 to 2008 / Current trends threatening this positive development / Swiss top managers looking to politicians and trade associations to show more active commitment to improving the environment for manufacturing growth

Is Switzerland forgetting about its manufacturing base? This is the fear being expressed by top Swiss executives in a recent survey by international strategy consultants Booz & Company, conducted jointly with the Swiss-American Chamber of Commerce. The survey was conducted with top executives and experts from 25 leading Swiss companies, trade associations, think-tanks and research institutes. Those surveyed voiced criticism that the current discussions about the country as a financial center overlook the fact that Swiss manufacturing (which comprises 20% of GDP) makes a contribution to value-added in Switzerland that is two and a half times larger than the banking industry, and employs five times as many people – around 700,000 employees. Ronald Haddock, Booz & Company partner in Zurich and responsible for the survey, offers this assessment: “The decline in manufacturing in countries such as the USA or the UK shows all too clearly what can happen if the challenges of this sector of the economy are not identified, understood and addressed in a timely manner. If Switzerland wants to avoid a similar fate, the time for action is now.”

Renaissance in Swiss manufacturing, 2003 to 2008

The Booz & Company survey reveals that, following a period of stagnation in the 1990s, Swiss manufacturing enjoyed a renaissance. This was evidenced in higher rates of growth and expanding employment. Between 2003 and 2008, nominal annual growth in value-added averaged 6%, and employment rose annually by 1.2%. The largest contribution to this came from companies in sectors such as chemicals and pharmaceuticals, medical devices, optical devices and precision engineering, and watch-making. This renaissance can be attributed to two causes, in addition to the generally positive trend in the economy:

- First, the ability of Swiss companies to succeed in global markets in niche areas involving complex processes, high requirements in terms of precision engineering, and close interdependence among the individual parts of the value chain; and
- Second, the country’s policy of openness toward global markets, particularly with Switzerland’s entry into bilateral agreements.

Economic crisis and new competition threatening the positive trend

Companies with Switzerland as their manufacturing base are facing major challenges in the years ahead, in part due to the adverse effects of the financial and debt crises on economic development, but also due to strong competition from emerging markets. In 2009, for the first time in five years, there were declines both in value-added and in employment in the manufacturing sector, at 3.6% and 2.4% respectively. This development is all the more of concern given that the financial services industry is also

undergoing radical change, which will similarly lead to lower value-added and fewer jobs in Switzerland. For Switzerland as a manufacturing base, top executives interviewed identified four threats in particular:

1. **Competition:** stronger competition from rapidly-growing companies in emerging markets, leading to losses in market share and relocation of parts of the value chain.
2. **Isolationism:** less open policies, particularly regarding employment of foreign labor, resulting in a shortage of specialist workers.
3. **Risk-aversion:** a lack of a pioneering spirit, and unsuitable entrepreneurial and venture capital structures in Switzerland, inhibiting the creation and emergence of new industries with significant manufacturing content.
4. **Inaction:** poor awareness in Switzerland itself of the challenges of companies operating globally, and insufficient commitment from political leaders, resulting in declining competitiveness of Switzerland as a manufacturing base when compared to dynamic countries with clear economic policy objectives and priorities.

Niklas Hoppe, a member of the Booz & Company senior management in Zurich and jointly responsible for the survey, comments that “if parts of the manufacturing base are relocated, there is an ever-present risk that a domino effect will follow, with additional parts of the value chain (such as research and development centers) following manufacturing offshore. Continuous improvement in the overall environment for manufacturing, taking into account the traditional strengths of Switzerland, will therefore be vital to ensuring Switzerland’s success as location for manufacturing.”

Politicians and trade associations need to engage more actively

Amongst the top managers surveyed, there was unanimous agreement that politicians and trade associations are currently paying too little attention to creating an advantaged business environment for Swiss manufacturing. They were strongly of the opinion that the bodies responsible needed to at least make greater efforts to safeguard traditional Swiss strengths. According to the survey, these strengths include excellent training programs, the quality and flexibility of the workforce, and Switzerland’s ability to attract and integrate well-qualified foreign workers.

For some of the top executives interviewed, however, this alone is not enough. This group is looking to the government to play a more active role in promoting forward-looking clusters where researchers, developers, manufacturing companies, suppliers, academic institutions and other stakeholders work more closely together. New growth industries such as environmental engineering, new materials (including nano-technology), transport and alternative energies were specifically mentioned. Ronald Haddock comments that “almost all major entrepreneurial centers in the world today benefited either directly or indirectly from some form of government assistance. Hence, what is needed is a careful balance between the necessary role of the state as catalyst and its limitations when it comes to directing entrepreneurial activity effectively. How to address the risks to manufacturing in Switzerland should be discussed, debated and ultimately resolved, with the same degree of intensity and focus on pragmatic solutions as what has recently been done in the financial services sector.”

When it comes to stronger state intervention in entrepreneurial activity, however, the opinions of those interviewed diverge. It remains an open question as to how the Swiss economy intends to plug the gaps in economic output that will be left behind from a weakened financial services industry and a manufacturing base facing strong competition from overseas.

Booz & Company

Booz & Company is one of the leading global strategy consultants, with over 3300 staff in 61 offices around the world. Its clients include successful businesses, together with governments and agencies.

Our founder Edwin Booz established the basic principles of corporate consulting as early as 1914. Today we work closely with our clients worldwide to overcome the challenges of global markets and to achieve lasting growth. To that end, we combine unique knowledge of the market and in-depth functional expertise with a practically-oriented approach. Our single objective is to forge a critical advantage for our clients at all times – we call it “Essential Advantage”.

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Swiss-American Chamber of Commerce

Swiss-American Chamber of Commerce (Amcham) is a private association with around 2,500 members, mainly Swiss companies of all sizes operating on a multinational footing and American companies with operations in Switzerland. Amcham is concerned with economic policy issues hampering the free flow of goods, services, investment and people between Switzerland and the US, and with issues adversely affecting the optimal framework conditions for multinational companies in Switzerland. Amcham works closely with governments, elected representatives, embassies, trade associations, companies and the media. Members are kept regularly informed via publications, workshops, events and direct contacts, and are offered a range of options for mutual exchange of information and networking.

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