

## Success Factors for Swiss SMEs 2016

September 2016

Swiss Issues Industries

# Combating locational disadvantages with the latest technologies



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**Swiss location continues to promote success for SMEs**

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## Publishing information

### **Publisher**

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### **Editorial deadline**

August 10, 2016

### **Publication series**

Swiss Issues Industries

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## Editorial

For five years we have been inviting SMEs to assess the quality of Switzerland as a business location. Almost 2,000 small and medium-sized enterprises once again shared their views with us this year about the country's locational conditions. As in previous years, apart from some substantial reservations, the overall assessment is good: Most of the locational factors – what we call success factors – serve to promote the business success of Swiss SMEs. Companies are able to count on skilled and motivated employees, a good infrastructure, a dynamic research environment and generally supportive financing conditions. Particularly growth sectors such as corporate, healthcare and IT service providers altogether rate Switzerland positively as a location for SMEs.

On the other hand, small and medium-sized enterprises fear that the underlying regulatory conditions are set to deteriorate further in the next few years. Although a majority (but not all) of SMEs do not yet see any substantial disadvantages compared with abroad in this respect, many are increasingly assessing this point negatively. The legislator therefore remains called on to ensure that the regulatory framework does not exert an excessive burden on SMEs and in doing so grow into a locational disadvantage for Switzerland.

However, the greatest cause of concern for Swiss SMEs at present is the economic environment that is significantly shaped by the overvalued Swiss franc. It comes as no surprise in this context that SMEs identify production costs as the greatest Swiss locational disadvantage compared to abroad. The participants in our roundtable discussion that we held for the first time this year and summarize in the study are also of a similar opinion: Switzerland has a significant disadvantage in global competition in terms of costs that is increasingly causing SMEs to invest less in Switzerland and to outsource abroad.

However, similarly to our roundtable participants, Swiss SMEs fortunately do not primarily consider relocating abroad to be the most important strategy for combating the cost disadvantage. Most companies are instead focusing much more on the introduction of new technologies, the development of new products and services or are investing in staff, thereby making even greater use of Switzerland's indisputable locational advantages. The focus in terms of new technologies is naturally also placed on digitalization that is now also known by the fashionable term Industry 4.0. It can be seen that a large majority of the SMEs canvassed have an open attitude toward the new digital technologies, already make use of them and expect them to enhance the competitiveness of Swiss business. Whether this suffices for claiming that Swiss SMEs are sufficiently equipped for embracing the coming wave(s) of digitalization is something we are unable to answer at this stage. However, the fact that the current rapid rate of technological advancement is perceived by the majority of SMEs as an opportunity rather than a risk undoubtedly gives cause for optimism.

We wish you an interesting and informative read!



Andreas Gerber  
Head of SME Business Switzerland



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# Management summary

## Swiss location continues to promote success for SMEs – but economic environment and foreign ties exerting a negative impact

In 2016 we questioned Swiss SMEs on the success factors of the Swiss location for the fifth time. Two thousand Swiss SMEs took part in this jubilee survey. Altogether they consider the Swiss location to promote success, as reflected by our locational indicator. The SMEs also only attribute a negative effect on their business success to two out of nine success factors defined by us – the economic environment and foreign ties. This pessimistic assessment of the two factors will largely be due to the strong franc as the appreciation of the franc in 2015 caused many SMEs to sustain further losses in terms of price competitiveness both in Switzerland and abroad. This ultimately also curbed the growth of the Swiss domestic economy, thereby exerting a negative impact on strongly domestically oriented companies.

## Positive picture strongly shaped by the staff factor

A decisive factor for the positive overall assessment of the Swiss location despite this challenge in 2016 is the assessment of the most important success factor for the SMEs surveyed, staff and qualifications. Companies attribute to this factor by far the most positive influence on their success. An important reason for this will be the Swiss education system recognized globally as a success model.

## SMEs in transport and transportation are more skeptical

The generally positive assessment of the Swiss location can be found in all sectors. Above all SMEs from healthcare, education and social services, the ICT sector and corporate service providers (e.g. consulting companies and law firms) paint a positive picture of the Swiss location. These sectors benefit from trends such as the aging of the population, the high importance attached to health in the population and the digitalization of business. Corporate service providers are almost the only players to benefit from the increasing regulation. More skepticism toward the Swiss location, above all in terms of infrastructure and regulation, prevails among SMEs in transport and transportation. A partially overburdened road network will be contributing to this. Nevertheless, SMEs from transport and transportation also altogether consider the Swiss location to promote success.

## Micro firms slightly more cautious about the Swiss location than larger companies

A likewise somewhat more cautious locational assessment comes from micro firms with fewer than ten employees that account for over 90% of all Swiss companies. Firstly, micro firms do not attribute the staff and qualifications factor quite as positive an influence on their success as larger SMEs. It is likely to be potentially more difficult for micro firms to attract highly qualified specialists compared to larger companies. Furthermore, according to the survey the financing conditions are somewhat less favorable for micro firms than for larger SMEs. An important reason for this will be that according to our SME survey for 2015, micro firms are more dependent on borrowing resources and hence on external lenders when in need of investment.

## Research environment should boost success and regulation curb it in the future

In future the research environment will gain most in importance for the success of SMEs. Furthermore, according to the survey it is set to exert an even more positive impact on corporate success than has been the case so far. The further development of Switzerland as a location for research and innovation will therefore play a leading role for SMEs. However, companies are viewing the future of the Swiss location somewhat more skeptically compared with the current situation. The influence of the underlying regulatory conditions on the future success of SMEs is therefore set to deteriorate significantly. This comes as little surprise in view of the increase in red tape in recent years. Furthermore, SMEs expect the economic environment to have an even more negative impact on their business success in the future.

## Abandonment of the EUR/CHF minimum exchange rate fueled debate about the future of the Swiss location

Despite the positive overall assessment of the Swiss location by SMEs, there are challenges as Switzerland has been increasingly at issue as an industrial and business location since the abandonment of the EUR/CHF minimum exchange rate on 15 January 2015. It is for this reason that we also questioned the survey participants on the locational disadvantages of Switzerland compared with abroad and on possible solution approaches.

## Considerable advantages abroad versus Switzerland in terms of production costs

Asked about the extent of the disadvantages of the Swiss location versus abroad in the three areas of production costs, availability of skilled labor and the strictness and complexity of statutory regulations, the answer of the SMEs is clear-cut: Switzerland above all lies behind in terms of

production costs. Industrial SMEs in particular see major advantages abroad compared with Switzerland in this respect. However, the majority of SMEs questioned see no significant benefits abroad with regard to the availability of skilled labor and the strictness and complexity of legislation. This nevertheless fails to obscure the fact that the survey participants are generally skeptical about the underlying regulatory conditions in Switzerland.

**Introduction of new technologies is the most important measure for countering Switzerland's locational disadvantages**

Of the five measures inquired about for countering locational disadvantages, the SMEs describe the introduction of new technologies as the most important one, followed by the development of new products and services, investments in employees, increased importing of advance deliveries and finally outsourcing abroad. The same prioritization of measures is also chosen by many SME subsegments such as strongly export-oriented SMEs, practically all sector groups and all size categories. While offshoring altogether plays a subordinate role, it is more important for SMEs with a foreign location and for exporting, industrial and medium-sized companies than for other SMEs.

**Latest digital technologies can significantly enhance global competitiveness**

Regarding the most important measure according to the survey for combating Switzerland's locational disadvantages, namely the introduction of new technologies, digitalization in particular is set to play an important role as the majority of SMEs questioned are of the opinion that Swiss companies can significantly enhance their global competitiveness by making very strong use of the latest digital technologies.

**More than a fifth of the SMEs surveyed are highly to very highly digitalized**

The importance of the latest digital technologies is also reflected in the fact that Industry 4.0 is now a feature of everyday life at many SMEs. More than a fifth of the survey participants makes strong to very strong use of the latest digital technologies such as self-organizing production systems and big data evaluations. The survey suggests that digitalization has made the greatest inroads among younger and larger SMEs as well as companies from the ICT sector, transport and transportation and the electrical industry.

**Roundtable participants view digitalization, innovations and a clear location policy as pillars for success**

The participants of the roundtable discussion held as part of the SME series of studies for the first time in 2016 also confirm that production costs exert a negative impact at the Swiss location while digitalization offers a potential solution approach. Altogether they consider Switzerland as a business location to be going through a difficult phase. As from the perspective of the roundtable participants digitalization is more of a defensive approach, they also wish to see proactive solution approaches. What they have in mind here are innovations and their financial support while also calling on politicians to provide a vision and long-term strategy for raising Switzerland as a business location to a new level.

## Information about the 2016 SME survey

# 2,000 survey participants and four discussion partners

Around 2,000 companies provide their assessment of the Swiss location in this year's SME survey. Four entrepreneurs took part in a roundtable discussion, talked about measures for countering Switzerland's prevailing locational disadvantages and reported on their experiences regarding the digitalization of the economy.

### Two out of three employees work at an SME

There are well over half a million small and medium-sized enterprises (SMEs) in Switzerland. These companies with fewer than 250 employees provide more than two thirds of the country's jobs. Like large companies, SMEs also depend on good underlying economic, political and social conditions in order to remain competitive. We therefore once again questioned SMEs from across the country this year on the factors contributing to the success of SMEs based in Switzerland.

### Assessment of nine success factors today and tomorrow

As in the previous surveys, the SMEs provided their assessment of the following nine success factors: "infrastructure", "resources and environment", "underlying regulatory conditions", "economic environment", "foreign ties", "values and society", "research environment", "staff and qualifications" and "financing conditions" (see Figure 1). The survey distinguishes between the significance and influence of a success factor. The significance comprises the importance of a success factor for corporate success. The influence refers to whether the SMEs consider a factor to exert a positive or negative impact on their success. As well as evaluating the present situation, the SMEs also provide an estimate of how they expect the nine success factors to develop in the next three to five years. We summarize the results in the sections entitled "Skilled staff characterize the Swiss location" and "Switzerland as a research location is gaining importance".

### 1,942 SMEs took part in the survey

A total of 1,942 SMEs from a diverse range of sectors throughout Switzerland took part in the survey. The survey was conducted by the independent polling organization amPuls on an anonymous basis in March and April 2016. The anonymous data was collated and analyzed by us. According to the most recent business census of the Swiss Federal Statistical Office, the structure of the sample does not correspond precisely to the sector and size structure of the overall Swiss SME landscape. Industrial and construction firms are overrepresented in the survey, while most service sectors are underrepresented (see Figure 2). Furthermore, medium-sized enterprises are better covered by the survey than micro firms (see Figure 3). However, these discrepancies barely limit the validity of the results as in order to guarantee a representative outcome we weight the responses in the section entitled "Success factors for Swiss SMEs" on the basis of the number of full-time equivalents by size category and sector (based on the 2013 business census).

**Figure 1: Success factors for Swiss SMEs**

<b>Infrastructure</b>	e.g. transport, telecommunications and housing infrastructure
<b>Resources and environment</b>	e.g. access to raw materials and prices, energy supply and prices, management of natural disasters
<b>Underlying regulatory conditions</b>	e.g. taxes, regulations, cooperation with authorities, federalism
<b>Economic environment</b>	e.g. demand trends, wage level, competition intensity, price stability
<b>Foreign ties</b>	e.g. high export and import share of the Swiss economy, international integration of Switzerland, exchange rates, neutrality
<b>Values and society</b>	e.g. multiculturalism, entrepreneurial spirit, attitude toward success, risk propensity, culture of participation
<b>Research environment</b>	e.g. promotion of innovation, cooperation with universities, protection of intellectual property, technological advances
<b>Staff and qualifications</b>	e.g. quality of educational system, availability of skilled labor, female labor participation rate, mobility, workplace morale
<b>Financing conditions</b>	e.g. access to capital markets, interest rate level, insurance opportunities, banking relationship, investment expertise

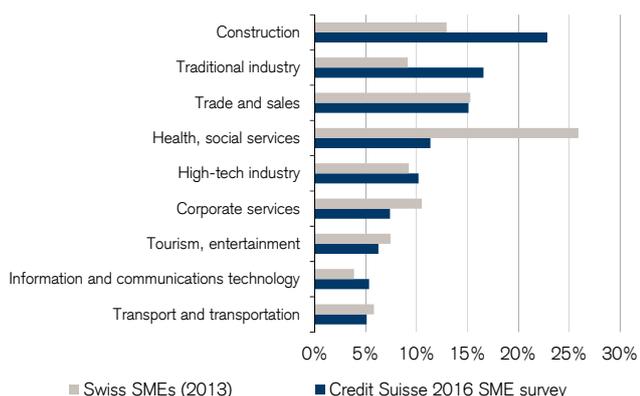
Source: Credit Suisse

**Roundtable discussion of measures to counter locational disadvantages**

In addition to the general assessment of the Swiss location, we this year wanted to know from SMEs how they rated the Swiss location in comparison with abroad and how important selected measures for combating any locational disadvantages were. The survey results for this can be found in the section entitled "Combating locational disadvantages with the latest digital technologies". For the first time in the SME series of studies, entrepreneurs are this year given the opportunity to voice their views in detail: During a roundtable discussion we discuss with four decision makers of SMEs the advantages and disadvantages of the Swiss location compared with abroad and the use of new technologies and innovations as a means of remaining globally competitive.

**Figure 2: Construction and industry are overrepresented**

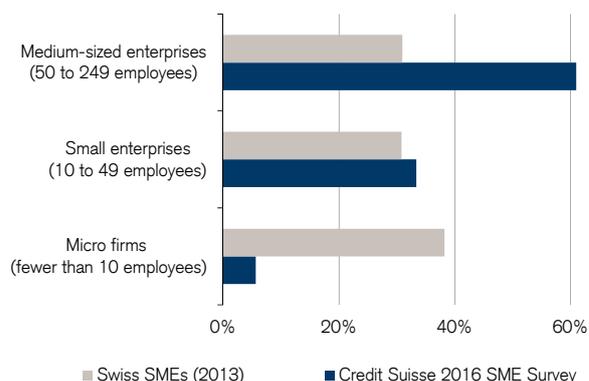
Share of FTEs in % by sector



Source: Swiss Federal Statistical Office, Credit Suisse

**Figure 3: Micro firms are underrepresented**

Share of FTEs in % by company size



Source: Swiss Federal Statistical Office, Credit Suisse

## Facts about the survey participants

### The average age of the SMEs is 40 years

The SMEs questioned are on average 40 years old, with the oldest founded in 1830 and the youngest in 2016. The number of SMEs with the same year founded increases sharply from the late 1940s. This is on the one hand a reflection of the sustained growth of the Swiss economy, while at the same time some of the SMEs founded many years ago no longer exist today. The distribution of the years founded also reflects some economic shocks. The number of SMEs with the same year founded is significantly lower than in previous years immediately after the first and second oil price shock in 1974 and 1982 respectively, the real estate crisis in 1991, the dotcom crisis in 2000 and the financial crisis in 2009. However, a certain recovery effect can be observed in the years following the crises.

### Significant sector differences in terms of sales

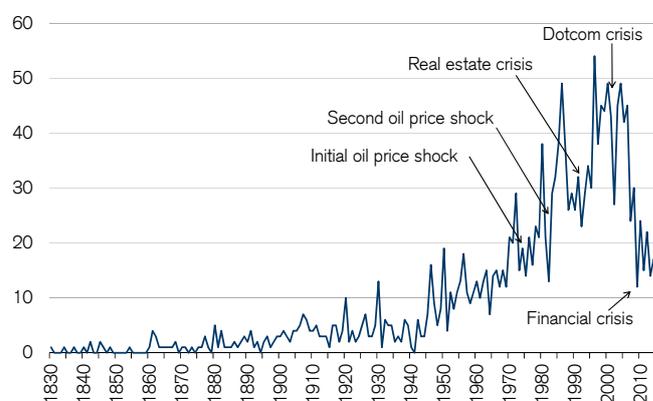
The SMEs questioned generated average (median) sales of CHF 2.0 million in 2015. However, significant sector differences emerge. With an average CHF 4.1 million, the SMEs with the highest sales are those from transport and transportation. By contrast, corporate service providers registered the lowest average sales at just under CHF 1.0 million. Higher sales generally go hand in hand with a higher number of employees. The highest sales per employee were generated by SMEs from trade and sales (an average of CHF 0.32 million in 2015), followed by those from the ICT (CHF 0.22 million) and transport and transportation sectors (CHF 0.21 million).

### Over 80% of foreign locations are in Europe

8.2% of the SMEs questioned have a foreign location, with a third of these even having more than one. The SMEs are strongly focused on Europe: 82.4% of SMEs with foreign locations have at least one branch in Europe. The geographical choice of foreign location will depend crucially on the export destinations of the SMEs as 61% of SMEs with foreign locations are active in the export trade where they generate an average 31.7% of their sales. Furthermore, according to our SME survey of 2014, Europe is by far the most important export destination of Swiss SMEs.

### Year founded

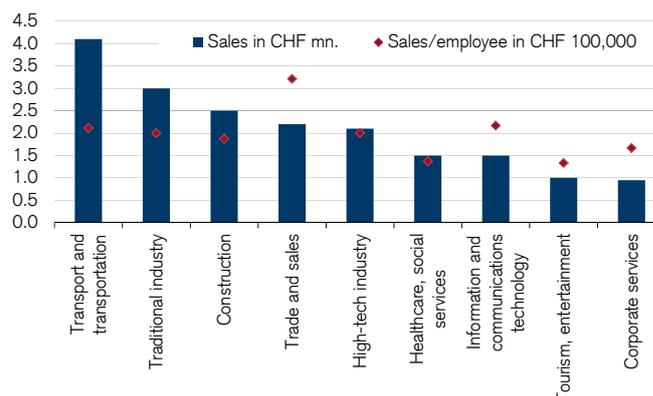
Number of questioned SMEs by year founded



Source: Credit Suisse 2016 SME Survey

### Sales

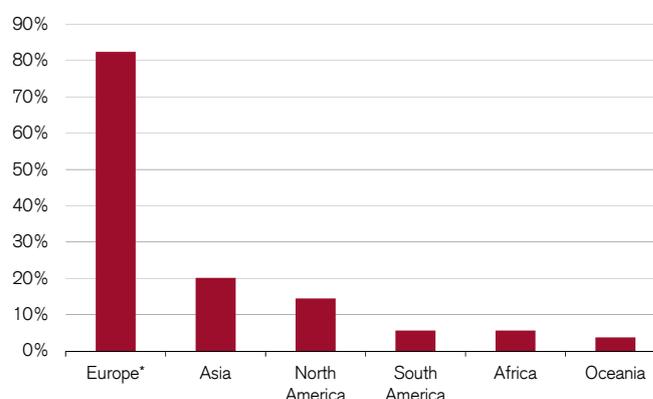
Median sales per SME in CHF million, median sales per employee in CHF 100,000



Source: Credit Suisse 2016 SME Survey

### Foreign locations

Share of SMEs with at least one foreign location in the corresponding region among the total number of SMEs with at least one foreign location



Source: Credit Suisse 2016 SME Survey; \*excluding Switzerland

## Success factors of today

# Skilled staff characterize the Swiss location

The economic environment is the greatest concern of Swiss SMEs in 2016, while skilled staff exert the most positive influence on success. SMEs also attribute this factor the greatest significance for their success.

### Skilled staff stand above all other success factors

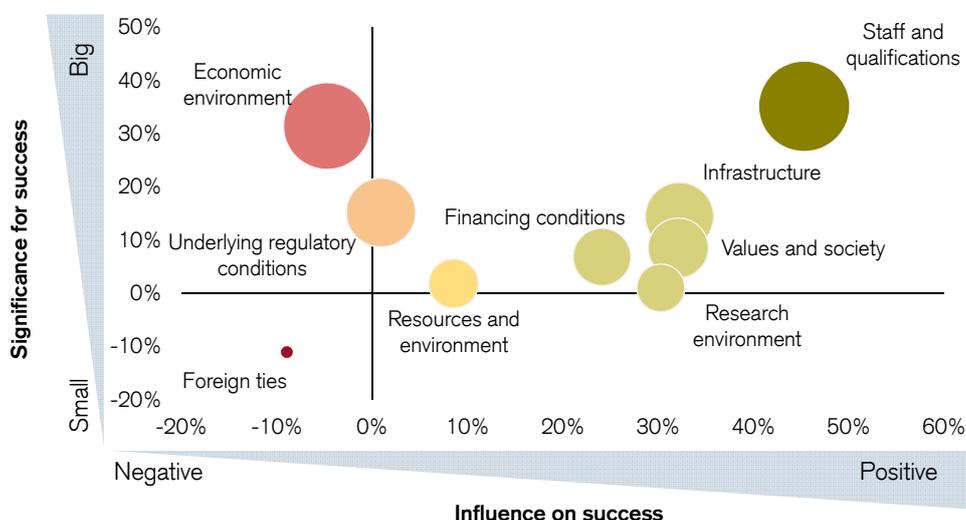
The almost 2,000 SMEs questioned on balance consider the Swiss location to promote success. Altogether they assess the influence of seven of the nine success factors positively, with skilled staff by far attributed the most positive influence (see Figure 4). As this factor is also viewed by the companies surveyed to be the most significant, it makes the greatest contribution to the success of Swiss SMEs. This positive assessment will among other things be due to the Swiss education system that is recognized globally as a success model and characterized by two basic aspects: First of all the educational opportunities are fundamentally available to anybody possessing the necessary qualifications and secondly, thanks to the increasing freedom of choice offered by the system, it is also possible to pursue higher education via a range of different channels, including later on in life. One form of this freedom of choice comprises the apprenticeship model that allows young employees to acquire practical skills at an early stage. At the same time, it enables companies to meet their requirements for specific expertise (see roundtable discussion entitled "What is the vision for Switzerland as a business location?")

### Digestion of the franc shock not yet complete

Despite a largely positive assessment of the underlying conditions, the economic environment is weighing down on Swiss SMEs. The decision-makers surveyed rate its significance highly and consider its influence on success to be negative. This pessimistic assessment will crucially be connected with the prevailing strength of the Swiss franc. The Swiss economy went through an extremely difficult year due to the franc shock in January 2015 after many exporting industrial enterprises had already lost price competitiveness due to the appreciation of the franc between 2010 and 2011. The situation worsened even further in 2015 and prompted many Swiss companies to adopt countermeasures (see also the section entitled "Combating locational disadvantages with the latest digital technologies"). The process of digesting the franc shock is also unlikely to be fully completed yet at SMEs.

**Figure 4: Skilled staff stand above all other success factors**

Significance and influence of success factors today: Balance of weighted positive and negative responses



Source: Credit Suisse 2016 SME Survey

### The strong franc is largely affecting SMEs indirectly

A further indication of the reverberation of the franc shock is the negative assessment of the influence of foreign ties (see Figure 4). Despite its low significance for the majority of domestically oriented SMEs, the franc shock was nevertheless felt indirectly by many companies as the weakening of the export economy also caused some slowdown in domestic demand.

### Regulatory costs for SMEs are continuing to rise

The assessment of the underlying regulatory conditions is better than that of the economic environment and foreign ties – although altogether its influence is only marginally positive (see Figure 4). The extremely high political stability and attractive taxes from a global perspective will be viewed positively, while official regulatory measures exert a more negative impact. The reason for the latter will lie in the increasing regulatory costs for SMEs. According to the latest progress report of the SME Forum, the rise in regulatory costs for SMEs also remained unchecked between 2012 and 2015.<sup>1</sup> The commission of experts only considers a trend reversal in regulatory costs to be achievable by means of an adjustment to the regulatory processes: For example, Germany and other OECD countries have already introduced a "one in, one out" mechanism by which for each new regulation another one must be withdrawn.

### Domestically-oriented service providers give the Swiss location the best marks

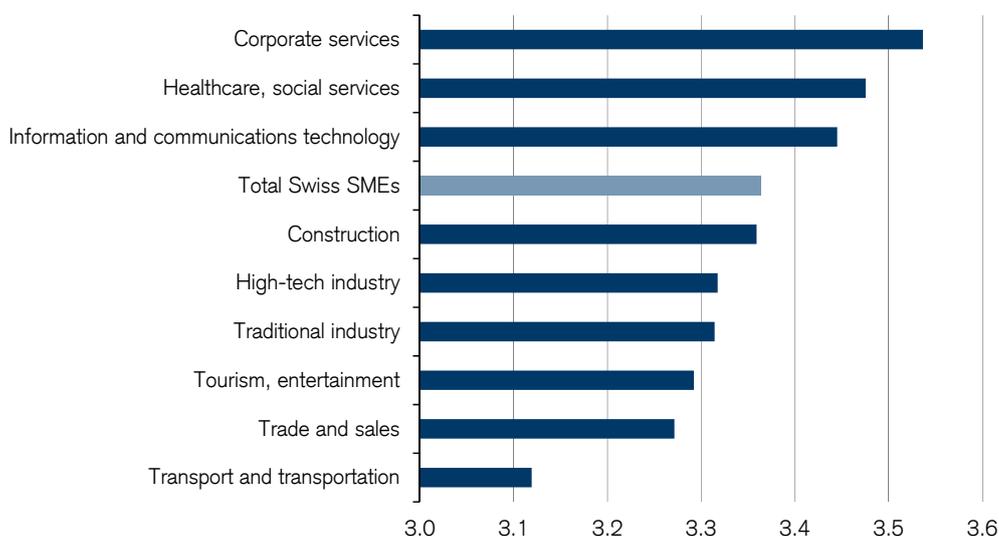
The nevertheless generally positive attitude toward the Swiss location is shared by all the sectors included in our survey, as our Credit Suisse SME Locational Indicator illustrates (see Figure 5). The locational indicator comprises a summary of the assessments of the survey participants regarding the influence and significance of the success factors, with a score above 3 representing a generally success-promoting evaluation of the Swiss location. Particularly the more domestically-oriented SMEs from the corporate services, healthcare, education, social services and information and communications technology (ICT) sectors see outstandingly positive underlying conditions in Switzerland. While corporate service providers (e.g. consulting companies and law firms) stand to benefit greatly from the increasing regulation (e.g. in the financial sector), healthcare companies face a growth in demand driven by the aging population and the high social importance attached to health. Meanwhile, the ICT sector is one of the key beneficiaries of the digitalization of the economy – and in particular of industry (more about digitalization can be found in the section entitled "Combating locational disadvantages with the latest digital technologies").

### Transport SMEs criticize infrastructure

The SMEs of the transport and transportation sector paint a less positive picture of the Swiss location. Their below-average assessment of the country's infrastructure carries weight here. A partially overburdened road network on the key transport axes will have contributed to this result.

**Figure 5: Swiss location outstandingly positive for the service sectors**

Locational indicator by sector: Weighted average of responses across all nine success factors (1 = negative, ..., 5 = positive); from a score in excess of 3 the Swiss location is altogether deemed to be supportive of the business success of SMEs



Source: Credit Suisse 2016 SME Survey

<sup>1</sup> SME Forum on behalf of the Federal Council (2016): *Progress Report for the 2012-2015 Term of Office*

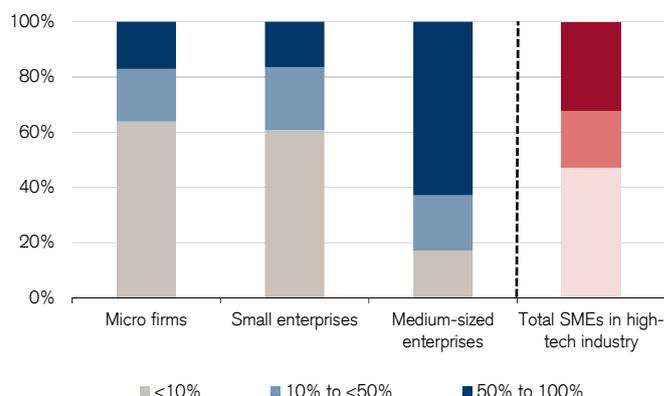
## Success factors of today – industrial SMEs

### High share of exports among medium-sized enterprises

The majority of Swiss SMEs are domestically oriented: The companies surveyed claim on average only to generate 18% of their sales abroad. However, in the high-tech industry this figure is 54%, although the share of exports is strongly dependent on the size of the company. More than 60% of micro firms and small enterprises in the high-tech industry are to all intents and purposes domestically oriented with an export share of less than 10%. The reverse picture applies to medium-sized enterprises in the high-tech industry. Over 60% of those surveyed claimed to generate more than half of their sales abroad.

### Export shares in the high-tech industry

Share of exports in total sales in the high-tech industry; by company size



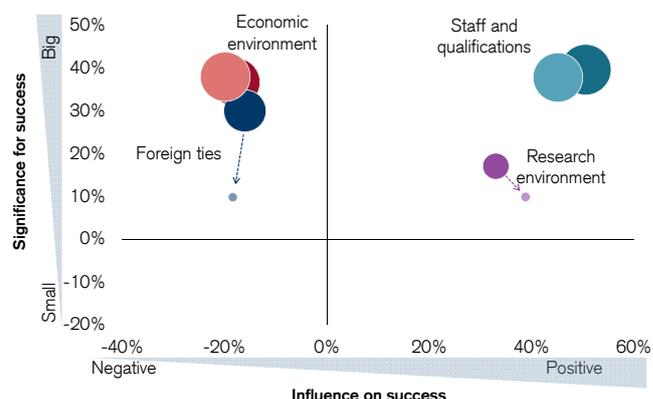
Source: Credit Suisse 2016 SME Survey

### Foreign ties important for the high-tech industry

While, as expected, the high-tech industry ranks the importance of economic ties with abroad highly, their significance for the more domestically oriented traditional industry (in many cases small businesses) is much lower. The significance of the research environment is likewise markedly lower for traditional industrial SMEs. As the high-tech industry above all comprises research and knowledge-intensive sectors such as chemicals, pharmaceuticals and precision instruments, they also attribute slightly greater importance to skilled staff.

### Success factors of traditional and high-tech industry

Balance of weighted positive and negative responses to selected success factors; bright colors: traditional industry, dark colors: high-tech industry



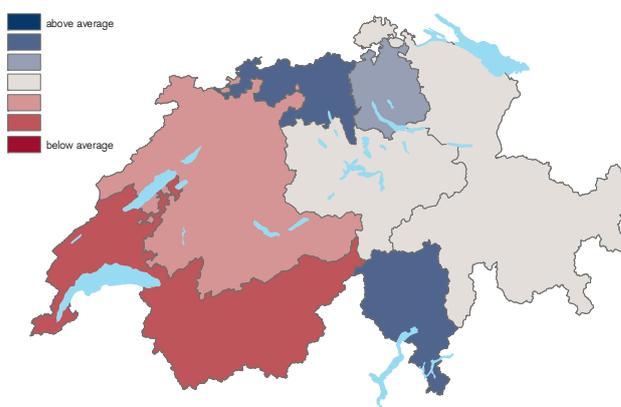
Source: Credit Suisse 2016 SME Survey

### Greater importance of the research environment in Ticino

Industrial enterprises in Ticino rank the significance of the research environment higher than in all the other wider regions. A study by BAK Basel<sup>2</sup> shows that companies based there from the pharmaceutical and medical technology sectors foster an intensive patent-researcher network within and outside Switzerland. The research environment also enjoys a relatively high status in Northwestern Switzerland (cantons of Aargau, Basel-Landschaft, City of Basel). Particularly the companies of the high-tech industry that is strongly anchored there (e.g. pharmaceuticals, machinery, precision instruments) see in research an important driver of corporate success.

### Regional significance of the research environment

Current significance of the "research environment" success factor, by wider region



Source: Credit Suisse 2016 SME Survey

<sup>2</sup> BAK Basel, *Analysis of Ticino Sectors: International Benchmarking and Smart Specialization*, December 2014

## Success factors of today – micro firms

# Financing for the high-tech industry partially more difficult

Micro firms also generally award good marks to the Swiss location. However, they rate the financing conditions less positively than larger companies. Above all the high-tech industry is affected by this.

### One in four jobs provided by micro firms

Over 90% of all companies in Switzerland count among the so-called micro firms employing fewer than ten staff. These companies account for almost a quarter of all jobs nationwide (in terms of full-time equivalents) and therefore contribute significantly to the supply of labor. As for the SME landscape as a whole, the nine success factors also significantly co-determine the course of business of micro firms.

### Predominantly good underlying conditions also for micro firms

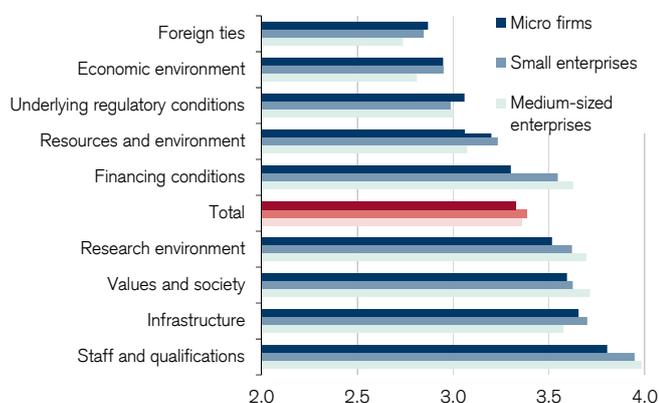
The micro firms surveyed assess the influence of seven out of the nine success factors positively, although the result is slightly more negative than for small and medium-sized enterprises (see Figure 6). The micro firms questioned also partially identify different problems than larger SMEs. A major discrepancy is to be observed in terms of skilled staff. Although this success factor is also altogether viewed positively by the micro firms questioned, its rating is somewhat lower than that of small and medium-sized enterprises. One possible reason could be that larger companies enjoy greater visibility on the labor market and therefore have better access to skilled labor.

### Financing for micro firms from the high-tech industry partially more difficult

The underlying conditions for micro firms in terms of financing also score worse (see Figure 7). Although the financing of investments plays a somewhat less important role for micro firms than for small and medium-sized enterprises<sup>3</sup>, as last year's SME study shows, borrowing resources (e.g. mortgages and business loans) is considerably more important for micro firms than equity financing. Micro firms are therefore more dependent for financing on lenders than small and medium-sized enterprises. Among micro firms, the high-tech industry suffers most from financing difficulties (see Figure 7). As these SMEs also consider the financing conditions to be more important than SMEs of other sectors, the negative effect of the financing conditions exerts a correspondingly greater impact. However, with the exception of the high-tech industry, the micro firms questioned largely consider the financing conditions to be positive.

**Figure 6: Micro firms somewhat less optimistic**

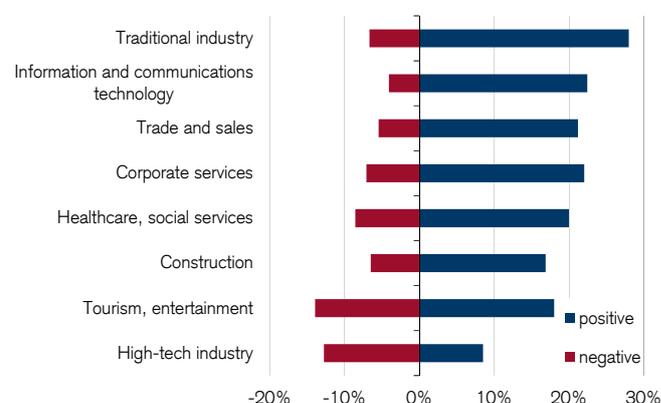
Assessment of the current influence of the success factors (1 = negative, ..., 5 = positive), by company size



Source: Credit Suisse 2016 SME Survey

**Figure 7: Financing in the high-tech industry partially difficult**

Influence of financing on the success of micro firms\*: Share of responses (positive/negative) ordered by % according to the balance



Source: Credit Suisse 2016 SME Survey; \*excluding transport and transportation

<sup>3</sup> Credit Suisse 2015 SME Study: *Investing amid Low Interest Rates and a Strong Franc*

Success factors of tomorrow

# Switzerland as a research location is gaining importance

**SMEs altogether view the future with skepticism. While for many SMEs the research environment is not currently the most important success factor, it is set to make the greatest gains in significance in the future.**

**Significance of the research environment set to increase most in the next few years**

Altogether the entrepreneurs surveyed expect the underlying social, economic and political conditions also to be of major significance for corporate success in the next few years. However, the significance of certain success factors is increasing more strongly than that of others (see Figure 8). The research environment comes top in this ranking. Almost half of all those surveyed expect its significance to increase, while just 4% rate the future status of the research environment as lower than today. Switzerland as a location for research and innovation will therefore play a pioneering role in the success of many SMEs.

**CTR III should support SMEs strong in research**

Depending on the implementation of the Corporate Tax Reform (CTR III), SMEs strong in research should gain additional tailwind. On the one hand, CTR III envisages so-called patent boxes enabling earnings from intellectual property to be taxed at a reduced rate. At the same time, it will be possible to offset up to 150% of domestic research and development costs as operating expenses (previously 100%). However, as the cantons enjoy a lot of freedom in the implementation of these additional instruments, the benefits for research-intensive companies are difficult to predict at present.

**Economic environment will continue to play an important role for success**

Like the underlying research conditions, SMEs also anticipate an above-average increase in the significance of regulation, infrastructure and skilled staff. However, the SMEs expect the factors economic environment, values and society, and foreign ties to display a below-average gain in significance in the future. Despite this below-average increase in significance, the economic environment will continue to enjoy a high level of importance in the future as it is today already one of the most important success factors for Swiss SMEs (see Figure 4).

**ICT and healthcare as major beneficiaries of the underlying research conditions**

The SMEs questioned not only concede a sharp rise in significance to the research environment but also expect it to exert a more positive impact on corporate success in the next few years than is the case today (see Figure 9). This applies in particular to SMEs from the ICT, healthcare and social service sectors. More than half the SMEs surveyed from the ICT sector expect to benefit even more from it in the future. In healthcare this figure lies at 44%.

**Figure 8: Research environment gaining importance**

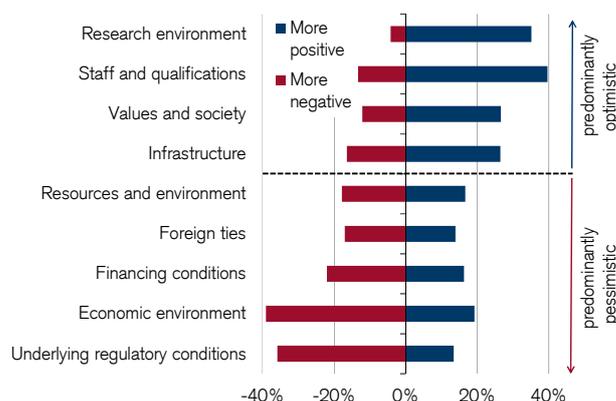
Expected change in significance in the next three to five years; large print for large growth in significance



Source: Credit Suisse 2016 SME Survey

**Figure 9: Pessimistic assessment of regulation**

Expected change in influence in the next three to five years: share of responses (positive/negative) ordered by % according to the balance



Source: Credit Suisse 2016 SME Survey

### SMEs expect worsening of underlying regulatory conditions

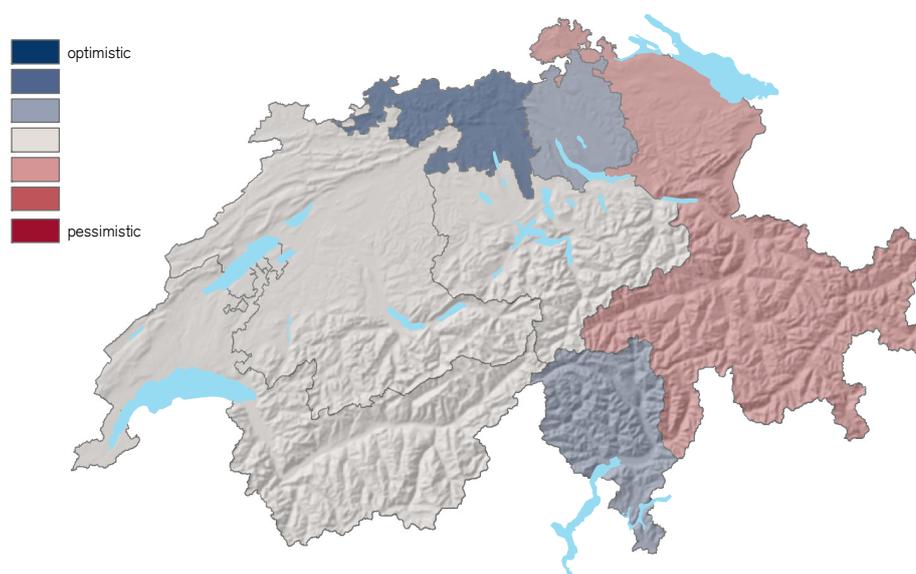
By contrast, Swiss SMEs consider the underlying regulatory conditions to pose the success factor set to deteriorate most in the future. This pessimistic assessment comes as little surprise in view of the growth of regulatory costs in the past. Around a third of SMEs expect regulation to have a more negative impact on corporate success in the next few years than has been the case so far. SMEs also rate the future impact of the economic environment and financing costs negatively. The fact that the future expectations for the economic environment are not more positive comes as a surprise insofar as the Swiss economy had already displayed initial recovery tendencies at the time of the survey. It could be that not all SMEs have yet managed to adjust to the new currency situation. With regard to financing conditions, SMEs particularly from the tourism and entertainment sector expect increased difficulties in the future. Twenty-seven percent of them predicted that the influence would in future have a more negative impact on corporate success than today. Only 15% anticipate a positive development.

### Slight skepticism throughout Switzerland; optimistic industrial SMEs in Northwestern Switzerland

Companies are viewing the future of the Swiss location somewhat more skeptically compared with the current situation. However, the expectations of SMEs regarding future changes in the underlying conditions differ from region to region (see Figure 10). SMEs in Eastern Switzerland altogether expect a slight deterioration of the underlying conditions in the next few years. Companies in Northwestern Switzerland see the future more optimistically, and particularly the high-tech industry that is strongly anchored there (e.g. pharmaceuticals and chemicals) is confident about the future of the Swiss location. Companies from the Zurich and Ticino regions are cautiously optimistic about the development of the underlying conditions. In the Zurich region, above all ICT SMEs expect a more positive future development for the Swiss location than is the case at ICT SMEs in other regions, while traditional industry is less optimistic on a regional comparison. In Ticino the assessment by healthcare SMEs and corporate service providers is more positive than elsewhere, while SMEs in the tourism and entertainment sector are more skeptical. In Espace Mittelland, the Lake Geneva Region and Central Switzerland the positive and negative responses concerning the future of the Swiss location roughly balance each other out.

**Figure 10: Northwestern Switzerland, Ticino and Zurich viewing the future most optimistically**

Significance (today) and influence (tomorrow) of the success factors in the seven wider regions



Source: Credit Suisse 2016 SME Survey

## The Swiss location compared internationally

# Combating locational disadvantages with the latest digital technologies

The Swiss location has considerable disadvantages compared internationally in terms of production costs. New technologies are an important means of countering Swiss locational disadvantages, with digitalization playing a major role here.

**Abandonment of the minimum exchange rate in 2015 intensified discussion about Switzerland's future as an industrial and business location**

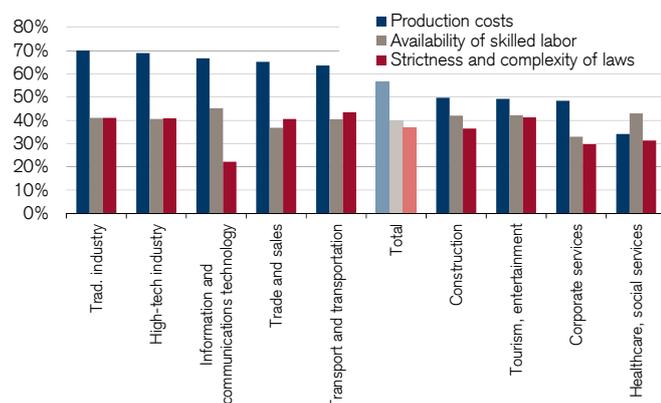
The preceding sections show that SMEs altogether rate the underlying economic, political and social conditions in Switzerland positively despite various challenges. But how does the Swiss location compare with abroad? The abandonment of the EUR/CHF minimum exchange rate on 15 January 2015 refueled the debate about the future of Switzerland as an industrial and business location. However, this location discussion is not just taking place in Switzerland. Many developed countries have for some time seen their economies threatened by up-and-coming emerging markets. Among other things, state-of-the-art digital technologies and Industry 4.0 are being hailed as universal remedies against this threat, particularly by politicians and scientists. In view of this, as well as questions about the significance of various success factors and their influence on corporate success, we also asked the survey participants questions about the disadvantages of the Swiss location compared with abroad and possible solution approaches, as we believe that these discussions ought not only to be conducted among politicians and scientists, but, with over 99% of all companies in Switzerland SMEs, primarily among the latter.

**Switzerland lies behind in terms of production costs**

Asked about the extent of the disadvantages of the Swiss location versus abroad in the areas of production costs, availability of skilled labor and the strictness and complexity of statutory regulations, the answer is clear-cut: Switzerland lies behind above all in terms of production costs. 56.5% of the SMEs questioned see average to major benefits abroad with regard to production costs compared to Switzerland (see Figure 11). This share is highest in industry at around 70%. Among the SMEs questioned from the textile, clothing, plastics and pharmaceuticals industries, the share even reaches almost 80%. This assessment does not necessarily imply that the cost difference from abroad is most marked in industry. The more pessimistic assessment could also be a sign that industrial SMEs are somewhat better informed as they are altogether more export-oriented and on average have more foreign locations than other SMEs.

**Figure 11: Disadvantages above all in terms of production costs**

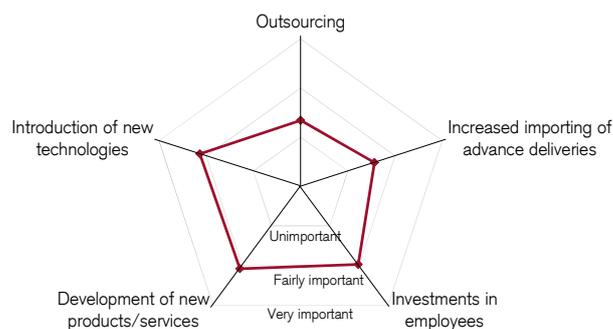
Share of responding SMEs that see average to major benefits abroad compared with the Swiss location, in %



Source: Credit Suisse 2016 SME Survey

**Figure 12: New technologies as the most important measure**

Average importance of measures for combating Switzerland's global locational disadvantages



Source: Credit Suisse 2016 SME Survey

**Availability of skilled labor and legislation less problematic compared with abroad**

The majority of SMEs questioned see no or only negligible benefits abroad (59.8% and 63.0% respectively) with regard to the availability of skilled labor and the strictness and complexity of legislation. All sector groups are in agreement here (see Figure 11). However, there are some sector differences. Concerning the availability of skilled labor, the SMEs questioned from the ICT sector view the situation somewhat more cautiously than the other SMEs ('only' 54.8% see no benefits abroad). Regarding the strictness and complexity of laws, SMEs from transport and transportation are somewhat more cautious ('only' 56.5% see no benefits abroad).

**The introduction of new technologies is the most important measure for countering locational disadvantages**

Despite potential disadvantages at the Swiss location, many SMEs are very successful and also holding their ground in the global competition. For example, almost a quarter of the SMEs surveyed are active in the export trade. Successful measures thus appear to exist for countering Switzerland's locational disadvantages. In order to identify some of these, we asked the SMEs how important various measures were for combating Switzerland's global locational disadvantages. Here too we received a clear answer. Of the five measures inquired about, the introduction of new technologies is the most important one for SMEs, followed by the development of new products and services, investments in employees, increased importing of advance deliveries and outsourcing (in decreasing order, see Figure 12). In view of the prioritization of the measures, it therefore comes as no surprise that the "research environment" success factor is set to gain the most significance for SMEs in the future, as new technologies entail a high degree of research and innovation. A clear majority of 72.3% of the responding SMEs describes the introduction of new technologies as an important to very important measure for countering locational disadvantages. This share is lowest for outsourcing but still amounts to 23.8%. The same prioritization of measures is also chosen by strongly export-oriented SMEs, practically all sectors and all size categories. The prioritization is likewise independent from the aforementioned locational disadvantages of Switzerland. Those SMEs that see major disadvantages for Switzerland in terms of production costs weight the measures in the same order as SMEs seeing major disadvantages regarding the availability of skilled labor or the strictness and complexity of laws.

**Outsourcing more relevant for industrial SMEs, medium-sized enterprises and SMEs with foreign ties**

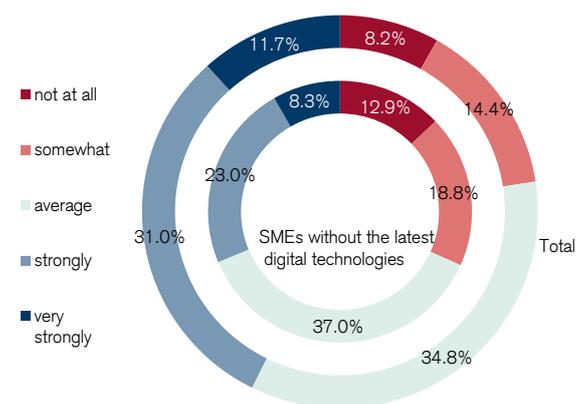
Although outsourcing altogether ranks last in the list of measures, it plays a more important role for SMEs with at least one foreign location (for 52.8% of these SMEs it is an important to very important measure), for exporting SMEs (40.6%), for industrial SMEs (34.3%) and for medium-sized enterprises (31.3%) than for other SMEs.

**Latest digital technologies can enhance global competitiveness**

Regarding the most important measure for combating Switzerland's locational disadvantages, namely the introduction of new technologies, digitalization plays an important role as 77.5% of the SMEs questioned are of the opinion that Swiss companies can significantly enhance their global competitiveness by making very strong use of the latest digital technologies (see Figure 13). This marked positive effect is seen not only by SMEs that are themselves already making strong use of such state-of-the-art digital technologies and therefore able to draw on a certain degree of experience, but the majority of SMEs (74.0%) working less or not working at all with the latest digital technologies also attest them a medium to very strongly positive effect on global competitiveness.

**Figure 13: Digital technologies seen to generate success**

Share of responding SMEs according to which the latest digital technologies enhance the global competitiveness of Swiss SMEs, from "not at all" to "very strongly"



Source: Credit Suisse 2016 SME Survey

**Figure 14: Industry 4.0 – the fourth development stage**

Brief description of the past three development stages and the expected fourth development stage of industry

Industry 1.0	
Mechanical production using water and steam power	Example: Water-powered spinning machine
↓	
Industry 2.0	
Mass production with electrical energy	Example: Assembly line production
↓	
Industry 3.0	
Automation of production using electronics and IT	Example: Computer-operated machines
↓	
Industry 4.0	
Self-organizing production facilities/value creation chains through networking via the internet	Example: Production facilities that independently correct irregularities in the production process

Source: Credit Suisse

### More than a fifth of the SMEs surveyed make strong to very strong use of the latest digital technologies

The importance of the latest digital technologies is also reflected in the fact that Industry 4.0 (see Figure 14) is now a feature of everyday life at many SMEs, with 21.9% of the SMEs surveyed already making strong to very strong use of the latest digital technologies such as self-organizing production systems and big data evaluations. State-of-the-art digital technologies are most widespread in ICT (information and communications technology; 53.3% make strong to very strong use of digital technologies), transport and transportation (42.0%) and in the electrical industry (37.9%). The widespread use of the latest digital technologies in ICT and the electrical industry stands to reason as these two sectors provide most of the digital infrastructure. The efficient processing of orders in transport and transportation has become considerably more complex in recent years and only remains possible to a limited extent without the latest digital technologies as the rising output in passenger transport, increasing overall volume of transport with partially lower commissioning, frequently changing delivery addresses (particularly in e-commerce), shorter delivery times and congested transport routes entail a significantly greater need for coordination and the processing of increasingly larger volumes of data.

### Young and medium-sized SMEs tend to be more digitally focused

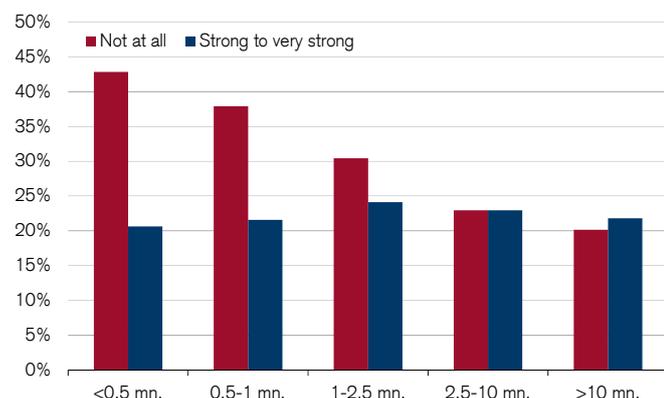
State-of-the-art digital technologies partially entail major investments in infrastructure. For example, different types of information (e.g. digital data from machines, drawings of products, handwritten notes and client requests submitted by email) have to be made available in a standardized format that is comprehensible and usable for all the machines, computers and employees involved. It therefore comes as no surprise that according to the survey younger and larger SMEs (measured in terms of both sales and number of employees) tend to be more digitally focused than other SMEs (see Figures 15 and 16). Young SMEs are able to implement the latest digital technologies and their requirements immediately upon company foundation and avoid the need to upgrade at a later stage. Larger SMEs and those with higher sales are more likely to have sufficient means for upgrading and introducing the latest digital technologies.

### Four entrepreneurs offer a deeper insight into the issue

The participants in our roundtable discussion also confirm that the production costs at the Swiss location exert a negative impact and that among other things the latest (digital) technologies can potentially bring relief. We invited four SME managers from different sectors to discuss the challenges at the Swiss location, ways of addressing them and the role of the latest digital technologies. The extremely interesting insights provided by the entrepreneurs during this discussion can be found on the following pages.

**Figure 15: Degree of digitalization grows with company size**

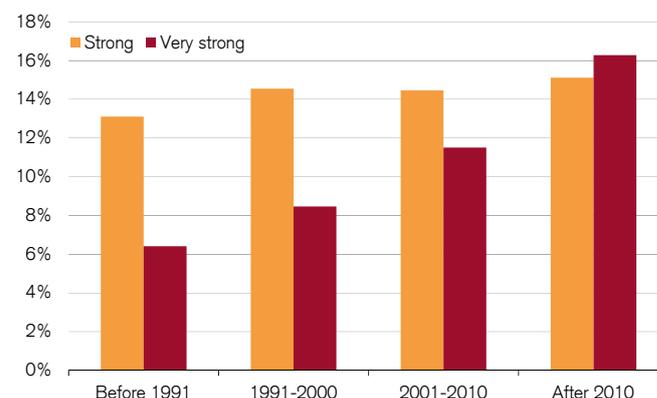
Share of responding SMEs making no or medium to very strong use of state-of-the-art digital technologies; by sales in CHF million



Source: Credit Suisse 2016 SME Survey

**Figure 16: Young SMEs generally more digitally focused**

Share of responding SMEs making strong to very strong use of state-of-the-art digital technologies; by year founded



Source: Credit Suisse 2016 SME Survey

## Roundtable

# What is the vision for Switzerland as a business location?

The roundtable participants consider Switzerland as a business location to be going through a difficult phase. They cite innovations, the promotion of digitalization and a clear location policy as possible ways out.

### Interview

Oliver Adler, Head of Economic Research

Patricia Feubli, Senior Economist Swiss Industry Research

**Owing to the franc shock of January 2015, the discussion about Switzerland as a business location has intensified. How do you see the Swiss location and what do you consider to be its advantages and disadvantages?**

**Beat Meier** I am very pessimistic about the Swiss location.

When we founded our company in January 2016, we wondered how we would be able to confront the current challenges – I'm thinking here particularly about the high wage level in Switzerland – and be globally competitive. For economic reasons we opted for a virtual company. The top management is concentrated in Zug and we have outsourced the research and



**"What I miss above all in Switzerland is a strategy for raising Switzerland as a business location to a new level."**

### Beat Meier

CEO of FAST Recognition AG

Beat Meier is CEO and Chair of the Board of Directors of FAST Recognition AG. The experienced entrepreneur founded the company specializing in real-time monitoring solutions in January 2016. He studied computer science and electrical engineering in Switzerland and the USA and graduated with a Master of Science.

development department to Croatia as the highest salary for an engineer with a master's degree in Croatia does not exceed EUR 4,000 per month. But those are really just details. What I above all miss in Switzerland is a vision upheld by all authorities, politicians and business leaders. A long-term strategy for raising Switzerland as a business location to a new level. I'm calling for a Vision 2030!

**Hans Rudolf Häfeli** I agree, the politicians appear disoriented. Companies are therefore forced to find their own way. I consider the fact that we have a reasonably stable environment here in Switzerland to be an advantage. We have also learned at our company to cope with continuous cost pressure. Our contracts with our customers from the automotive sector contain gradual price reductions that are linked to volume expansions. However, the appreciation of the franc has brought with it a further sharp rise in cost pressure. It is very difficult to reduce costs in a flash in order to respond to a ten to 15 percent appreciation. What also concerns me is the fact that a contraction in industry also means less skilled labor and expertise in Switzerland. This will make the environment even more challenging for the companies remaining.



**"We are investing in newer and improved processes and pushing ahead with the outsourcing of ancillary work."**

### Hans Rudolf Häfeli

Chair of the Board of Directors at Etampa Holding

Hans Rudolf Häfeli has been Chair of the Board of Directors and a majority shareholder at Etampa AG since December 2010, and since 1 May 2016 he has additionally held the position of Chief Executive. He is a federally certified fiduciary and a delegate of the Board of Directors and majority shareholder at reoplan treuhand AG. Etampa AG is a globally active company in the areas of stamping, fineblanking and toolmaking.

**Armin Klingler** We certainly suffer from the high costs in Switzerland. I see many Swiss companies today sapping their reserves. They will not be able to do this for much longer and I am convinced that some of them will be thrown to the wolves. Above all the many small companies, the SMEs, will suffer greatly in the next year or two. As we at the Wey Group primarily produce securities trading systems, we are fortunate enough to be operating in a niche. However, this also means that we suffered a double blow from the banking crisis. Banks have been investing much less in this area since 2008/2009. We are therefore now increasingly fitting out control rooms in air traffic control, traffic safety and the like with our technology.

**Matthias Weibel** I would like to distinguish between facts and sentiment. It is a fact that the exchange rate brings with it immediate disadvantages for Switzerland as a business location. The appreciation of the franc has essentially triggered an unnatural structural change. We have not suddenly got 15% worse since 15 January 2015 and have not raised our prices

by ten to 15 percent. On top of this comes the flood of popular initiatives, the lack of skilled labor and – as Mr. Meier has already pointed out – the absence of a location policy. There is clearly a lack of political will and consensus to restore a state of affairs that favors the Swiss business location. And the high wage level can also no longer be treated as taboo. Now I'd like to talk about sentiment which among SMEs I find to be poor as confidence in the Swiss location has diminished sharply. Our company, for instance, invested millions following the initial appreciation of the franc (2010-2011) in order to offset the disadvantages of the Swiss location by means of automation and digitalization. Then came the second shock due to the



**"The term Industry 4.0 is somewhat hyped by the media as digitalization is an evolutionary process that has been taking place for years."**

**Matthias Weibel**  
CFO of FAES Group

Matthias Weibel has been CFO of FAES – one of the largest Swiss industrial service providers in the machinery sector – since 2005. The company produces precision parts, components and entire machines. He graduated with a PhD from the University of St. Gallen and focuses strongly on the opportunities offered by big data analytics in industry. He has been a council member of the Swissmem industry association since 2011.

(premature) abandonment of the minimum euro exchange rate and this wiped out confidence. This time we have responded by halting investment and recruitment activity in Switzerland and outsourcing various activities abroad. I know of many SMEs that are now doing just the same. While after the initial appreciation of the franc in 2011 it was more the large companies that migrated abroad, today SMEs with fewer than ten million francs of sales are investing in production sites abroad.

**Beat Meier** The locational disadvantage also affects the financing of study projects. Our products are largely developed on the basis of basic research. It is becoming increasingly difficult to finance this research with European funding. For example, we have applied with projects for Horizon 2020. We were advised when doing so to submit the application via our location in Croatia as the Swiss location is very likely to be at a disadvantage.

### Horizon 2020

Horizon 2020 is an EU research and development program intended to secure Europe's global competitiveness. For a period of seven years (2014–2020) a total of EUR 80 billion is being set aside for research projects. Switzerland currently has the status of a partially associated state so that Swiss research groups can only apply for certain Horizon 2020 funding awards. Whether Switzerland becomes fully associated in 2017 so that Swiss researchers can apply for all funding awards depends on the continuation of the free movement of persons in Switzerland and its expansion to Croatia.

**Armin Klingler** What I partially miss among the Swiss is an appetite for new solutions and innovations. The Swiss are good as long as they can operate in a niche. But it goes without saying that the frequent crises – financial crisis, banking crisis, Russian crisis – have struck a blow to sentiment.



**"What is lacking is financial support for innovations."**

**Armin Klingler**  
CEO of WEY Group

After training as a telecommunications and electrical appliance technician, Armin Klingler started his career at Honeywell Bull AG. In 1995 he switched to WEY Elektronik AG, where he took over the management. As CEO he is today in charge of the 12 global WEY subsidiaries belonging to the WEY Group together with his partner Mario Okle. Since the management buyout in 2013 they have also been majority shareholders of the WEY Group.

### How are you dealing with this difficult situation?

**Hans Rudolf Häfeli** We are investing in automation and in newer and improved processes. We are streamlining processes and reducing what is not necessarily needed. We also aim to achieve moderate growth and are simultaneously pushing ahead with the outsourcing of all ancillary work. However, some of these measures are already carried out on a continuous basis.

**You say you are continuously enhancing processes. Industry 4.0 is currently a subject of intense debate. Are you continuously moving toward Industry 4.0 or will you have to make a major technological leap at some point?**

**Hans Rudolf Häfeli** It is a continuous, day-to-day process. We, that is Etampa, have come a long way in the electronic use and exchange of information. This is also thanks to our customers who themselves are very far advanced in terms of digitalization. We maintain our information, exchange it and make use of it to improve ourselves.

**Matthias Weibel** The term Industry 4.0 is somewhat hyped by the media as digitalization is an evolutionary process and has been taking place for years. We were already talking five years ago about fully integrated order processing. We have started going over to our customers placing their orders with us and placing our orders with our suppliers directly in SAP. Simultaneous product development and model-based design have also been very important issues for us for a long time. When the term Industry 4.0 suddenly arose, we discovered that there were many things we were already doing. The sharp reduction in the cost of megabytes means that today you can already obtain Industry 4.0 from the machine producer as certain new machines have around 70 sensors and produce countless terabytes of data. It is possible to gain advantages by investing in digitalization and automation. But digitalization is today already really pretty much a must-have. Sooner or later we'll all be doing it this way anyway.

#### Simultaneous product development

In simultaneous product development, a product and its production process and distribution are developed simultaneously. This enables a product to be brought to market considerably more quickly than with traditional product development where the processes are deferred. This means that technological innovations can be implemented more quickly and development costs cut.

**Armin Klingler** Work is currently already underway on what might be called Industry 5.0. For example, we are working on a new control room workstation that not only links machines and clouds but also takes the human factor into account. The person wears a fitness armband to measure his or her pulse, blood pressure and the like. If the person consents, these data are stored in the cloud. If the person feels unwell, the air conditioning or lighting can be adjusted and the person even enticed to engage in movement in order to improve his or her condition. At present this might still sound like science fiction, but this is the direction we're moving in. We have the necessary skilled labor in Switzerland to work these things out. Switzerland can play a leading role in terms of new technologies.

However, what is lacking is the financial support for such innovations.

**You say that we have already achieved many milestones in terms of digitalization. Is the process now set to accelerate even further or will it level off?**

**Matthias Weibel** It will accelerate further.

**Beat Meier** I am convinced that the digitalization process is advancing much more quickly than many people think. For example, an incredible thrust toward digitalization and networking has been observed in the intelligence environment. Since 9/11 progress has been much faster here than in business.

**A brief supplementary question at this stage: Exactly how vulnerable are networking and clouds to incidents and hacking?**

**Beat Meier** There are some fundamental security measures that are relatively simple. You shouldn't create any redundant databases. The data need to be encrypted for their entire lifetime. Access may only take place via the intranet/VPN. It is essential to make sure that no third-party devices such as USB sticks or hard drives are connected to client computers. In addition, the system should facilitate independent auditing during which all data accesses can be analyzed and assigned to users. Coupled with good monitoring, this ensures that the right means of alarm are at hand to pull the plug in good time. So, on the one hand fear of attacks is justified, but on the other there are ways of very strongly limiting the risks. Should a hacker nevertheless gain access to stored data, this will be practically useless owing to the encryption. However, there is no absolute security.

**Let's consider your employees. If processes are increasingly digitalized, does this mean employees have to offer considerably more skills than was previously the case?**

**Matthias Weibel** Yes, the jobs have become much more interesting. A polytechnician is today really more of a polyprogrammer. He simultaneously manages three or four orders, programs three or four machines for this and monitors them. You will not find very many people on the market who spontaneously match this new job profile. We therefore train the majority of our people ourselves in our apprentice training department. I also notice that young apprentices these days actually expect to be able to work with robots and tablets as they have grown up with them.

**Beat Meier** I believe that a lot more money needs to flow into the training of skilled labor, i.e. into vocational training and the expansion of bachelor's programs. If we have good skilled workers, this will benefit Switzerland as a business location and assist us in the global competition. I would also very much welcome it if an innovation park were to be created in Switzerland that brings together the various disciplines and supports

young entrepreneurs in particular in realizing their dreams. A good example can be seen in the spin-off activities of EPFL Lausanne that are creating innovative concepts that are difficult to copy. Institutions such as ETH Zurich and EPFL Lausanne form one of the most important pillars for Swiss innovation and that is why we need to understand how important the government actually is in the overall planning of Switzerland's future as without it we will be unable to push through investments in research and development.

**So to sum up you see innovation as a means of leading Switzerland as a business location back to calmer waters. At present there is simply a lack of financing opportunities and political support. Is that correct?**

**Matthias Weibel** Yes. Innovation is certainly a means. However, it would be misconceived to believe that in future engineering can take place in Switzerland and production in the Czech Republic, for example. This would not work as engineering and production need to be close to each other in the longer term. We need to take care of and support the Swiss business location today if we wish to prevent manufacturing and product expertise from migrating abroad. One way is clearly to support innovations financially as a lot of money is lacking particularly in the initial area, in seed finance. Entrepreneurial courage still receives much too little financial support today in Switzerland.

#### **Seed finance**

Seed finance refers to the financing of businesses in the start-up phase. Young companies in the early development phase are often unable to obtain traditional bank loans owing to the major risk potential in some cases.

**Hans Rudolf Häfeli** The cost trend of the past few years has forced us to carry out full or partial outsourcing. I have no doubt that a subsidiary abroad will develop over the medium term into a competitor of the Swiss parent company. This is a good thing as it shows what it is possible to achieve elsewhere. As an entrepreneur one is constantly seeking new and better solutions. However, the government is providing too little support and in my view has done too little in response to the franc shock.

**Beat Meier** It is not sufficient to identify what is wrong. We must also always be looking at how we can change the situation. How can we offer the next generation a better future? This is only possible by clearly defining our future in the form of a vision.

**Matthias Weibel** Responding to cost pressure with Industry 4.0 is a good approach. But it is more of a defensive approach. A proactive approach involves innovations and visions, joining forces and marching forward. That is precisely what is needed now.

## Risk warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

For a discussion of the risks of investing in the securities mentioned in this report, please refer to the following Internet link:  
<https://research.credit-suisse.com/riskdisclosure>

This report may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this report or for any necessary explanation of its contents. Further information is also available in the information brochure "Special Risks in Securities Trading" available from the Swiss Bankers Association.

The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is affected by changes in spot or forward interest and exchange rates, economic indicators, the financial standing of any issuer or reference issuer, etc., that may have a positive or adverse effect on the income from or price of such securities or financial instruments. By purchasing securities or financial instruments, you may incur a loss or a loss in excess of the principal as a result of fluctuations in market prices or other financial indices, etc. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk.

Commission rates for brokerage transactions will be as per the rates agreed between CS and the investor. For transactions conducted on a principal-to-principal basis between CS and the investor, the purchase or sale price will be the total consideration. Transactions conducted on a principal-to-principal basis, including over-the-counter derivative transactions, will be quoted as a purchase/bid price or sell/offer price, in which case a difference or spread may exist. Charges in relation to transactions will be agreed upon prior to transactions, in line with relevant laws and regulations. Please read the pre-contract documentation, etc., carefully for an explanation of risks and commissions, etc., of the relevant securities or financial instruments prior to purchase

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Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realized. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. Please contact your Relationship Manager if you have any questions.

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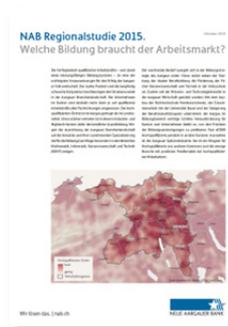
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