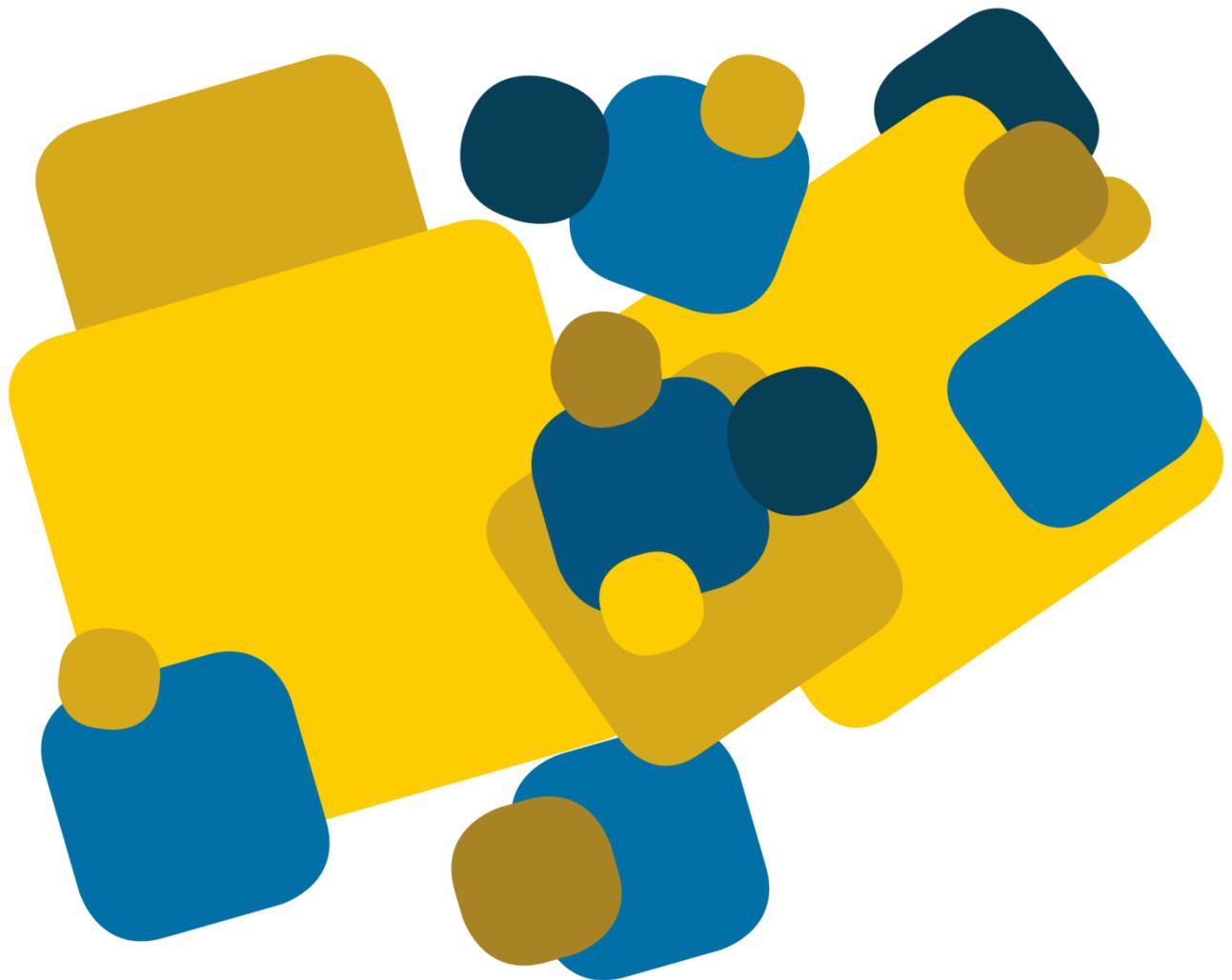


Successful amid the global competition



Competitive position

Well positioned, but the competition never sleeps

Page 13

Source of competition

Domestic sectors also increasingly exposed to foreign competition

Page 15

Digitalization

Many SMEs do not see themselves affected by digitalization

Page 19

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Editorial

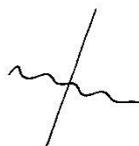
Swiss small and medium-sized enterprises (SMEs) have never been able to relax in the face of global competition. High wages and a strong currency have always forced them to assert themselves through innovation and the quality of their products and services rather than through attractive prices. The Swiss franc shock in early 2015 has undoubtedly taken its toll on them. However, it has also introduced a renewed phase of structural change that will benefit and promote the domestic SME landscape in the medium to long term. The ongoing further development of proprietary business models that is sometimes driven by adverse circumstances, efficiency enhancements, innovations and the opening of new markets is ultimately keeping Swiss SMEs sustainably fit for the competition.

And, indeed, our survey of more than 1,000 companies confirms the good competitive position of Swiss SMEs, with quite a few companies even able to describe themselves as global market leaders in their field of activity. The fact that the majority of companies surveyed consider themselves capable of safeguarding their current high competitiveness in the long term thanks to sufficient financial means bodes well for the future. We also observe that, with their investments, Swiss SMEs focus above all on offensive, forward-looking measures for upholding their competitiveness, such as the development of new products or the acquisition of new markets. This positive underlying picture is also reflected in the three interviews conducted with companies from different sectors within the scope of our study.

Despite this positive background situation, the Swiss SME landscape continues to face challenges. Competition is becoming increasingly global and therefore harsher. There are by no means just export-oriented companies in the global competition. There are now more domestically oriented than exporting SMEs in Switzerland that are having to share their market with providers from abroad. The globalization of competition has been disproportionately strong in recent years in traditional domestic sectors such as construction and trade. Not all companies that are suddenly being forced to compete globally are prepared for this. The focus of the discussion about competitiveness is therefore set to shift more and more from the export industry, which has been under close observation due to the appreciation waves in recent years, to the domestic economy that is more and more frequently having to find solutions in order to continue to hold its own in the future.

A further challenge for Swiss SMEs is digitalization, which is rendering proven approaches to service provision obsolete, giving rise to new consumer needs and behaviors, and expanding the radius of competition. Swiss companies are essentially optimistic about this upheaval and see opportunities for efficiency enhancements and expansion. Roughly half of the Swiss SMEs surveyed have also already implemented extensive digitalization of their processes, sales channels, and product and service ranges. However, a surprisingly large number of SMEs believe they will only be marginally affected by digitalization in the foreseeable future – not least including those in domestic sectors where digitalization has already made inroads. If these companies leave it too late to recognize the implications of this technological revolution, it could become a burden on future competitiveness.

We wish you an interesting and stimulating read.



Andreas Gerber
Head of SME Business Switzerland
Credit Suisse (Switzerland) AG



Oliver Adler
Chief Economist
Credit Suisse (Switzerland) AG

Management summary

Swiss competitiveness: SMEs more critical than WEF

(p. 11 – 12)

For years, Switzerland has stood out with top rankings in the usual international competitiveness reports such as that of the World Economic Forum (WEF). For the present study, we asked over 1,000 SMEs from all sectors and cantons whether they shared this positive view. The answer turned out to be less clear than we expected: the majority of Swiss SMEs generally attribute an “average to high international competitiveness” to Switzerland as a business location. In itself, this is not a bad verdict, especially since only very few companies attribute a low level of competitiveness to Switzerland and the vast majority of survey participants do not expect the current position to deteriorate. However, the assessment is somewhat more critical than that of the aforementioned reports. Meanwhile, larger and more internationally oriented companies view Switzerland as slightly more competitive than small and purely domestic-oriented companies see it.

Well positioned, but the competition never sleeps

(p. 13 – 14)

Much more important than the assessment of the location is the question of how the SMEs themselves are faring. The responses of the companies surveyed generally give cause for optimism: most of the companies surveyed consider their current competitive situation to be good or at least satisfactory. However, a clear majority of SMEs also believe that their companies need to develop further in order to counter rising competitive pressures despite the good underlying situation.

Competition for SMEs becoming harsher due to globalization – but there are also many “hidden champions”

(p. 15 – 16; p. 24 – 25)

One challenge is the increasingly global nature of the competition. Ten years ago, according to the survey, only one in three companies had competitors abroad – today this has increased to one in two. On the one hand, many SMEs perform well in the global arena as confirmed by the high number of “hidden champions.” One in seven industrial SMEs surveyed claimed to be global market leaders. However, the results also reveal that the competition is growing harsher and more international. Interestingly, the globalization of competition has been disproportionately strong in recent years in traditional domestic sectors such as construction and trade. Our survey clearly illustrates that, as a consequence, there are now more domestic-oriented than export-oriented companies having to share the market with providers from other countries. Accordingly, we see certain risks for such domestic sectors as in contrast to the SME export industry that has always faced international competition, they have not yet been geared to holding their own against competitors from around the world.

Exchange rates: A constant but generally manageable challenge

(p. 17 – 18)

Owing to the strong global ties of the SME economy, it comes as no surprise that, according to our survey, half the companies are affected by exchange-rate fluctuations. However, exchange rates only pose a major challenge for one in five companies – and even these SMEs have largely survived the last few years after the franc shock relatively well. Although the strong franc is also set to pose a challenge in the future – at least for export-oriented companies and those facing global competition – recent experience has shown that Swiss SMEs are by and large capable of coping with this. Furthermore, the strong franc is constantly forcing companies to develop further and to invest, which is ultimately contributing not insignificantly to the sustained competitiveness of the Swiss SME economy.

Companies see digitalization more as an opportunity – but the risks should not be underestimated

(p. 19 – 20)

The globalization of competition is partially attributable to digitalization. Particularly in the service sector, digitalization is facilitating cross-border exchange on a scale that was not possible previously. Nevertheless, as illustrated by our survey, SMEs largely view digitalization as an opportunity and hope to achieve efficiency gains and opportunities for new products, sales markets and client groups. Only a minority of them believe that digitalization poses a risk because it renders their products and services superfluous or think that their company may fall behind the competition technologically. The predominantly positive expectations of SMEs coincide with various indicators attesting that Switzerland has a good “IT readiness.” This is a fundamentally positive finding. On the other hand, a surprisingly large number of SMEs believe that they will only be marginally affected by digitalization in the foreseeable future. It is quite possible that this self-assessment is correct. However, as demonstrated by a number of recent examples, there is also a danger that such companies are underestimating the technological shift and could therefore be jeopardizing their long-term competitiveness.

SMEs have sufficient financial leeway for investments in competitiveness

(p. 21 – 23)

Most SMEs are in the happy situation of at least being able to take charge of their own destiny. A large majority currently claim to have sufficient financial leeway for investments to uphold their competitiveness. The range of measures adopted in recent years for maintaining competitive positions also gives cause for cautious optimism. While quite a few companies have had to resort to defensive-reactive strategies such as price cuts or the discontinuation of business areas, forward-looking and offensive measures have come much more frequently to the fore. More than half of those surveyed have invested in the launch of new products and services or in the further development of existing ones. Almost half of the SMEs have tapped new markets or client groups, and four out of ten companies have implemented substantial digitalization of their sales channels or product ranges in recent years. Also positive is the fact that, with a view to the next two to three years, proactive and expansive strategies are tending to gain weight against defensive ones such as price cuts.

Three prime examples of how Swiss SMEs can shine against the global competition

(p. 26 – 30)

This positive overall picture is also reflected in the three interviews conducted with entrepreneurs from quite different sectors within the scope of this study. They vividly demonstrate how, despite their expensive location, Swiss SMEs can successfully hold their own against the international competition thanks to creativity, an open and globally shaped mindset, client proximity, consistent positioning, technological innovation, digitalization and, last but not least, outstanding skilled labor.

Five key facts and findings with regard to the competitiveness of Swiss SMEs

Swiss SMEs can look back on a challenging but, in many sectors, an altogether successful decade. It cannot be said for certain from today's perspective whether this success will be repeated in the coming decade. However, our study shows that Swiss SMEs are by and large well equipped to face future competitive challenges. The following five points summarize the key findings of the study:

1. The competitive position of Swiss SMEs is largely good or satisfactory. According to their own assessment, they currently have sufficient financial leeway to make the necessary investments to maintain this situation. The underlying conditions for being able to safeguard the current high level of competitiveness in the long term appear to be in place for the Swiss SME landscape.
2. However, the ongoing further development of the business model is an indispensable task for most of them if they do not wish to abandon the field to the competition. Here SMEs are focusing above all on proactive measures such as product development, the opening of new markets and digitalization.
3. The competition is becoming increasingly global and consequently harsher. SMEs from previously protected domestic sectors are also facing increasing global competition.
4. SMEs primarily view digitalization as an opportunity. Switzerland generally has good underlying conditions in this regard. However, some companies may be underestimating the extent of technological change.
5. In an increasingly (digitally) interconnected global economy, the significance of exchange rates remains high. With its propensity to appreciate, the volatile Swiss franc is also likely to pose a challenge to SMEs. All in all, however, the majority of them should be able to cope with this.

Swiss SME economy

In robust shape

The business situation of Swiss SMEs in recent years has largely been “satisfactory to good” – a verdict that has continued to hold true in mid-2018. SMEs have generally proved to be a stabilizing factor for the Swiss economy.

Review of the SME business situation

Only a competitive company can be successful in the long term – and sustained success is therefore an expression of high competitiveness. A good benchmark for measuring the economic success of SMEs as simply and intuitively as possible is the Business Situation Indicator of the KOF Swiss Economic Institute (KOF), which covers most Swiss sectors. Based on the KOF's figures, we have calculated a business situation indicator for the overall SME landscape and compare this with the indicator for large companies (see the [text box on the following page](#) for explanations).

A good and relatively stable business situation

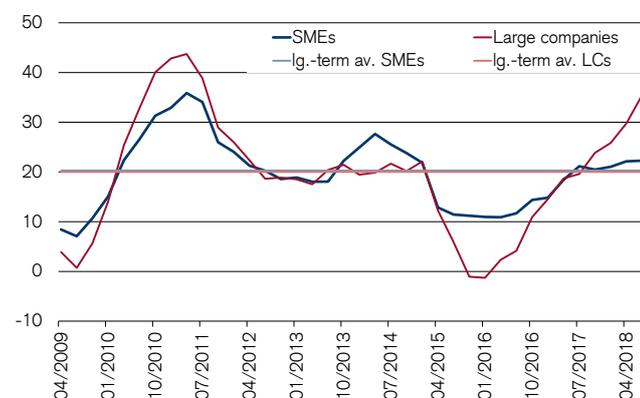
The indicator shows that, in recent years, Swiss SMEs have largely assessed their business situation as at least satisfactory or good (see [Figure 1](#)). Even during the recession in the wake of the financial crisis in 2009 and after the franc shock in early 2015, there were more companies assessing their business situation as good than poor. At no time did more than 25% of the SMEs canvassed by the KOF rate their business situation as poor.¹ Hence the situation of the SME economy has altogether been somewhat more stable than that of large companies in recent years.² Conversely, however, the SME economy also appears to have benefitted less from upswing phases overall. While SMEs only rated their business situation in mid-2018 at slightly better than the average of the past five years, the assessment of large companies was significantly above the five-year average. However, viewed over the long term, there is practically no difference between SMEs and large companies regarding their assessment of the business situation.

Industrial SMEs on the rise, but have suffered longer under the franc shock

However, the development of the business situation has varied quite significantly in the different SME sectors, as the following select examples illustrate. [Figure 2](#) shows that, in contrast to other sectors of the SME economy, industrial SMEs are very much subject to the ups and downs of economic cycles. Accordingly, the assessment of the business situation deteriorated at the

Figure 1: SMEs as stabilizing factor

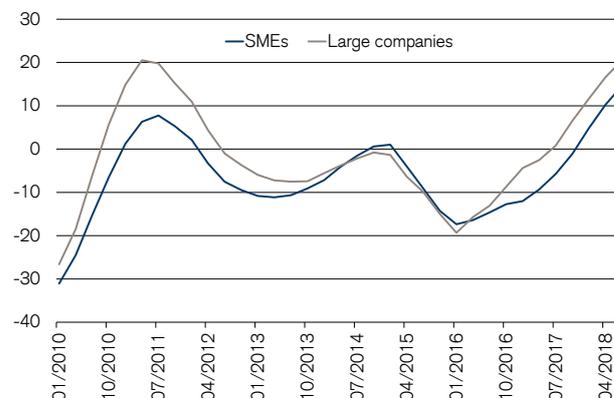
Business situation; share of companies surveyed, balances in percentage points*



Source: KOF Swiss Economic Institute, Swiss Federal Statistical Office, Credit Suisse; * excluding agriculture, finance, energy, education and public administration; last data point: July 2018

Figure 2: Industrial SMEs suffered longer under the franc shock

Business situation; share of industrial enterprises surveyed, balances in percentage points; four-quarter average



Source: KOF Swiss Economic Institute, Credit Suisse; last data point: July 2018

¹ Weighting factor according to text box on next page.

² However, this does not necessarily mean that the course of business of *individual* SMEs is less volatile per se than that of *individual* large companies. The observation relates only to the *total* of the two groups. The indicator for large companies is also likely to be more volatile than that for SMEs because it is more strongly shaped by the assessment of individual companies.

start of 2015 after the Swiss National Bank abandoned the CHF/EUR minimum exchange rate in the same way for SMEs as for large companies. While large industrial enterprises digested the franc shock relatively quickly, however, the SMEs took longer to recover. It was not until mid-2017 that there were more industrial SMEs with a “good” rather than a “poor” business situation again. Sentiment in mid-2018 was back at the level it was at the peak of the recovery boom in 2011.

Business Situation Indicator for SMEs

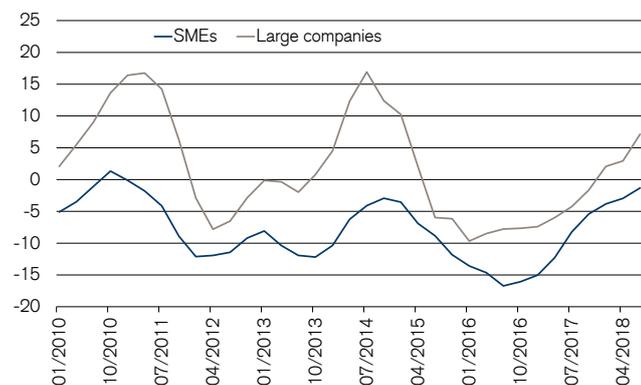
The KOF Swiss Economic Institute (KOF) surveys – either monthly or quarterly depending on the sector – around 4,500 companies about various issues including their current business situation. The companies assess whether their business situation at the time of the survey is “poor,” “satisfactory” or “good.” The charts in this section show the difference between positive and negative answers (balance). Figures above 0 point toward a generally “satisfactory to good” business situation. Figures below 0 indicate that, at the applicable point in time, there were more companies with a “poor” than with a “good” business situation. The figures for SMEs in the illustrations of this section are weighted averages that we have calculated from the KOF Business Situation Indicators for SMEs in the industrial, construction, catering, retail trade, wholesale trade and services sectors. Based on their employment share, the individual groups have been weighted in accordance with the business census of the Swiss Federal Statistical Office (STATENT 2015). For the large companies in Figures 2, 3 and 4, we have adopted the unadjusted figures of the KOF – except for those in Figure 1, which are likewise a sector-weighted average.

Retail trade undergoing structural change

Not just industrial SMEs have suffered from the strong franc in recent years, but also retailers (see Figure 3). During the two major appreciation phases of the past few years – mid-2011 and early 2015 – the business situation in the retail trade deteriorated markedly due to the resulting sharp increase in shopping tourism. It is also noticeable that sentiment among small retailers has been consistently less positive than among large retailers in the last few years and it has scarcely been the case since 2010 that more small retailers assess the situation to be good than to be poor. One reason for this is the rapidly growing importance of e-commerce, which has so far transformed the business situation for non-food retail more than for food retail. The group of large companies is shaped more significantly by the food retail trade (Migros, Coop, Denner, Aldi, Lidl) and has so far altogether been less affected by the challenge of digitalization than the SME retail sector. Nevertheless, despite facing structural changes due to digitalization, the SME retail sector still assessed the business situation in mid-2018 to be better than in the difficult years of 2015 and 2016.

Figure 3: Retail trade undergoing structural change

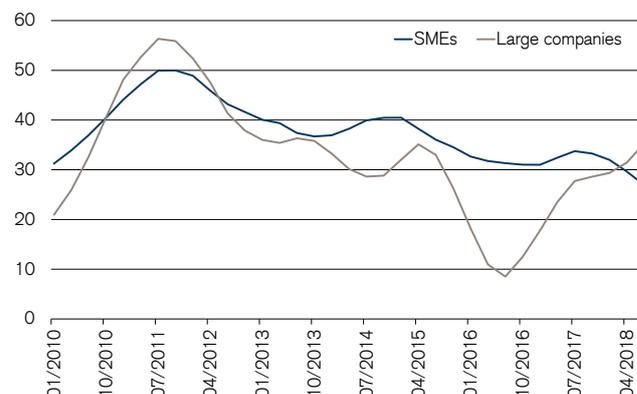
Business situation; share of retail enterprises surveyed, balances in percentage points; four-quarter average



Source: KOF Swiss Economic Institute, Credit Suisse; last data point: July 2018

Figure 4: Deteriorating trend among service SMEs

Business situation; share of service enterprises surveyed, balances in percentage points; four-quarter average



Source: KOF Swiss Economic Institute, Credit Suisse; last data point: July 2018

Business situation among service providers remains good

The service sector illustrated in Figure 4 is very broad and heterogeneous. It ranges from law firms, nursing homes, transport companies and translation agencies to medical practices, taxi companies, hairdressing salons and software manufacturers. Altogether, this large sector has by and large assessed the business situation in the past few years to be consistently good. As around 1,000,000 staff work in the SME service sector in Switzerland, the sector makes a significant contribution to the aforementioned generally positive assessment of the current business situation in the overall SME economy. However, we note that while the business situation is still rated as good today, it has gradually deteriorated over the past few years. This development does not appear to be exclusively SME-specific, but more sector-specific in nature. According to detailed figures of the KOF, the trend described is very pronounced among other service providers in the land transport, personal services and publishing sectors. Digitalization is likely to be the driving factor behind the long-term deterioration of the business situation in publishing, while, in land transport, it is the general increase in competitive pressure.

Swiss SME economy in good shape, but how sustainable is its competitiveness?

This brief overview shows that, while there have been various challenges to master over the last decade such as the appreciation of the Swiss franc, the Swiss SME economy (except for some individual sectors) is overall in good economic shape. The big question now is obviously whether this fundamentally positive picture – viewed independently from the usual economic cycles – can be upheld in the future. How sustainable is the competitiveness of Swiss SMEs? There are many foreseeable challenges. Although the franc shock has now largely been overcome, Switzerland is set to remain a country with a strong currency that tends to appreciate, particularly in politically uncertain times such as the present. While the fourth industrial revolution in the shape of digitalization offers many opportunities for increased efficiency and new sales potential, it has already destroyed long-standing business models and will inevitably continue to do so. This will also take place in an increasingly global economy, with competition for SMEs becoming more and more international. We examine these aspects in more detail in the following sections.

Methodology of the study

A large part of the following analysis is based on a survey that was conducted on our behalf in March and April 2018 on an anonymous basis by the independent polling organization ampuls. A representative sample of companies by sector was canvassed, leading to 800 responses. In addition, 300 SMEs from industry were canvassed in order to achieve a broader sample for various industry-specific questions. All 1,100 responses were used in most of the following evaluations. Since industrial enterprises would have been over-represented by this on an unweighted basis, we weighted the responses by sector and share of employees to ensure a sector-specific representative outcome. Weightings were not based on the number of companies in the respective groups (sectors per size category), but the number of employees, thus giving larger companies a greater weighting than small ones. This is done deliberately as it enables the responses to be interpreted on the basis of their economic relevance. For instance, it makes sense when assessing the overall situation of the SME economy (also with regard to individual questions) for a company with 200 employees to have a greater weighting than a two-man partnership.

Key figures for the SME economy and the survey

Sector distribution of SME economy and survey

Over 99% of all companies in Switzerland are SMEs. Around three quarters of these SMEs operate in the tertiary sector. After weighting the participants' responses, the composition of the sector allocations in our survey reflects the employee shares of sectors in the overall Swiss SME universe (see [box on page 9](#)). Healthcare, social services and education, as well as catering, entertainment and personal services accordingly have the highest weighting in the survey.

Share of sales abroad

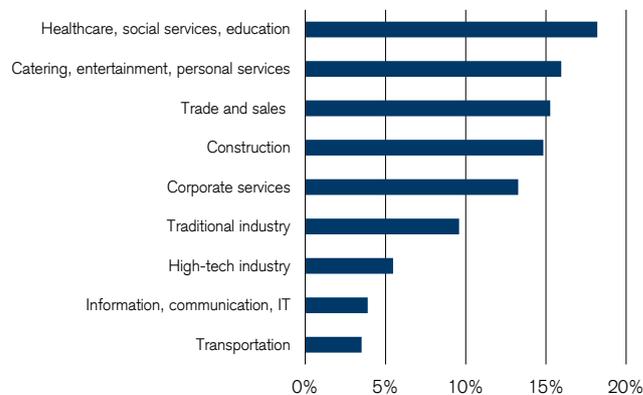
A good 20% of the Swiss SMEs canvassed generate at least some of their sales abroad. [Figure 6](#) shows that the share of foreign sales varies greatly according to sector affiliation. The high-tech industry stands out significantly: 70% of the companies here have sales abroad. Considerably fewer companies generate sales abroad in most of the other sectors. For example, fewer than 10% of those surveyed generate sales abroad in the catering, entertainment, personal services, healthcare, social services and education sectors.

Share of SMEs with locations abroad

The existence of locations abroad correlates strongly with the share of exports of SMEs. Accordingly, at 31%, the high-tech industry has the largest share of companies with an office abroad, followed by information and communication technology at 25%. The figure in the other sectors is in some cases well below 10%. On average across all sectors, 7% of the SMEs canvassed in the study have at least one office abroad.

Figure 5: Sector affiliation

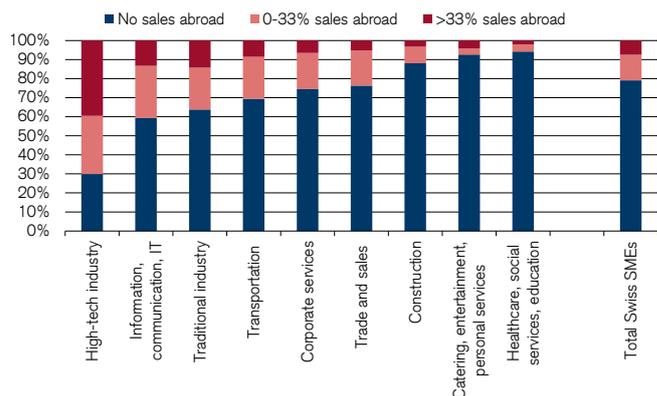
Sector mix of survey (corresponds to employment share of these sectors in the actual SME economy)



Source: Credit Suisse 2018 SME Survey

Figure 6: Sales abroad

Share of companies in percent by sector



Source: Credit Suisse 2018 SME Survey

Figure 7: Locations abroad

Share of companies in percent



Source: Credit Suisse 2018 SME Survey

Competitiveness of Switzerland from the SME perspective

Competitiveness on track

Swiss SMEs largely consider the competitiveness of Switzerland to be medium to high and all-in-all expect it to remain that way. Compared with international rankings, this assessment at first glance appears rather low.

First place for Switzerland in the WEF ranking of the most competitive countries

According to international indices, Switzerland is one of the most competitive countries in the world. In 2017, it came first in the Global Competitiveness Report of the World Economic Forum (WEF) and in 2018 it was fifth in the IMD World Competitiveness Ranking (see Figure 8). Thanks to its intact infrastructure, a stable macroeconomic environment and a high level of education, Switzerland regularly occupies one of the top positions in these rankings. Both institutions define competitiveness as the ability of a country to create a given environment. For the WEF, this is about increasing overall well-being in terms of education, health, security and per capita income, while the IMD places the focus on companies and their ability to generate value creation on a sustainable basis. In this section, we shed light on the competitiveness of Switzerland from the perspective of SMEs, which make up the large majority of Swiss companies.

Good but not outstanding competitiveness according to SMEs

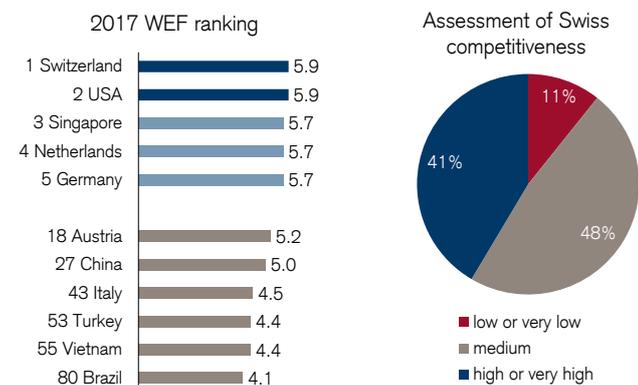
The results of our survey at first glance come somewhat as a surprise. Although around 41% of SMEs consider Switzerland's competitiveness to be high or very high, and only 11% consider it to be low (see Figure 8), almost half find the competitiveness of Switzerland as a business location to be only average. SMEs therefore only see Switzerland as having "quite high competitiveness." Compared with the top positions in the aforementioned rankings, this seems surprisingly low. Interpreting this result is not easy. Is the proverbial Swiss modesty at play here or are the quoted indicators perhaps more meaningful for large companies that are better positioned to implement Switzerland's competitive advantages? Do some SMEs possibly lack a benchmark because they are not internationally active?

Large SMEs rate Switzerland as more competitive

Our survey does in fact provide some evidence for the theory that larger companies are able to benefit more from Switzerland's competitive advantages than smaller ones. Among the large SMEs with 50 to 249 employees, only around 6% believe that the competitiveness of Switzerland is low or very low. Among micro firms, this share is twice as large (13%). A slight trend can also be observed among the positive responses, with large SMEs rating the country's competitiveness as high somewhat more frequently (45%) than micro firms (40%).

Figure 8: Discrepancy between assessments

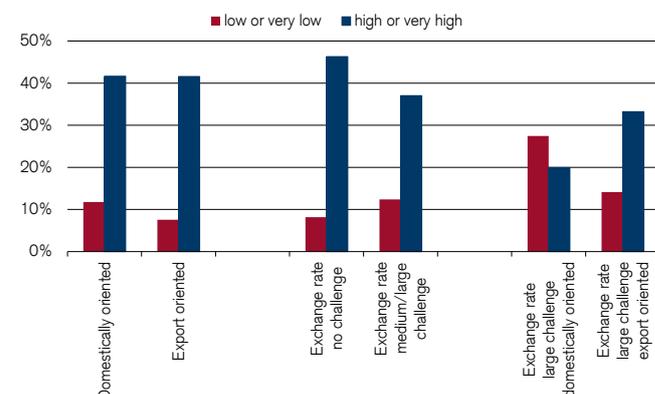
Positions one to five in the WEF ranking and selected comparison countries, share of assessments of Swiss competitiveness of all SMEs surveyed



Source: World Economic Forum (WEF), Credit Suisse 2018 SME Survey

Figure 9: Domestically oriented SMEs not unaffected by exchange rates

Assessment of competitiveness of Switzerland, ordered according to export orientation and vulnerability to exchange-rate fluctuations



Source: Credit Suisse 2018 SME Survey

SMEs active abroad assess Switzerland's competitiveness somewhat better

A majority of the SMEs do not engage in exports or have any business locations outside Switzerland. The less foreign experience a company has, the more difficult it will be for it to assess Switzerland's competitiveness in the global context. It is therefore interesting to compare the assessments of internationally oriented SMEs and those focused solely on Switzerland. There are indeed certain differences. Companies with locations abroad and those that have carried out outsourcing in recent years rate Switzerland's competitiveness higher. However, this comprises a very small group. If instead we take (more widespread) export activity as the yardstick, although here too exporting SMEs assess the competitiveness of Switzerland to be low less frequently than purely domestically oriented ones (see [Figure 9](#)), the differences are fairly marginal.

Strong franc has a negative impact

Vulnerability to exchange-rate fluctuations also influences the assessments of the SMEs. Vulnerable SMEs rate competitiveness lower than other SMEs (see [Figure 9](#)). In their view, the strong franc is therefore serving to curb Switzerland's competitiveness. Somewhat surprising at first glance, however, is the observation that domestically oriented SMEs strongly affected by exchange rates are considerably more critical in their assessment than exporting companies (see bar on right in [Figure 9](#)). This difference probably arises from the fact that there is good reason for the services of exporting SMEs to be in demand abroad. In most cases, the products are from quality or technology leaders benefiting from the strengths of the Swiss location such as the standard of innovation and training. By contrast, domestically oriented companies competing against foreign counterparts for market share are more exposed to the weaknesses of Switzerland as a high-cost country.

A high assessment compared with close competitors

In summary, exporting SMEs and those active abroad provided somewhat more positive assessments that are more compatible with the top WEF ranking than purely domestically oriented companies. Moreover, a closer inspection of the WEF ranking reveals that the differences at the top are only minimal (see [Figure 8](#)). Only 0.2 points separate Switzerland from Germany in fifth position. Assuming that Swiss SMEs measure the competitiveness of their location primarily against similar countries, the "quite good" assessment in our survey can therefore be well reconciled with the position in the rankings. The latter shows that Switzerland is competitive and in many areas a leader. At the same time, it cannot afford to rest on its laurels, but must advance its competitiveness further.

SMEs on the whole expect no change in Switzerland's competitiveness

What are the survey companies' expectations for the future? Over 50% of SMEs do not anticipate any change in the competitiveness of Switzerland in the next few years. A quarter expect competitiveness to improve and another quarter expect it to deteriorate. Not even digitalization appears to pose a threat for the majority. Whether or not SMEs invest in digitalization and their general attitude to this has no influence on their current and future assessment of Switzerland's competitiveness. However, the source of competition is capable of dampening assessments of competitiveness. For instance, SMEs with competitors in China or other emerging markets more frequently rate current and future competitiveness lower than SMEs without such competitors. We examine the potentially harmful factors of digitalization and foreign competition in more detail in the "[International competition](#)" and "[Competitiveness and digitalization](#)" sections

Competitive position of SMEs

Well positioned, but the competition never sleeps

While the competitive position of Swiss SMEs is largely good, it is constantly being challenged. SMEs will continue to face increasingly global competition, a strong domestic currency and digitalization in the future.

Good underlying conditions need to be utilized

There can be no doubt that if a business location has a high competitive edge, this will significantly contribute to the success of the companies based there. But good underlying conditions also need to be utilized. The core question of this study is how sustainable is Swiss SME competitiveness. First, we wanted to know how the companies themselves viewed this question. We therefore asked them to indicate which of the following statements most applied to their company:

Our current competitive position is...

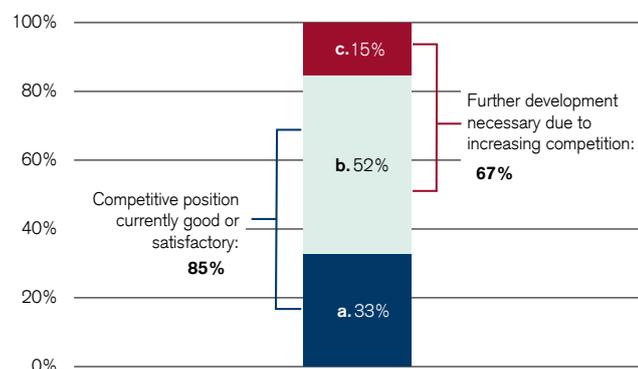
- a. ... good and, with our current business model, we do not need to expect to be significantly pressured by competitors in the next few years.
- b. ... good or satisfactory, but without further developing the business, competitive pressure is likely to increase significantly in the next few years.
- c. ... generally unsatisfactory. Without substantial further development, the company is likely to face strong competition in the medium term.

Good competitive position, but ongoing further development necessary

The responses paint an essentially positive but also differentiated picture of the competitive position of Swiss SMEs: An impressive 85% consider their current competitive situation to be good or satisfactory (responses a. + b.; see Figure 10). Only 15% are dissatisfied with their competitive position. This undoubtedly also reflects the generally good business situation of Swiss SMEs at present. At the same time, however, 67% of those surveyed believe their company must develop further in order to counter increasing competitive pressure (responses b. + c.; see Figure 10). This is basically no reason for concern and primarily serves to express the universal fact that the market economy is an extremely dynamic system in which the law of “creative destruction” prevails and no company can afford to rest on its laurels. However, the result also reflects the fact that the current high competitiveness of the Swiss SME landscape is not simply guaranteed and there are by all means challenges to be faced.

Figure 10: Competitive position must be constantly defended

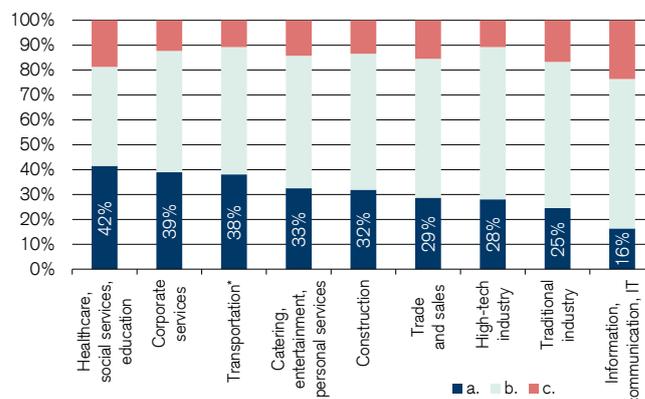
Position in competition; share of responses; see text box above for description of key (a., b., c.)



Source: Credit Suisse 2018 SME Survey

Figure 11: Competitive pressure not the same everywhere

Share of responses by sector; see text box above for description of key



Source: Credit Suisse 2018 SME Survey; *fewer than 50 companies

Competitive position and intensity vary from sector to sector

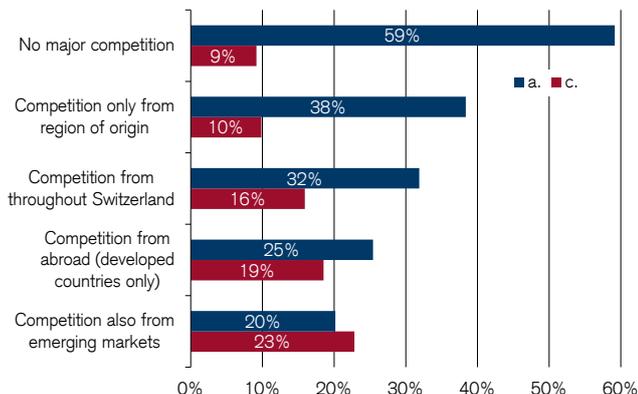
However, not all SMEs are equally bound up in the competition and feeling the pressure to develop their businesses further (see Figure 11). Particularly in healthcare, social services and education, a relatively high number of companies do not fear any competition in the foreseeable future. The opposite goes for sectors such as the high-tech industry. There are likewise only few companies in this sector complaining of an unsatisfactory competitive position. At the same time, the share of companies feeling strong pressure to develop further is very high. Of course this picture of the sector is no coincidence. Our survey shows – not very surprisingly, but nevertheless very impressively – that SMEs with international competitors, dependence on exchange-rate developments or that are affected by digitalization are more frequently under pressure to develop further for reasons of competition. For example, the high-tech industry is much more exposed to global competition than healthcare. Meanwhile, the information and communication technology (ICT) sector is at least today even more subject to technological developments than various service providers such as hairdressers or restaurants.

International competition, exchange rates and digitalization are also determinants of the future competitive position

The degree of internationality of its competitors has a particularly strong influence on an SME's competitive position (see Figure 12). If they all come from the same region of origin (e.g. the same canton) as the SME, almost 40% of the companies surveyed say they do not expect any competitive threat in the foreseeable future. A very different picture holds for companies whose competitors also come from emerging markets (such as China). Despite the current renaissance of protectionism, global economic integration is continuing to advance and the competition is becoming more international. A decisive question for the sustainability of the competitiveness of Swiss SMEs will therefore be how well they are able to respond to this development. In this context, in the "International competition" section, we will examine in detail where the Swiss SMEs' key competitors come from and from which regions the number of competitors has risen particularly sharply in recent years. Related to this issue – but not identical – is the topic of exchange rates: the competitive position of industrial SMEs in particular depends on how well they are able to cope with exchange-rate fluctuations (see Figure 13). Switzerland also looks set to remain a country with a strong currency in the future. The future success of Swiss SMEs amid the global competition therefore also depends on how well they are able to cope with the periodic appreciation of the franc. We illustrate this aspect in detail in the "Exchange rates and strong franc" section (page 17). Historically, however, it is not exchange rates, but technological advancement that has been a key driver of competition. Today we are at the start of the Fourth Industrial Revolution. It is barely possible to foresee the changes entailed by digitalization, but the potential is enormous. The "Competitiveness and digitalization" section (page 19) shows that, while SMEs are largely perceiving digitalization as an opportunity, there are also challenges and risks.

Figure 12: Source of competition decisive

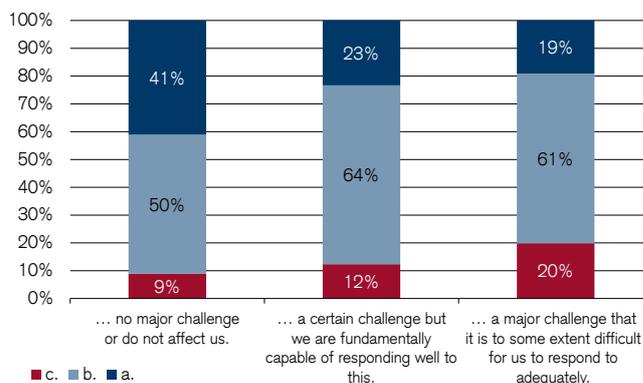
Share of responses by origin of key competitors see text box p. 13 for description of key



Source: Credit Suisse 2018 SME Survey

Figure 13: Exchange-rate influences competitive position

Industrial enterprises; share of responses to question "Major exchange-rate fluctuations are...for our company;" see text box p. 13 for description of key



Source: Credit Suisse 2018 SME survey

International competition

Half of SMEs facing international competition

Half of SMEs have foreign competitors and international competition has also increased in domestic sectors in the last decade. Coping with increasingly global competition will also remain a challenge for Swiss SMEs in the future.

Almost half of all Swiss SMEs have foreign competitors

As we saw in the previous section, the assessment of an SME's competitive position depends strongly on how international the competition is. At first glance, the majority of SMEs are clearly domestically oriented. Only a good one in five SMEs generates part of its sales abroad, and a mere 7% have locations outside Switzerland. However, from a competitive perspective the degree of global ties is significantly larger: as much as 49% of SMEs claim to have important competitors from other countries (see Figure 14). More than a third of the companies without cross-border business even have important competitors from abroad. There are in fact more non-exporting than export-oriented companies competing with foreign rivals for market share. Most SMEs with foreign competition have competitors from Switzerland's neighboring countries. Nevertheless, almost 10% of all the companies canvassed also compete with Chinese providers.

Most industrial enterprises face international competition

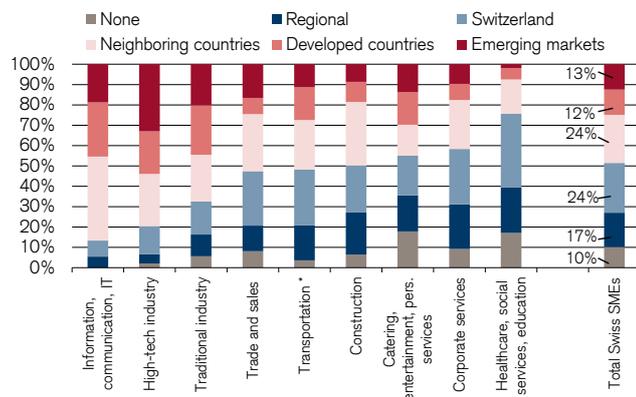
Once again, there are significant sector differences to be observed. In the high-tech industry and the ICT sector, practically every SME is forced to hold its own against foreign competitors (see Figure 14). One in three companies in the high-tech industry faces competition from providers from emerging markets. We see the opposite situation in healthcare, social services and education, where nearly all of the companies only have domestic competition if any. It is interesting to note how high the share of SMEs with foreign competitors is in what are really traditionally domestically oriented sectors such as construction and trade.

Significant rise in foreign competition in just a decade

Not just the degree of internationality of the competition is surprising, but also the trend over the last few years. The share of SMEs with foreign competitors has risen in the last decade from a third to a half. In percentage terms, the competition from China has risen particularly strongly

Figure 14: Competition not equally international everywhere

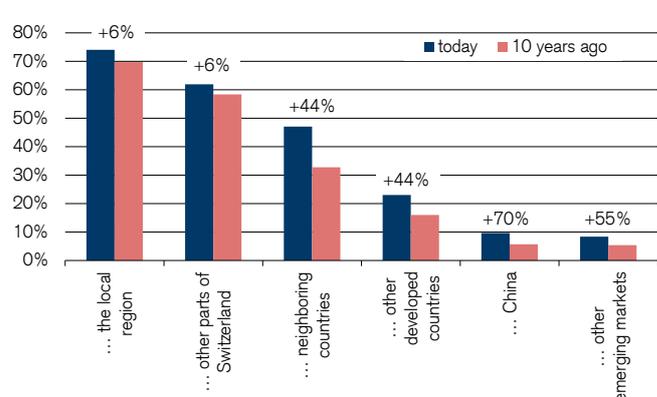
Share of SMEs per sector within the applicable competition radius³



Source: Credit Suisse 2018 SME Survey; *fewer than 50 companies

Figure 15: More competition from neighboring countries

Share of SMEs with major competitors from ...



Source: Credit Suisse 2018 SME Survey

³ Reading aid: Around 10% of all SMEs claimed not to have any major competitors in the areas made available for selection (gray). Seventeen percent claimed to have competitors from within the region, but not from outside it (dark blue). Twenty-four percent also claimed to have supra-regional competitors, but none outside Switzerland (light blue). Fourteen percent claimed to have competitors from Switzerland's neighboring countries (but none from further afield, bright pink). Twelve percent claimed to have competitors from other developed countries than Switzerland's neighboring countries (bright red) and 13% of SMEs even have major competitors in emerging markets (e.g. China) (dark red).

(see Figure 15). Today the share of SMEs facing competition from Chinese companies is estimated to be 70% higher than a decade ago. However, only a very small share of SMEs have noticed any effects of the significant rise in competition from China. Viewed across the entire SME landscape, an increase in competition from European neighbors has been much more frequently registered. Here, as well, it is not only export-oriented enterprises that are more greatly exposed to international competition than before, but also – and in particular – domestically oriented companies. Today there are almost 60% more non-exporting SMEs than ten years ago competing with foreign providers for clients and margins.

Competition has become much more international among other things in construction and trade

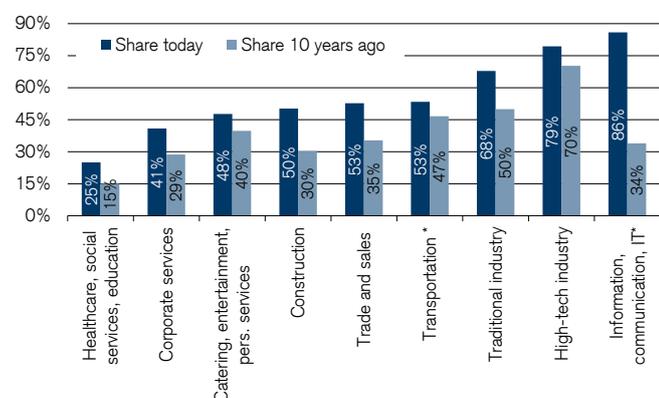
It is noticeable that, above all, competition has become more international in construction, trade and the ICT sector⁴ (see Figure 16). The reason for trade is obvious: on the one hand there has been a sharp rise in stationary shopping tourism due to the strong appreciation of the franc. At the same time, e-commerce was still only playing a marginal role ten years ago. Today – after only entering the market less than seven years ago – Zalando alone derives sales of well over CHF 600 million from the Swiss clothing retail segment. More and more foreign providers are also entering the Swiss construction market. While most are from neighboring countries, some of the competition even comes from as far as China. Unlike in construction and trade, competition in the high-tech industry is today not significantly more international than it was before. The reason is that SMEs in the machinery, electrical engineering and chemical industries are generally very export-based and have therefore long been internationally oriented and exposed to competition from abroad. However, even in these competition-proven sectors, there are today more companies than before facing competition from market opponents in China. Competition may not be any more transnational – but it is certainly more global.

Competition from emerging markets set to increase further

Although protectionist tendencies are currently gaining ground throughout the world, the global networking of the economy is likely to continue – among other things with the support of digitalization (see “Competitiveness and digitalization” section, page 19). The economic weight of the emerging markets is also increasing (see Figure 17). While this means more sales opportunities for Swiss SMEs, the number and technological maturity of potential competitors from throughout the world is also set to increase. Our survey shows that, while companies competing with providers from emerging markets also generally consider their competitive position to be good or satisfactory (as Figure 12 on page 14 clearly illustrates), the competitive wind from the Far East and other emerging markets is blowing colder than that from Switzerland and other developed countries. This stiff breeze is likely to be felt by more companies in the future than is currently the case. Even domestically oriented companies that until now have not yet been hardened by international competition will in future increasingly have to learn to hold their own amid the global competition.

Figure 16: More competition in various sectors

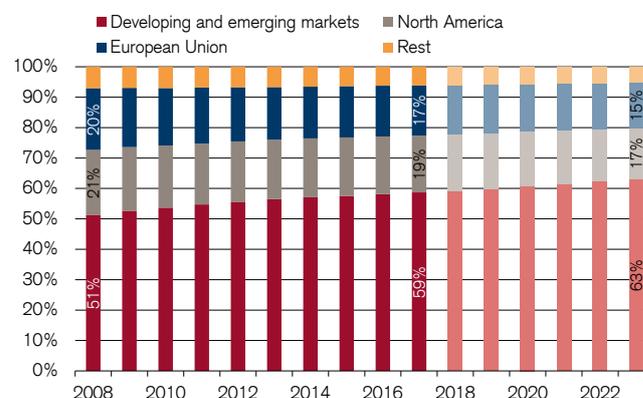
Share of SMEs with important foreign competitors



Source: Credit Suisse 2018 SME Survey; *fewer than 50 companies

Figure 17: Significance of emerging markets growing

Share of global gross domestic product (purchasing power parity); from 2018 IMF forecast



Source: International Monetary Fund (IMF), Credit Suisse

⁴ The very high difference in the ICT sector should be treated with a certain degree of caution as the sample for this sector is small (fewer than 50 participants), so that distorting random results cannot be ruled out.

Exchange rates and the strong franc

Exchange rates mostly not a big challenge

Exchange-rate fluctuations only pose a major challenge for a minority of SMEs and the franc shock of 2015 has not caused any generally prevailing investment backlog. However, exporting SMEs are more strongly affected.

Majority of SMEs able to cope well with or not affected by exchange-rate fluctuations

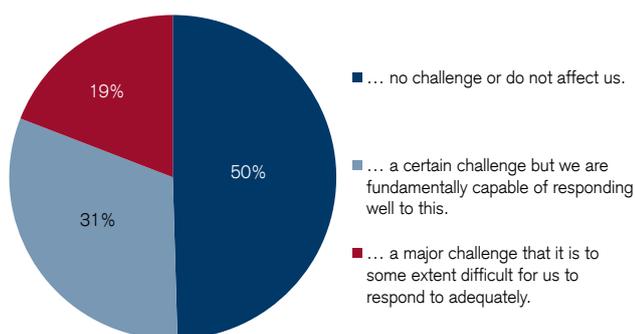
As we have already observed in places in the previous sections, the various appreciation waves of the Swiss franc in recent years have posed a certain challenge for SMEs. Although we did not ask explicitly in our survey about the effects of the strong franc, but in more general terms about being affected by exchange-rate fluctuations, this aspect will be very strongly reflected in the results. In concrete terms, every other SME surveyed is affected by exchange-rate fluctuations, although the majority of these companies are able to cope well with them. Exchange-rate fluctuations only pose a major challenge that is at times difficult to respond to appropriately for just under one in five of those surveyed (see Figure 18). In the context of the strong franc, it comes as no surprise that companies affected strongly by exchange-rate fluctuations assess the business situation of the past few years as poor slightly more frequently than other SMEs. However, even in this group, most of those surveyed still report their business situation to have been satisfactory or good. It must be borne in mind when interpreting this data that the survey was conducted at a time when the EUR/CHF exchange rate was fluctuating at around 1.20 and that the assessment would almost certainly have been more negative in an appreciation phase. Nevertheless, the results suggest that while the prevailing strong franc poses a challenge to the Swiss SME landscape and is partially exerting a negative impact on competitiveness, it is by no means a threat to the large majority of SMEs.

Exporting SMEs are by nature more significantly affected

However, there are definitely segments of the SME economy that are struggling more with their domestic currency. It comes as little surprise that these SMEs are primarily exporters and companies facing global competition. Thirty-nine percent of SMEs for which sales abroad account for more than a third of revenues and 28% of SMEs with important competitors abroad describe exchange-rate fluctuations as a major challenge (see Figure 19). From a sector perspective, SMEs from industry and catering are especially negatively affected by the strong franc. In the high-tech industry, for example, there are hardly any companies that are not affected by exchange rates. However, it can also be said for this group of companies that a majority is fundamentally able to cope well with currency fluctuations, which in view of the developments of the CHF exchange rate in the past few years is remarkable.

Figure 18: One in two SMEs affected

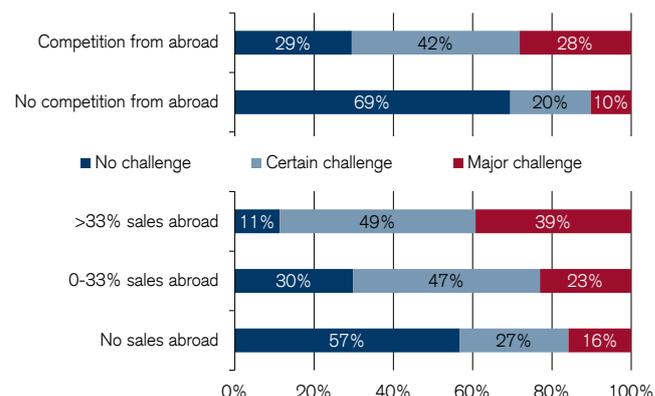
Share of responses to question "Major exchange-rate fluctuations are...for our company"



Source: Credit Suisse 2018 SME Survey

Figure 19: SMEs with foreign contacts affected much more

Share of responses to question of extent to which exchange-rate fluctuations pose a challenge (see chart on left for precise wording of question)



Source: Credit Suisse 2018 SME Survey

Franc shock only led to prolonged backlog of investments for a minority of SMEs

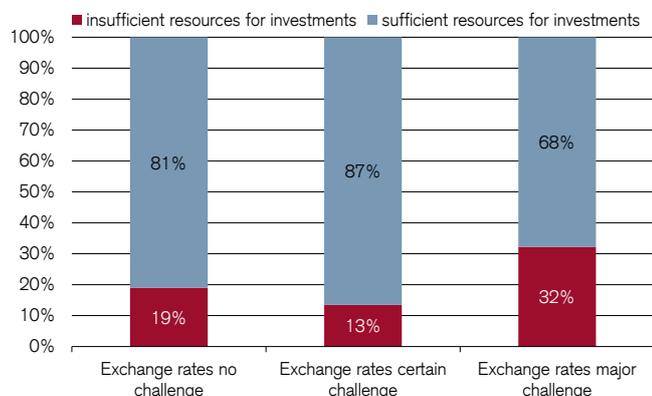
The shock was great in January 2015 when the Swiss National Bank abandoned the EUR/CHF minimum exchange rate. However, it fairly soon became clear that the Swiss export industry was not about to collapse. Nevertheless, the question was not unjustified as to whether the franc shock could have long-term negative effects, the consequences of which would only gradually emerge. For example, there were fears that, owing to their deflated margins, many SMEs no longer had sufficient means to make the necessary investments for long-term competitiveness. A KOF study shows that export-oriented SMEs did indeed to some extent substantially reduce their investment activity in the two years following the franc shock due to financial restrictions.⁵ If this effect were to prove persistent, it would have negative consequences for competitiveness in the medium to long term. However, our survey yields indications that this is likely only to be the case for a small minority of SMEs and unlikely to apply to the greater majority. Specifically, most of the SMEs claimed to have had sufficient financial leeway in the last two to three years to make the necessary investments to preserve their competitiveness (see also the “Strategies for upholding competitive position” section). Although distinctly lower among those participants who described exchange-rate fluctuations as a major challenge (see bar on right in Figure 20), even these enterprises only showed a minority reporting a lack of financial leeway for preserving competitiveness.

SME economy still globally competitive despite many years of franc appreciation

The further long-term development of the franc is of course decisive for future competitiveness – particularly whether the trend is continuous or abrupt. If we look back at the last 45 years, it can be seen that the franc has followed a long-term real appreciation path against both the US dollar and the euro (see Figure 21). The franc shock in early 2015 was just one episode, although a particularly intensive one. Although we cannot say whether this trend will continue in the long term, it is certainly very conceivable. On the one hand, this means that pressure on prices and competitiveness can increase further and by all means suddenly. However, experience and our survey also show that, even after a continuous appreciation phase of several decades, the Swiss SME economy still remains globally competitive. While the next appreciation shock is bound to come again at some point, the bulk of Swiss SMEs will probably once more find a way of dealing with it, with the support of the SNB if necessary. The claim by one of our interview partners (see interviews from page 26) that managing exchange-rate crises of varying magnitudes is a recurring theme for his sector can be taken as exemplary for many SMEs. He stated that if it were no longer possible to cope with them, the only remaining options would be to cease operations or outsource everything, which, however, would not be in the company’s or owner’s interest.

Figure 20: No general backlog of investments

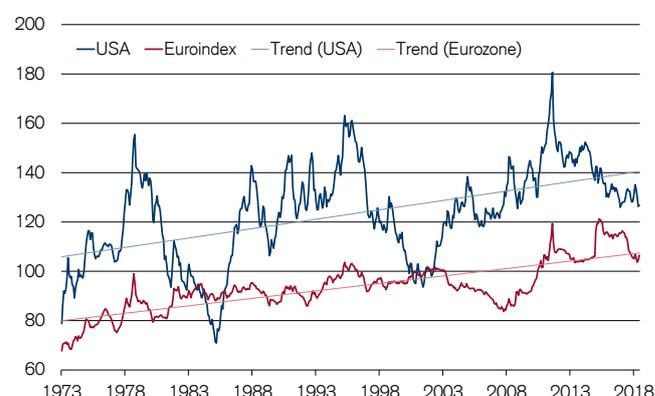
Share of responses to the question of whether SMEs had sufficient resources for investments in competitiveness in the past 2-3 years; by degree of impact of exchange-rate fluctuations



Source: Credit Suisse 2018 SME Survey

Figure 21: The franc has been appreciating for decades

Real bilateral index (USA), real euro index; monthly basis; Dec. 2000 = 100



Source: Swiss National Bank, Credit Suisse; last data point: June 2018

⁵ Kaiser, B., M. Siegenthaler, A. Spescha and M. Wörter (2017). *The Impact of Real Exchange Rates on Swiss Firms: Innovation, Investment, Productivity and Business Demography*.

Competitiveness and digitalization

More opportunities than risks

Swiss SMEs are viewing the challenges posed by digitalization with optimism and see in them opportunities for efficiency enhancements and expansion. However, one third do not consider themselves affected by this upheaval, which in turn raises questions.

Digitalization turning proven approaches upside down

The Fourth Industrial Revolution has now become reality and new technologies with a disruptive character are penetrating the economy and society. Digitalization itself offers companies growth opportunities and numerous possibilities for preserving and expanding their own competitiveness. However, it also poses a challenge in that proven approaches to production and the provision of services are becoming obsolete, new consumer needs and behaviors are arising and the world is being reduced to a global village. Not only the companies themselves are being challenged, but also politicians who are having to provide the necessary underlying infrastructure and legal conditions to enable the economy to utilize the potential of the new technologies. How Swiss SMEs master the challenges of digitalization will ultimately be decisive for their future competitiveness.

Digital competitiveness: Switzerland is good, but not the best

In the international rankings of digital competitiveness, which take into account factors such as scientific infrastructure, the ability to adapt digital technologies and allow for the regulatory environment, Switzerland performs well, but does not occupy a top position. It comes eighth in the IMD World Digital Competitiveness Ranking 2017 and seventh in the Networked Readiness Index of the World Economic Forum (WEF) 2016. Singapore comes top in both rankings, and the Nordic countries and the USA also perform better than Switzerland. These international comparisons spot a need for improvement above all in the use of new technologies in the public sector and in interacting with citizens. By contrast, the private sector has already advanced further in the adaptation of digital opportunities.

Swiss SMEs basically optimistic

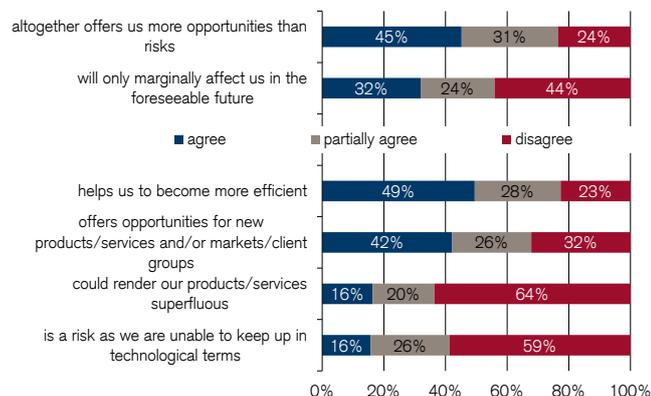
According to our survey, Swiss SMEs are generally facing the challenges of digitalization with optimism. For 45% of the participants, this development overall offers more opportunities than risks, while a further 31% are at least partially able to agree with this statement (see Figure 22). Almost half of those surveyed see the new technologies as an instrument for becoming more efficient. Meanwhile, for many Swiss SMEs (42%), digitalization also offers opportunities for new products and services or to tap new markets and client groups.

Only a few Swiss SMEs feel threatened

Only a few Swiss SMEs actually feel threatened by digitalization. Just 16% of the companies claim that digitalization poses a risk for them because they are unable to keep up in technological terms or their products and services could even be rendered superfluous. Having said this, shares of 36% (products and services rendered superfluous) and 42% (unable to keep up in

Figure 22: Digitalization above all entails opportunities

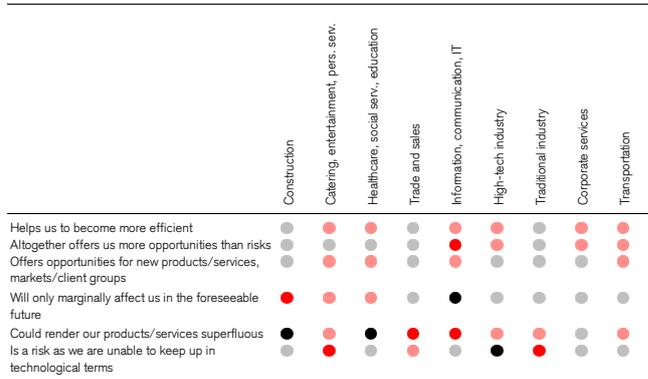
Share of responses to question "Digitalization ..."



Source: Credit Suisse 2018 SME Survey

Figure 23: Sectors affected to differing degrees

Share of SMEs agreeing with the corresponding statement*; red = more frequently than average, black = less frequently than average



Source: Credit Suisse 2018 SME Survey * fewer than 50 companies on a case-by-case basis

technological terms) are reached when taking into account those companies that are partially able to agree with this statement. At closer examination, however, those companies partially agreeing with the statement that digitalization is a threat all-in-all see more opportunities than risks in 45% and 38% of cases, respectively. In other words, these SMEs see the risks of digitalization and are aware of the challenges, but do not take a fundamentally negative view.

Is the significance of digitalization underrated by many companies?

However, the fact that a third of those surveyed believe they will only be marginally affected by digitalization in the foreseeable future is something to make us sit up and take notice. A further 24% agree at least in part with this statement. While there are indeed sectors that probably will not experience the same kind of upheaval for a long time as that currently taking place in publishing and parts of the retail trade, the result also suggests that a fair number of SMEs may well be underrating the significance of this technological revolution. Companies that do not embark on the digital transformation of their products and/or processes could be running a risk of losing parts of their business. The example of the clothing retail segment should serve as a reminder here. Less than seven years after entering the market, Zalando is today already a market leader in the Swiss clothing retail segment. The total sales of all other providers fell by a quarter between 2012 and 2018. Hardly anyone could have forecast such a development seven years ago.

Construction industry sees itself least affected by digitalization

Even those sectors that claim more than average to be only marginally affected by digitalization in the foreseeable future would be very well advised to confront this trend as they may also be unable to avoid the digital upheaval (see [Figure 23](#)). In the construction trade, for instance, the digital revolution is in full swing abroad. Building Information Modelling (BIM) and all its components for the digital representation of buildings has now become standard, enabling properties such as statics and heating to be tested directly using a model and the supply of materials and deployment of labor to be planned accurately. While Swiss companies have now made good some of their backlog in the use of this technology, they are still lagging behind countries such as the UK and the United States. Digital technologies have also made inroads in healthcare, social services and education, as well as in catering, entertainment and personal services – sectors that according to the survey consider themselves little affected by digitalization. Particularly in healthcare, there are major opportunities opening up in the field of diagnostics thanks to new sensors and measuring devices, algorithms and big data analyses. And, even in nursing, where the obstacles to automation are higher due to the primarily interactive nature of activities, the first robots are being tested or are already in use, such as in Japan. Finally, no sector will be able to avoid the necessity of making increasing investments in digital marketing in order to make products and services known.

Lack of expertise, low risk propensity and rigid management structures as curbing factors

A recent study of the think tank of FHNW University of Applied Sciences and Arts Northwestern Switzerland⁶ provides some clues for explaining this attitude. For instance, a large gap in terms of willingness to change can be observed in Switzerland between newer and established enterprises. A lack of expertise not infrequently means that chief executives do not know how to tackle digitalization. Potential explanations for the tentative development of digital strategies at many companies might include a low risk propensity and willingness to embrace digital transformation, as well as rigid management structures and imminent succession planning entailing the postponement of projects.

Important role of digitalization for the sustainability of competitiveness

The results of our survey show that the competitiveness of Swiss SMEs is sustainable overall (see [next section](#)). However, digital upheaval coupled with increasing competition from emerging markets that could skip development stages thanks to the new technologies poses a potential risk for those companies that do not realize the implications of this technological revolution until it is too late.

⁶ Peter, M. K., Sennrich, J., Streitenberger, M. (2017): *Schweizer KMU und die Digitalisierung: Change Management, Transformation und KMU-Nachfolge*, FHNW School of Business and Netzwerk KMU Next

Strategies for upholding competitive position

SMEs keeping themselves fit

Swiss SMEs do a lot for their competitiveness, placing greater emphasis on expansion plans than on reactive measures. Also the necessary financial leeway is available in most cases, which gives cause for optimism.

Continually investing in competitiveness

Technological innovations, legal or regulatory adjustments, new competitors, exchange-rate fluctuations and the expiry of patents also force successful companies to continually review and enhance their competitive position. Our survey shows that Swiss SMEs are fundamentally well positioned (see “Competitive position of SMEs” section, page 13), but also see the necessity of developing further in order to withstand the growing competitive pressure.

New products and markets, and digitalization at the top of the ranking list

The strategies and measures for securing and enhancing competitiveness are varied and, besides the underlying company-specific situation, also show that – depending on the sector, market and prevailing economic environment – SMEs are confronted to different degrees by competition and the pressure to adapt. If we consider the measures taken in the last two to three years by Swiss SMEs, the launch and further development of products (57%), the digitalization of production processes and internal procedures (52%) and the tapping of new markets and client groups are at the top of the ranking list (48%; see Figure 24). A third of the companies surveyed have had to lower prices to withstand the competitive pressure and around a fifth of them have been forced to discontinue certain business areas. However, mergers and takeovers (14%), a complete restructuring of the business model (14%) and the outsourcing of activities to locations abroad (3%) were much less frequently deployed.

Purely reactive measures less at the forefront today than two to three years ago

If we compare the measures taken in the past with the strategies planned by SMEs for the next two to three years, it can be seen that purely reactive measures such as price cuts or the discontinuation of business areas are significantly less at the forefront than in the past (see Figure 24). For example, only 14% of the companies are still planning to reduce prices, which is half as many as in the last two to three years. Instead, a larger share of SMEs is focusing on the tapping of new markets or gaining of new client groups. The gradual recovery from the franc shock of 2015 and the improvement of the economic situation are the reason for this development. However, it can be said overall that, even in the somewhat challenging economic environment of the recent past, Swiss SMEs have primarily adopted offensive measures.

Figure 24: Expansion and efficiency in the foreground

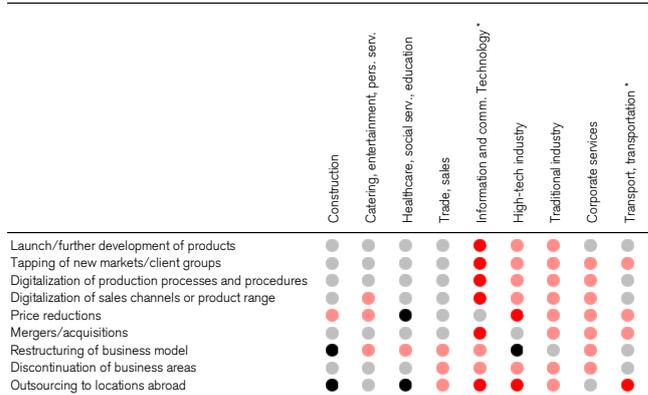
Share of SMEs that have taken corresponding measures to safeguard/improve competitiveness in the last 3-5 years and/or are planning this for the next 2-3 years



Source: Credit Suisse 2018 SME Survey

Figure 25: Different measures from sector to sector

Share of SMEs planning to take corresponding measures in the next 2-3 years in order to safeguard/improve competitiveness; red = more often than average, black = less often than average



Source: Credit Suisse 2018 SME Survey

* fewer than 50 companies

The greater the competitive pressure, the more frequently SMEs invest in competitiveness

Individual sectors respond differently to the challenges of competition, although measures are normally considered on different fronts (see Figure 25). It comes as little surprise that companies in the industrial and ICT sectors, which feel strong pressure to develop further due to global competition and the rapid advancement of technology, are among those sectors that more frequently take action to promote their own competitiveness and are planning a correspondingly large number of measures for the next two to three years. These measures are primarily focused on expansion (new markets, client groups and products), efficiency (digitalization of processes, procedures and sales channels) and outsourcing to locations abroad. Price reductions also remain an issue in industry. A complete restructuring of the business model is more likely to form a focal point for planned investments in competitiveness in catering and entertainment, trade, and healthcare, social services and education, although the absolute number of SMEs planning to do this is fairly low. Although not all of them are exposed to high competitive pressure, these sectors are currently experiencing an upheaval that is calling existing approaches into question. Examples include the changes in shopping and consumer behavior brought about by new technologies, and the structural changes in the healthcare sector induced by demographic and financial factors.

Availability of financial resources determines the mix of measures

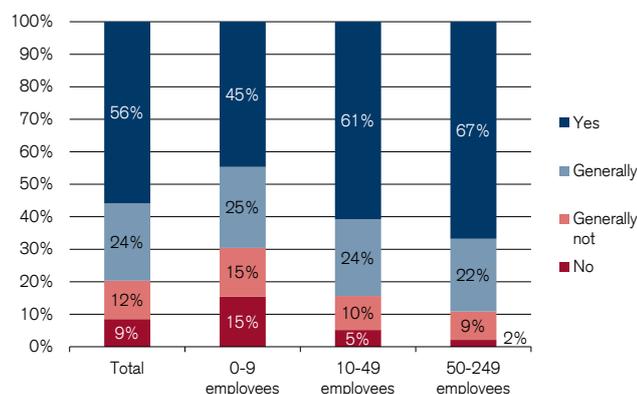
On which measures the individual sectors focus their investments and whether they are at all capable of making investments in their own competitiveness depends not least on their financial resources. Our survey shows that, while a majority of Swiss SMEs have sufficient financial leeway to invest in the preservation or improvement of their own competitiveness, a closer examination reveals some differences. Smaller companies have significantly more difficulties than larger ones in raising the necessary investment resources (see Figure 26). Micro firms with fewer than ten employees are particularly limited in their ability to act amid the competition and in 30% of cases report no or very little financial leeway. More difficult access to loan capital will play a role here.

Outsourcing abroad entails costly investments

For those SMEs that do not have sufficient financial resources, the spectrum of courses of action is reduced significantly. Focus is primarily placed on the discontinuation of business areas, a complete restructuring of the business model, mergers or acquisitions and price reductions (see Figure 27). However, such companies only very rarely consider the outsourcing of activities to locations abroad, which is often seen as an emergency measure in the face of strong competitive pressure. Such a strategy entails costly investments that are difficult to fund and will be out of the reach of small companies in particular.

Figure 26: Financial leeway available

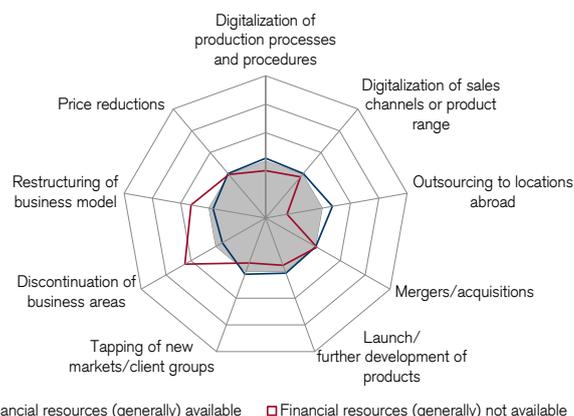
Share of responses to the question of whether there are sufficient financial resources today for investments in competitiveness; by size of company



Source: Credit Suisse 2018 SME Survey

Figure 27: Financial resources shape the choice of measures

Share of SMEs planning to take corresponding measures in the next 2–3 years in order to safeguard/improve competitiveness; by availability of financial resources; the further out the circle, the more frequently deployed



Source: Credit Suisse 2018 SME Survey

Vulnerability to exchange rates forces SMEs to stay fit.

If we focus on Swiss SMEs that generate at least 10% of their sales abroad, it can clearly be seen that high vulnerability to exchange rates generally forces companies to take action: if a company is strongly or at least partially affected by exchange-rate fluctuations, investments in upholding or enhancing competitiveness are more frequently made than in cases where exchange rates do not pose any challenge (see Figure 28). This is particularly noticeable in terms of cost and efficiency (reduction of prices, outsourcing to locations abroad, digitalization of processes, procedures and sales channels) as well as expansion plans (new markets, client groups and products). An evaluation of planned measures depending on the international nature of the competition yields similar results. The more a company is exposed to competition from foreign providers, the more often it considers investing in its own competitiveness.

Is the competitiveness sustainable?

Finally, the question now arises as to whether Swiss SMEs are able to invest sustainably in their competitiveness. Do those companies that see a higher need to develop further have sufficient financial leeway to invest in their ability to compete? Figure 29 illustrates the survey results in the form of a matrix ordering companies on the basis of how they assess their competitive position and answer the question of whether there are sufficient financial resources at hand today for investing in competitiveness. The colors in the matrix indicate whether the situation can be considered critical (red) or unproblematic (green). The overall picture is very positive: the majority of the SMEs surveyed are positioned in the top right area where the competitive position is good or at least satisfactory, and there is also sufficient financial leeway to respond to an increase in competitive pressure. Conversely, there is a much smaller number of SMEs to be found in the bottom left area where the competitive position is weak or requires further development, and where there is insufficient or no financial leeway.

Swiss SMEs well equipped for the future

Altogether, it can be said that Swiss SMEs are generally well equipped for mastering the challenges of future competition. They are by no means just reactive in their corporate actions and also have the financial resources to make investments, particularly when this is necessary for maintaining their competitive position. This bodes well for the future with regard to the sustainability of the competitiveness of Swiss SMEs.

Figure 28: Vulnerability to exchange rates forces companies to take action

Share of SMEs planning to take corresponding measures in the next 2–3 years in order to safeguard/improve competitiveness; by degree of impact of exchange-rate fluctuations; companies with export orientation*

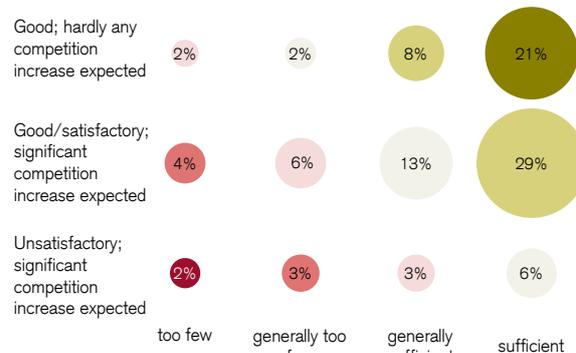


Source: Credit Suisse 2018 SME Survey

* At least 10% sales abroad

Figure 29: Swiss SMEs well equipped

Share of SMEs in % (size of circle); Y axis: competitive position, X axis: current availability of financial resources for investments in competitiveness; red = critical, green = unproblematic



Source: Credit Suisse 2018 SME Survey

Special focus: Hidden champions

One in seven industrial SMEs sees itself as a global market leader

Switzerland is a country of hidden champions. Above all in the high-tech industry, a very large share of SMEs surveyed describe themselves as global market leaders. But even hidden champions face competition and are constantly having to develop further. They are therefore outstandingly innovative.

Many Swiss SMEs are global market leaders

When talking about Swiss global market leaders, we initially think of well-known names such as Novartis, Nestle and ABB. There is actually a large number of SMEs that are hardly known in the public at large, but which are global leaders in their markets – so-called “hidden champions.” Such SMEs include Lantal Textiles, Thermoplan, Feintool, corvaglia and Oetiker Group. Switzerland is a country of these hidden champions: almost 5% of all SMEs and 15% of all industrial SMEs in our survey claimed to engage in export activity and to be a global market leader for at least one core product. Of the SMEs that generate more than 50% of their sales abroad, almost half describe themselves as a global market leader for at least one core product. Although hidden champions are primarily to be found in the high-tech industry (see Figure 30), there are also isolated companies from traditional industry as well as service providers and construction companies that describe themselves as global market leaders.

Better business situation among hidden champions

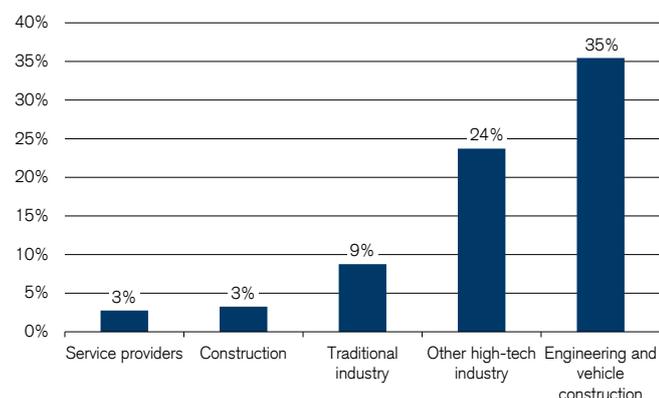
As global market leadership is per se an expression of success, it comes as no surprise that hidden champions deliver a slightly more positive summary of their business situation in the last five years than other exporting SMEs – above all in industry. Almost 70% of hidden champions in manufacturing retrospectively rate their business situation in the last five years as good or very good (see Figure 31). While the share among other exporting industrial SMEs still amounts to half, this is still significantly less.

Hidden champions constantly have to defend their market leadership

It is interesting to note that hidden champions assess their competitive position as good or satisfactory with a similar frequency to other export-oriented SMEs, but also anticipate with a similar frequency that competitive pressure will increase unless the company develops further. This suggests that many hidden champions do not necessarily occupy a monopolistic position in a barely contested niche, but on the contrary are highly active in competitive markets and constantly having to defend their leading positions. Among industrial SMEs, however, the share of

Figure 30: Many hidden champions in engineering

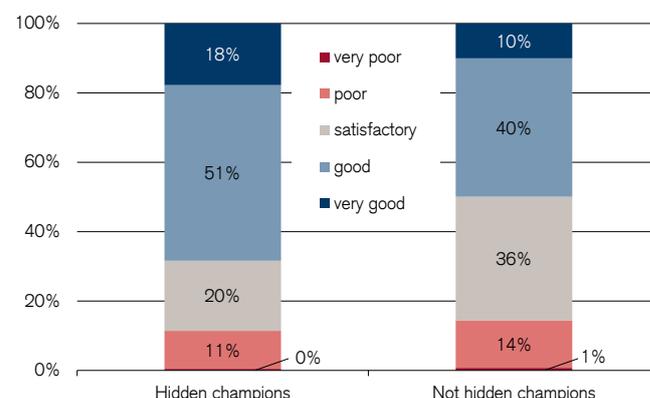
Shares of hidden champions as percentage per sector



Source: Credit Suisse 2018 SME Survey

Figure 31: Industry – hidden champions more successful

Assessment of average business situation over the last five years for exporting industrial SMEs



Source: Credit Suisse 2018 SME Survey

companies that do not expect to come under significant pressure from competitors is slightly higher among hidden champions than among other exporters.

Exchange rates also a challenge for hidden champions

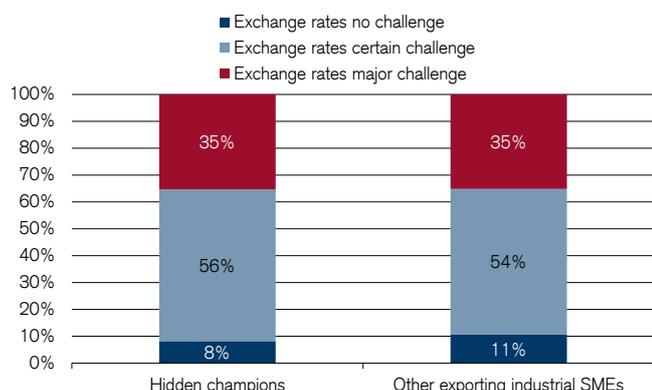
Hidden champions are also just as exposed to the turbulences of the foreign-exchange markets as other Swiss SMEs active abroad (see Figure 32). Only 8% of hidden champions in industry claim that major exchange-rate fluctuations do not pose any problem. For 35% of them, exchange-rate fluctuations even pose a major challenge that is sometimes difficult to respond to adequately. This too suggests that hidden champions generally do not operate in a competition-free vacuum in which they can, for example, pass on an appreciation of the franc in full to their clients without problem.

Hidden champions are innovative – but innovative companies are not necessarily hidden champions

Nevertheless, the finding from Figure 31 holds good: hidden champions – at least those in industry – have generally tended to be more satisfied with their business situation over the last few years shaped by the strong franc. A large number of factors have contributed to the success of these SMEs that could not be considered within the scope of this survey. However, our survey does permit us to review the widespread theory according to which hidden champions among other things achieve their status due to their innovative strength. And indeed, the blue bars in Figure 33 show that hidden champions have either launched a new main product or substantially developed an existing one in the last three to five years much more frequently than other SMEs. However, the illustration also indicates that, while innovation is a necessary condition for global market leadership, it is not sufficient by itself. If we only consider industrial enterprises that generate more than 33% of their sales abroad (bright yellow bar), there is practically no difference between hidden champions and other highly internationally oriented SMEs with regard to their degree of innovation. A similar picture holds true for investments in digitalization. Hidden champions have digitalized their production processes, sales channels or product and service ranges somewhat more frequently than other SMEs in recent years – especially in industry. However, here too we can see that strongly export-oriented non-market leaders have likewise invested in digitalization with similar frequency to hidden champions. In short: a high degree of innovation may be an important prerequisite for global market leadership and high long-term competitiveness, but it is no guarantee.

Figure 32: Challenge of exchange-rate fluctuations

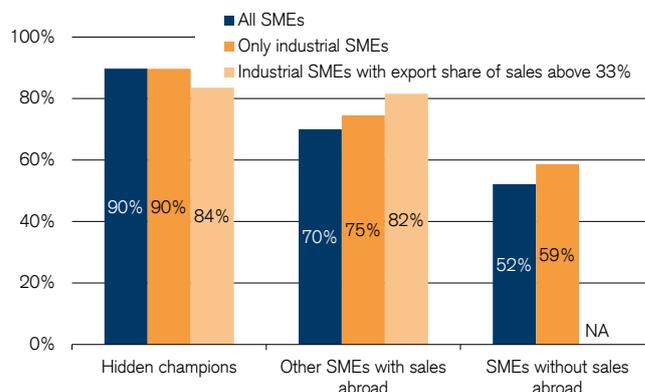
Share of answers of exporting industrial SMEs to the question about the extent to which major exchange-rate fluctuations pose a challenge for them



Source: Credit Suisse 2018 SME Survey

Figure 33: Innovative hidden champions

Share of SMEs that have launched new main products or substantially developed existing ones to safeguard or enhance their competitiveness in the last 3–5 years



Source: Credit Suisse 2018 SME Survey

Wyssen Avalanche Control AG

From technology to market leader

A basic prerequisite for the success of Wyssen Avalanche Control AG is its clear positioning as a Swiss technology and service provider.

Wyssen Avalanche Control AG from the Bernese Oberland manufactures avalanche release systems and counts many important Swiss and Austrian ski resorts among its clients. It now also exports to Norway, Canada and Chile.

What are the essential skills and qualities required to gain a foothold in different countries and even become a market leader?

Samuel Wyssen A certain degree of curiosity and openness toward other cultures has always been important in the history of our family business. This yields an interest in opening up new markets. A second decisive factor is being willing to bear the risk of expansion. What helps here is that you can become known more quickly in a small niche sector such as our own than in a large market and this makes it easier to establish contacts abroad. Last but not least, we in our sector benefit greatly from our origins. Switzerland is considered a pioneering country in the field of avalanche protection thanks also to the Avalanche Research Institute in Davos. Foreign authorities align themselves closely with Swiss standards in terms of avalanche release systems.

What were the motives for becoming active internationally? How do you go about opening up new markets?

Samuel Wyssen The family business has always been active internationally, so foreign borders have never been perceived as barriers. However, as a small company, our resources for opening up new markets are limited. We therefore adopt a systematic approach and select the markets in a very focused and targeted manner. In some markets such as Norway we had to invest a great deal over a long period of around seven years before our efforts bore fruit. It went somewhat faster in Chile and Canada. The markets are cultivated by our foreign branches. We deliberately do not rely on external representatives but wish our employees to be part of the corporate family despite the distance, and to convey our positioning and Swiss core values to our clients.

You are the technology leader in your sector. How did that come about? How do you promote innovation in your company?

Samuel Wyssen We attach a great deal of value to recruiting the right persons. They need to fit into the team, bring creativity with them and be trustworthy. The latter is of enormous importance, particularly for the employees at our offices abroad. So far it has been easy in Switzerland for us to find specialized experts in the area of avalanche research who might even have a doctorate in this field. It is more difficult finding sufficient numbers of skilled craftsmen for production such as metalworkers or mechanics. In order to promote the general innovative thinking of our employees, we welcome new ideas and foster a culture of openness. Around 20% of our employees also focus exclusively on research and development tasks.



“It is important to have the courage to position yourself clearly.”

Samuel Wyssen

CEO, Wyssen Avalanche Control AG

The story of the Wyssen enterprise started in 1926 with the invention of the skyline crane. In the year 2000, Samuel Wyssen, great-grandson of the founder, founded Wyssen Avalanche Control. With its avalanche release systems, the company is market leader in the Alpine region and has recently ventured abroad successfully. The SME from the Bernese Oberland employs around 30 staff in Switzerland and a further 12 abroad.

Although you're primarily a manufacturer, you also offer services. How important are service components in value creation and for positioning against the competition?

Samuel Wyssen We generate around 80% of our value creation through production and the remaining 20% through services, software and detection systems. We aim to diversify with our service components. In Norway, for instance, experience with avalanche releases is limited. We therefore sell packages that also include the operation of our systems. The ensuing contact with clients enables us to identify their needs and problems better.

How important is digitalization in connection with your competitiveness?

Samuel Wyssen Very important. Digitalization provides opportunities for expanding our offering. It is now possible for our avalanche release systems to be operated with a web applica-

tion. We are also working on a platform intended to assist clients in making decisions with regard to general avalanche service measures. The analysis of snow cover and weather data is very important for this. These come from meteorological services on the one hand and from weather and snow measurement stations on the other. Forecasts are drawn up on the basis of these data to assess avalanche risks and the potential risk posed to persons and infrastructure. We often collaborate with start-ups to adapt solutions from other areas such as earthquake and volcano research to avalanche detection.

All production takes place at the expensive Swiss location. Can you imagine outsourcing part of production abroad?

Samuel Wyssen No, I can't envisage that. The benefits of production in Switzerland clearly outweigh the drawbacks of higher material and personnel costs. We can rely totally on our staff here. We also benefit from high productivity, political stability and a high level of education. If we hire someone with Swiss qualifications, we know what we can expect from him or her. However, it is certainly sometimes the case that we purchase certain preliminary products such as steel components abroad.

Which measures adopted in the past regarding competitiveness would you not carry out again today? And which would you definitely recommend?

Samuel Wyssen I've relied too early on the wrong partners abroad on a couple of occasions. However, we've learnt from our mistakes. I would generally recommend all SMEs first of all to seek good and trustworthy foreign partners – be these suppliers or sales representatives – or even to take the plunge and establish their own distribution network abroad. Second, it is very important to focus on specific markets and cultivate them carefully. The final decisive factor is having the courage to position yourself clearly as a Swiss quality provider. This also puts you in the position to set prices that enable you to make a profit.

Ava AG

“Born global” in Switzerland

Alongside big data analysis, digital marketing is another essential core competence for Ava AG. Start-ups also need to think globally from the outset.

Ava AG develops bracelets with integrated sensors that collect female cycle data. These enable women to track their menstrual cycle, sleeping behavior and physiological stress factors with the help of Ava's big data analyses and obtain a precise picture of the state of their health.

Who are your competitors today and who will they be tomorrow? How do you hold out against this competition?

Pascal Koenig Compared with traditional methods of fertility detection – urine tests and temperature measurements – our product has clear advantages in terms of accuracy, the broadness of factors examined, and simplicity. This accordingly lends us a major competitive advantage. More and more companies are set in future to address the issue of “women's health,” which is a potentially attractive area not just for tech or medtech companies and app providers, but also for pharmaceutical groups and insurance companies. We aim to defend and further increase our market share with four factors: direct access to big data sets, data interpretations based on clinical studies, regulatory approvals and patents.

Why did you choose the USA and not Switzerland as your starting market?

Pascal Koenig A global perspective is fundamental for the success of a start-up. Such enterprises are described in scientific circles as “born globals.” Thanks to digitalization, we can view the entire world as a potential market and selectively choose a springboard country. The size of the US market was the decisive factor for us. It was also an important argument for the procurement of funds. We now have locations in San Francisco, Zurich and Belgrade, and more are to follow in the Philippines and Hong Kong.

Why did you choose these particular locations?

Pascal Koenig We selected our locations in a very targeted manner. At our headquarters in Zurich, we focus on data analysis, product development and the overall management of the company. A lot of the inputs for our digital marketing come from our office in San Francisco. Our apps are programmed in Belgrade. We are developing resources in the area of customer service in the Philippines owing to the linguistic skills of the

local population and cultural proximity to the USA. Our location in Hong Kong is intended as an entry gate to the Chinese market.



“As a start-up you need to think global and select your springboard market in a targeted manner”

Pascal Koenig

Co-founder and CEO, Ava AG

Pascal Koenig founded the start-up Ava AG together with three like-minded colleagues in 2014. They were convinced that today's technology could be used to develop a modern method for the identification of fertile days. The fast-growing company currently employs 80 staff and is extending its technology to include pregnancy monitoring and contraception.

You're planning to expand into China. What obstacles are there?

Pascal Koenig China will become a core market for more and more companies in future and it is therefore extremely important to have a precise understanding of the country. While there are many political and social challenges, China has also improved in a very large number of areas in recent years. Many poor people have managed to break through to the middle classes and environmental measures have been taken. The country has also developed enormously in the areas of innovation, healthcare and education. China is now the country filing the most patents. You have to understand the Chinese market, respond fast and erect barriers in order to be successful.

What are the strengths of the Swiss location?

Pascal Koenig Thanks to the universities – above all the Swiss Federal Institute of Technology – we are very close to the source of the latest technological innovations. Switzerland trains highly qualified people who are also motivated and keen to change something. Thanks to the high quality of life, many students from abroad also decide to stay here, which is obviously something we benefit from. Furthermore, the high standard of knowledge in the field of health is a major advantage of Switzerland. There are many pharmaceutical and medtech companies here with which we are able to cooperate. The high personnel costs here also do not pose a major problem for us as highly specialized experts in the field of technology are now similarly expensive throughout the world. In San Francisco, for example, the financially strong competition posed by Google,

Apple and Facebook impedes the search for affordable specialists.

What in your opinion are the greatest future challenges for Swiss competitiveness?

Pascal Koenig I have the feeling that the start-up scene in places like Beijing and Shanghai is hungrier than here in Switzerland. Entrepreneurs there are often prepared to work up to 80 hours a week. In the short term, this means that they are faster at implementing and therefore have a competitive advantage. However, I'm not sure whether that will only bring good in the long term. We believe that a certain degree of flexibility, family friendliness and a good work-life balance ultimately enhance the productivity and innovative spirit of our staff.

How well is Switzerland equipped in terms of digitalization when compared internationally?

Pascal Koenig As far as research and development and the technical sector are concerned, Switzerland is in my view well equipped. However, when it comes to digital marketing, Switzerland is lagging behind in comparison with the USA. Many people here are still thinking primarily in TV spots and billboard advertising rather than in influencer marketing, programmatic marketing or content marketing. Switzerland definitely needs to develop further in the area of digital marketing.

Which measures adopted in the past are critical for your success? What advice would you give other start-ups and SMEs?

Pascal Koenig I think that many companies underrate the importance of marketing. Even if you have a top product, it won't sell by itself. Above all digital marketing is becoming increasingly important and ought to be defined as a core competence. One of the most important measures was also our decision to set up business in the USA. Start-ups should as far as possible think global and select their springboard market in a targeted manner.

AG Cilander

Successful in the global value creation chain

Its positioning as a provider of problem solutions is key to the success of AG Cilander. The company is strengthening the competitiveness of its Swiss plants with the help of digitalization.

AG Cilander from Herisau produces exclusively in Switzerland, but has successfully exported apparel and technical textiles throughout the world for over 200 years.

How do you manage to prosper in a high-cost country such as Switzerland and maintain the Swiss production location?

Vincenzo Montinaro We rely on a clear company profile and our wealth of experience from more than 200 years in the business. Thanks to the available know-how, we are able to develop needs-oriented products together with our clients. The idea is to identify our clients' problems and requirements and offer high-grade technical solutions. Such development projects are an important pillar of our strategy as a problem solver. We are also aware that our service is just one of many stages in the value creation of a product. We therefore design it as compatibly as possible. We offer service packages that include both development and logistics services, thereby among other things making it easier for the client to organize the transport routes across the geographically dispersed locations of its value creation chain.

Where do your main competitors come from? Has competition from emerging markets increased in recent years?

Vincenzo Montinaro The competition differs in our two business areas. In the area of apparel textiles, the mass exodus from Europe to Asia already took place years ago. If the manufacture of a product from the clothing industry moves entirely to the Far East, we are ejected from the value creation chain. However, we have recently observed a slight trend toward reshoring to Europe, Africa and Turkey, which represents an opportunity for us. We are quite capable of regaining a share of these markets. With technical textiles, on the other hand, we have a competitive advantage against competitors from the Far East and the USA – above all in terms of quality. Although they might have state-of-the-art facilities, they still lack know-how with regard to chemical recipes and procedures for achieving sophisticated functionalities for textiles.

What measures did you take in response to the abandonment of the EUR/CHF minimum exchange rate in early 2015?

Vincenzo Montinaro By chance our strategy check due every two years took place shortly after the abandonment of the minimum exchange rate. We drafted various scenarios and conducted simulations during which it became clear that pure cost cuts in operational areas would not have sufficed in the event of a persistent rate of EUR/CHF 1.05. We therefore started also adopting strategic measures alongside operational savings. Our focus in international market cultivation now lies even more on the development of product solutions with our clients. In a second move, we launched a digitalization program and embarked on a substantial investment program to improve our competitive position in service provision. Coping with exchange-rate crises of various magnitudes is generally a recurrent issue in our sector. If we were no longer able to cope with this, we would either have to cease operations or outsource everything, and neither we nor the main shareholder wish to do this.



“People make it, people break it”

Vincenzo Montinaro
CEO, AG Cilander

AG Cilander has for over 200 years been an innovative Swiss textile company that is also among the leading providers abroad. Eighty percent of its high-quality finishing services are exported. The company employs around 200 staff, including 15 apprentices at its three Swiss plants. Vincenzo Montinaro has been CEO of the textile company since 2010 and has among other things steered it successfully through the period following the franc shock in 2015.

Did you nevertheless consider outsourcing part of production abroad?

Vincenzo Montinaro As I say, the Swiss location and the further development and strengthening of the plants here have priority. Once that's achieved, we'll think about opening production locations abroad – just as we have always done. I see cooperation opportunities in regions where, like in Switzerland, the textile sector is split into different clusters that each carry out a specific step in textile production. We could participate in such places as refiners. However, I see few opportunities in the Far East where most providers are vertically integrated, covering all production steps.

You're currently investing in the modernization of your plants and in digitalization. How is this to be envisaged?

Vincenzo Montinaro The program has been running since 2016 and will last until 2020. It arose from the strategy check following the abandonment of the minimum exchange rate. The aim is to strengthen the competitiveness of the Swiss plants when compared internationally. Advances in technology are to be facilitated and energy and process efficiency enhanced by means of digitalization.

How important do you consider digitalization to be in your sector?

Vincenzo Montinaro I see digitalization as a major opportunity for the clothing industry – especially if we are able to digitalize some very labor-intensive areas. It is more difficult to make a forecast for technical textiles. Both 3D printing and the trend toward sustainability could quite possibly bring the value creation chains geographically closer to the sales markets again.

What conditions at the Swiss SME location particularly help your company in terms of competitiveness?

Vincenzo Montinaro Alongside the underlying conditions such as legal security, fiscal attractiveness and the education system, the decisive factor in my view is the staff with their expertise, knowledge and above all their commitment. Our staff are proud of the company and at the same time grateful for being able to work so close to where they live. The main shareholder has communicated clearly that he wishes to uphold the Swiss location. This has resulted in a strong emotional attachment among the employees and therefore a competitive advantage since “people make it, people break it.” We also benefit from Switzerland’s reputation as a country that promotes sustainability. More and more clients wish to know about the ecological footprint and the overall value creation chain.

What dangers or competitive drawbacks do you see regarding the Swiss location?

Vincenzo Montinaro I see a big danger in the general trend toward protectionism and regulation. We need to be careful not to create obstacles for ourselves in these areas. As an export-oriented company, we are dependent on free trade and favorable customs conditions. There have been occasions in the past when we were unable to win projects due to customs and non-tariff trade barriers.

Many SMEs are suffering from a shortage of skilled labor. Are you also having difficulties recruiting sufficient numbers of skilled staff?

Vincenzo Montinaro Yes, very much so. We're trying to counter this with three measures. First, we're hiring a relatively large number of apprentices and, although this is costing us something, it will also ensure the provision of competent young

talent. We're also offering a lot of additional training and career opportunities to promote and channel young talent. Second, we're deliberately also recruiting abroad. There's only a small pool of specialized persons in our sector. It is therefore essential that we also attract people from abroad. Third, we're deliberately engaging in employer branding. To this end we appear in various local media in order to make our company and its values known to the public at large. Emphasizing our passion, enthusiasm and commitment to the Swiss location is very positively received by potential employees.

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