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Success Factors for Swiss SMEs

Prospects and Challenges for Exports

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Editorial

It is extremely rare in Switzerland's economic history for a specific date to become so deeply etched into the collective memory as February 9, 2014 – the day the Swiss electorate narrowly voted "yes" in the referendum on mass immigration. One would have to go back to December 6, 1992, to find a date that has acquired a similar degree of importance. That this date had to some extent been forgotten prior to the referendum in February of this year is partly due to the fact that for various reasons Switzerland has in recent years performed extremely successfully in economic terms compared with its European neighbors. The rejection of greater integration with the European Economic Area (EEA) did not appear to leave such deep wounds, even though we will, of course, never know what would have happened following a "yes" vote on the EEA. How we will look back on the referendum on mass immigration in another 22 years' time – i.e. 2036 – is uncertain.

Irrespective of the referendum, it is extremely likely that the Swiss economy will retain its close international ties – as indeed it must. If a small economy with limited natural resources wishes to prosper, there is virtually no way it can avoid specialization and global trade. The contribution made by global corporations to the success of the Swiss economy is well documented. But how do the country's small and medium-sized enterprises (SMEs) fare in relation to their international competitors?

In this, the third edition of our series of studies on "Success Factors for Swiss SMEs," our overview of Swiss exports is followed by a closer exploration of the international ties of Switzerland's SMEs. This survey enables us to gain comprehensive, up-to-date information about the structure of SME exports – data that was previously unavailable to the public in this form. We look at which markets are particularly important to SMEs, and at how domestic and international competitive pressures have developed in recent years. We also examine the impact of free trade agreements and how they are viewed by Swiss SMEs.

In the concluding chapter, we hazard a glimpse into the future. True, it is impossible to predict how, in the year 2036, we will look back on the referendum of February 9, 2014. Nevertheless, we seek to provide some clues as to how the export structure of the Swiss economy might look by then. We do so by looking at longer-term scenarios for the development of the global economy, showing that with the right strategies, SMEs in particular can also benefit from the ongoing rise of the emerging-market economies.

We wish you an interesting and informative read.

Oliver Adler

Urs P. Gauch
Head of SME Business Switzerland

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The partnership between Switzerland Global Enterprise and Credit Suisse

Switzerland Global Enterprise (S-GE) is committed to promoting entrepreneurship and Switzerland as a business location around the world. Credit Suisse has been actively involved in S-GE since 2009 – a clear demonstration of its confidence in the Swiss economy and its attractiveness as a center for industry and employment. Credit Suisse and S-GE are convinced that Swiss enterprises are key contributors to the success of Switzerland's export sector through their innovativeness, their good integration in the world economy, their agile adaptability and the excellent worldwide reputation of Swissness.

Management Summary

Success factors for Swiss SMEs

Human capital and the economic environment are crucial success factors (Success Factors for Swiss SMEs, pp. 9–13)

The location-specific success factors constitute the basis of competitiveness. For the third time, Credit Suisse surveys Swiss SMEs as part of its "Success Factors for Swiss SMEs" series of studies. In the current survey, SMEs once again rate well-trained employees as the most important pillar of success. Thus the employees and qualifications factor occupies the top slot among the most significant success factors over the three years we observed. This factor is not only important but also impacts very positively on the success of SMEs. According to the Credit Suisse Locational Indicator, which puts the SMEs' assessment of success factors into a single figure, Switzerland is once again rated "conducive."

Need for action in terms of regulatory framework conditions (Success Factors for Swiss SMEs, pp. 9–13)

According to our 2014 survey, the success of SMEs is impeded only by regulatory framework conditions. As regulation is of above-average significance and its influence in the future viewed even more negatively, this is the area where there is the greatest need for action. In terms of new regulation, politicians are urged to consider the position of companies in international competition and to work to reduce "red tape." According to Swiss SMEs, there is also a need for action on the economic environment. Clever positioning, far-sighted planning as well as risk diversification might be ways in which SMEs can address this success factor.

Prospects and challenges for exports

Geographical diversification is important for export strategy (Swiss Exports, pp. 14–15)

Since 2010, exports have resumed their role as an important driver of growth in the Swiss economy. Prior to that, exports were significantly affected by the financial crisis. Although Switzerland's key trading partner is the European Union, the emerging-market countries are nevertheless steadily gaining importance, in particular China and the Gulf states. The pharmaceutical industry has significantly expanded its share of total Swiss exports, and the watch industry to a slightly smaller extent. Geographical diversification is an important element of these industries' recipe for success. Sectors with a strong focus on the European market have in recent years faced substantial setbacks due to the euro crisis.

Swiss exporters convince in quality competition (Positioning versus International Competitors, pp. 16-17)

In most cases, Swiss exporters have an advantage over their foreign rivals in terms of quality. The pharmaceutical industry – with its emphasis on research and patents – and manufacturers of precision instruments have fared particularly well in price competition thanks to their impressive quality. Labor-intensive sectors with attendant high labor costs tend to be affected by international price pressures.

One-fifth of Swiss exports come from SMEs; MEM industry features heavily in SME exports (SME Exports, pp.18–25)

Swiss SMEs have strong international ties according to our survey. 69% of firms are involved in cross-border activities. Export activity is naturally more pronounced among industrial SMEs than among service-sector SMEs. In total, SMEs contributed an estimated one-fifth of total Swiss exports in 2012. In terms of sector structure, significant differences can be identified compared with Swiss exports as a whole. At around two-thirds, the MEM industry (incl. watchmaking) is significantly more strongly represented in SME exports than in total exports (45%).

Germany is biggest trading partner for SMEs (SME Exports, pp. 18–25)

The emerging-market countries are becoming more significant export markets for SMEs too. However, SMEs continue to concentrate heavily on European countries – above all Germany. Small industrial SMEs export considerably less to non-European countries than medium-sized companies. At sector level, traditional industry and the service sector lag behind the high-tech industries in terms of sales in emerging-market countries.

Swiss SMEs doing well despite competitive and margin pressures (SME Exports, pp. 18–25)

The strong international activity of SMEs is reflected in the competitive situation in which firms find themselves. According to our survey, export-focused SMEs from the high-tech industries in particular face competition from foreign rivals. By contrast, service-sector SMEs tend to face greater domestic competition. The industrial SMEs surveyed are nevertheless more or less satisfied with their export sales in overall terms, and SMEs with a higher proportion of exports in their sales are more satisfied. The margin situation for exports is rated fairly negatively.

Global market leaders particularly in high-tech (SME Exports, pp.18–25)

Despite stiffer competition in some instances, Swiss SMEs are performing well. Indeed around one-tenth of industrial SMEs indicate that they are the global market leader for at least one core product. An above-average number of these "hidden champions" can be found among manufacturers of precision instruments in particular. 60% of all SMEs in this sector state that they are global market leader for at least one core product. The watch, electrical engineering and machinery industries rank some distance behind.

Free trade agreements often affect costs rather than volumes (Free Trade Agreements, pp. 25–30)

In order to facilitate tariff and barrier-free international trade, free trade agreements (FTA) are concluded. Our research shows that such agreements do not necessarily increase the volume of trade. Existing agreements on specific goods or non-tariff trade barriers can lessen the effect of free trade agreements on export volumes. On the other hand, free trade agreements significantly reduce export costs for Swiss SMEs by allowing Swiss exporters to save millions in custom duties.

FTA of greater relevance to more export-focused SMEs (Free Trade Agreements, pp. 25–30)

The extent to which Swiss SMEs benefit from free trade agreements depends on several factors. For smaller SMEs in particular, the need to provide a certificate of origin is a major obstacle. The more export-focused SMEs, as well as firms in a number of traditional industries such as chemicals and plastics manufacturing, are especially reliant on free trade agreements.

SMEs want agreement with US (Free Trade Agreements, pp. 25–30)

In terms of efficiently overcoming the obstacles to trade, our survey indicates major differences between free trade agreements – the deal with the EU being rated the best. Although not all SMEs benefit equally from the various free trade agreements, businesses want more deals to be signed. A free trade agreement with the US is the most urgent of all for SMEs, according to our survey.

Manufacturers of high-quality consumer goods benefiting most from rise of emerging-market economies (Outlook, pp. 30–36)

Exports to the euro zone are likely to grow significantly more strongly in coming years than in the previous years, in which they were badly affected by the euro crisis. On a longer-term view, the emerging-market countries will become increasingly significant thanks to a burgeoning middle class. The share of Swiss exports to the BRIC countries is likely to double by 2035, with China replacing Germany as number-one trading partner. We expect manufacturers of high-quality consumer goods to be the biggest beneficiaries of this development. As the watch, machinery and electrical engineering industries in particular already have a strong presence in these markets, they are likely to benefit more than other sectors from the development of these countries in the nearer term. Should there be extensive pent-up demand compared with the industrialized countries, however, those sectors with a smaller presence are also likely to catch up quickly. Despite its shrinking share of exports, Western Europe is likely to remain the most important market in 2035.

Cooperation, concentration and contacts key to gaining foothold in emerging markets (Outlook, pp. 30–36)

The growing significance of the emerging markets is only partly reflected in SMEs' future expectations. SMEs that already export to the emerging markets, or are relatively large, are much more likely than other SMEs to expect the significance of these countries to grow. The rather cautious view on emerging-market countries among smaller SMEs and those that do not export to these countries is likely to be attributable in part to the fact that the penetration of these markets requires a lot of time, resources, experience and personal contact. Many SMEs therefore confine their export activity to Switzerland's neighboring countries. The capturing of emerging markets is nonetheless an option that merits examination. Entry barriers can be surmounted through cooperation between SMEs, concentration on a just a few emerging-market countries and an exchange of information with companies experienced in the penetration of emerging markets and export development organizations such as S-GE.

Information about the Survey

SME survey 2014

The Credit Suisse 2014 survey comprises two parts: 1,344 small and medium-sized enterprises (SMEs) from all sectors took part in the basic survey, while 820 industrial SMEs from all sectors of industry participated in the additional survey. In the following analysis, only responses taken from the basic survey are used in comments about the overall SME sector as well as the service sectors and construction. For comments about industrial SMEs or individual industrial sectors, responses are taken from both the basic and additional surveys given that the structure of the sample is representative of the real sector structure for the industrial SMEs within both data sources. The industrial SME sample is based on a maximum of 1,037 responses. The sample size may vary depending on the assessment (for individual sectors, for example).

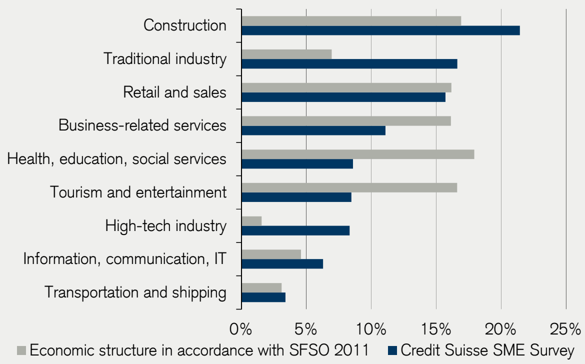
The survey was conducted by an independent polling organization on an anonymous basis in January and February 2014. The anonymous data was prepared and analyzed by Credit Suisse Economic Research.

The distribution of the responses does not correspond exactly to sector and size structure based on the latest business census conducted by the Swiss Federal Statistical Office (SFSO), in 2011. In the survey, industrial and construction firms are overrepresented versus most service sectors (Fig. 1). In addition, the survey provides greater coverage of medium-sized companies than micro firms (Fig. 4). However, these discrepancies have virtually no bearing on the survey's validity. For the calculations in the "Success Factors for Swiss SMEs" chapter, the responses were weighted based on the 2011 business census using the number of full-time equivalent employed persons in accordance with size category and sector. This ensures that comparisons are more representative over time.

Figure 1

Sector distribution of overall SME sector

Share of companies in percent

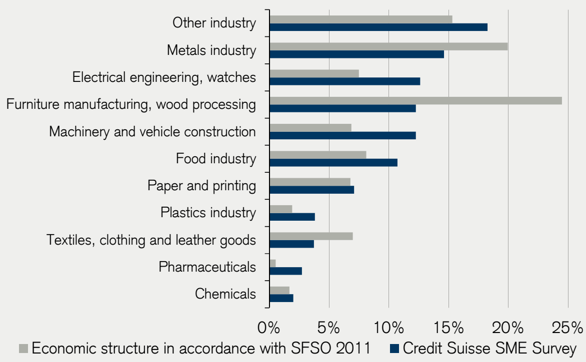


Source: Credit Suisse SME Survey 2014, Swiss Federal Statistical Office

Figure 2

Sector distribution of industrial SMEs

Share of companies as percent of total for industrial SMEs



Source: Credit Suisse SME Survey 2014, Swiss Federal Statistical Office

Sector distribution

High-tech industry

Chemicals, pharmaceuticals, mechanical engineering and vehicle manufacturing, electrical engineering, plastics industry, precisions instruments, watch industry

Traditional industry

Food industry, furniture manufacturing, wood processing, glass manufacturing, paper and printing industry, textiles, clothing and leather goods manufacturers, metals industry, other industrial

Construction

e.g. civil engineering, structural engineering, finishing trades, building installations

Retail and sales

e.g. retail trade, wholesale trade, automotive sector

Transportation and shipping

e.g. transportation of passengers and freight, warehousing, logistics, postal and courier services, travel agencies

Tourism and entertainment

e.g. hotels, restaurants, cultural event management, personal services (e.g. hairdressing/beauty salons, linen service)

Health, education and social services

e.g. doctors, therapists, hospitals, homes, day nurseries, medical laboratories, schools

Business-related services

e.g. corporate consulting, auditing, advertising, market research, services to buildings, mediation, research and development

Information, communication, IT (ICT)

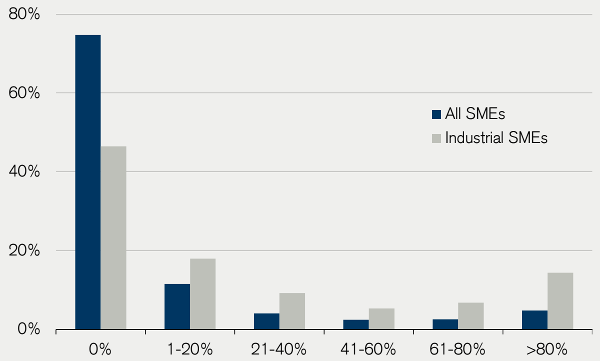
e.g. publishing, information services, communication, telecommunications, IT

Source: Credit Suisse

Figure 3

Exports as a share of sales

Share of companies

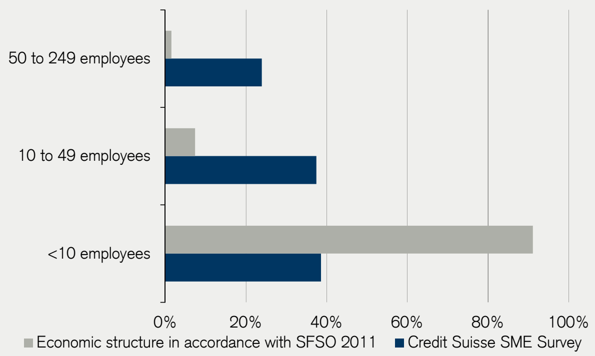


Source: Credit Suisse SME Survey 2014

Figure 4

Company size

Share of companies



Source: Credit Suisse SME Survey 2014

Figure 5

Additional structural data*

	Average	Range	Median
Employees (FTE**)	34	0.3 - 240	15
Sales (in CHF million)	14.3	0.004 – 2,500	3.5

Source: Credit Suisse SME Survey 2014; *basic sample only; ** FTE = full-time equivalents

Success Factors for Swiss SMEs

Success factors and framework conditions

A competitive Switzerland thanks to successful SMEs

The Swiss economy is one of the most competitive and innovative in the world. This is confirmed year after year by various international ranking surveys. For example, Switzerland took first place in the closely watched Global Competitive Index in each of the last five years. Switzerland's high level of competitiveness is founded upon its strong corporate sector, given that a country's output is the sum of the activities of the businesses operating there. 99.8% of Swiss businesses are SMEs.[1] What makes Swiss SMEs so successful?

Success is down to multiple factors

A company's success results from the interplay between various factors. These include the abilities of its employees, as well as the quality and foresight of the company's management – although an element of luck also undoubtedly plays an important role. With the exception of the latter, all of these can be influenced by the entrepreneur. On the other hand, businesses operate in a relatively fixed, predetermined economic, political and social environment upon which they have little influence. By choosing the location of a branch, however, even the environment can be chosen to a certain degree. Through targeted association work, a business can also seek to influence overall conditions in its favor.

Annual survey of Swiss SMEs

We break down the complex overall economic, political and social environment into nine factors that are decisive for the success of Switzerland's SMEs (Fig. 6). This study is part of a series in which 1,300-2,000 SMEs are questioned about these success factors on an annual basis. The results show which overall conditions help to promote thriving SMEs. The aim of these studies is to bring the views of SMEs to the public's attention, point out the opportunities for improvement, and ultimately contribute to preserving and improving SME competitiveness for the long term.

Figure 6

Success factors for Swiss SMEs

Infrastructure
e.g. transport, telecommunications and housing infrastructure
Resources and the environment
e.g. access to raw materials and prices; energy supply and prices, management of natural disasters
Regulatory framework conditions
e.g. taxes, regulations, collaboration with the authorities, federalism
Economic environment
e.g. demand trends, salary level, intensity of competition, price stability
International ties
e.g. a large proportion of imports and exports in the Swiss economy, international involvement of Switzerland, exchange rates, neutrality
Values and society
e.g. multiculturalism, entrepreneurial spirit, attitude toward success, risk acceptance, participation culture
Research environment
e.g. innovation promotion, cooperation with universities, protection of intellectual property, technological progress
Employees and qualifications
e.g. quality of the education system, availability of qualified employees, female unemployment rate, mobility, work ethic
Financing terms and conditions
e.g. capital market access, interest rates, insurance options, bank account, asset know-how

Source: Credit Suisse

1 These 563,000 SMEs provide 2.5 million full-time jobs. Nearly two-thirds of the workforce are therefore employed by SMEs.

Current importance and influence

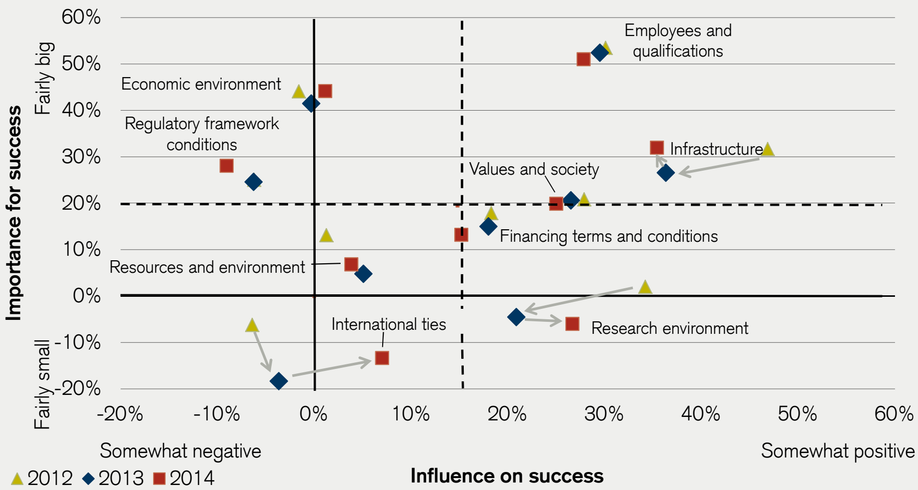
Employees and qualifications once again the most important factor

The ranking of the importance of success factors shows a high degree of stability over the three years observed (Fig. 7). The employees and qualifications factor, as well as the economic environment, has the greatest influence on the success of Swiss SMEs. This once again confirms the huge relevance of the commodity of human capital in an economy such as that of Switzerland, with its limited natural resources. Economic development is also vital, with SMEs rating it the second most important of all the factors. Infrastructure and regulatory framework conditions are also factors with above-average importance. The values and society factor is judged to be of average importance, while financing terms and conditions as well as the resources and the environment factor are of below-average significance. The research environment and international ties are the least important in relative terms. In the case of both factors, however, the differences between export-focused, knowledge-intensive sectors such as high-tech and the more domestically oriented sectors with many less well qualified employees, such as construction, are very pronounced.

Figure 7

Importance and influence of success factors in view of Swiss SMEs

Balance of weighted positive and negative responses; dotted line: average of all success factors in 2014



Source: Credit Suisse SME Surveys 2012, 2013 and 2014

Positive influence of infrastructure despite bottlenecks

The variance in assessment of the current impact is naturally greater than the change in importance. In this regard too there is nevertheless evidence of a relatively high degree of constancy in the case of most factors. Infrastructure continues to have the most positive influence. SMEs are conscious of the high quality of Switzerland's transport, telecommunications and energy infrastructure. The debate around increasing bottlenecks in connection with the recent high level of immigration to Switzerland nonetheless seems to have exerted a slightly negative impact on the views of SMEs with regard to this factor. The employees and qualifications factor is not only highly important but also impacts very positively on SMEs. As explained in last year's study, there is evidence in this assessment of the high level of trust between employee and employer, the country's attractiveness to highly qualified staff, as well as the quality of the Swiss education system. Views on the research environment – the subject of a rather inexplicable deterioration last year – were amended again slightly in 2014.

Economic environment: clear split in sector landscape

The economic environment and international ties swung into positive territory in 2014 following a slight improvement in the situation in 2013 versus 2012. The robust performance of the Swiss economy and the end of the recession in the euro zone are likely to have had a positive impact on the assessment. However, the differences between the domestically and internationally oriented parts of the Swiss economy remain substantial. Thus only the fairly domestically oriented sectors of construction, healthcare and above all business services – sectors which are fairly well insulated from international competition – rate the economic environment as positive. High-tech and traditional industries, as well as trade and tourism, are more skeptical in this regard. This fits in with the overall picture: The fact is that the domestic economy was the primary factor behind the Swiss economy's strong showing in 2013, while external trade remained lackluster.

SMEs suffering from excessive regulation

Regulatory framework conditions are the sole factor impeding success, according to our 2014 survey. Many areas of life and work have been the subject of ever-increasing regulation in recent years, for instance in terms of rules regarding the environment, construction, and food. This is compounded by fears among SMEs that a "yes" vote in imminent referendums such as that on inheritance tax could cause a further deterioration in overall conditions. The SME verdict on the regulatory environment is mixed, although by international standards Switzerland often performs relatively well (or at least better than other countries) in terms of the burden of "red tape." The verdict of SMEs could be interpreted as a warning sign to politicians and society to exercise common sense with regard to additional regulation and not cross the line. SMEs are generally not as good as larger firms at absorbing additional administrative costs. In aggregate, this competitive disadvantage in relation to large companies can have a very sizeable impact.

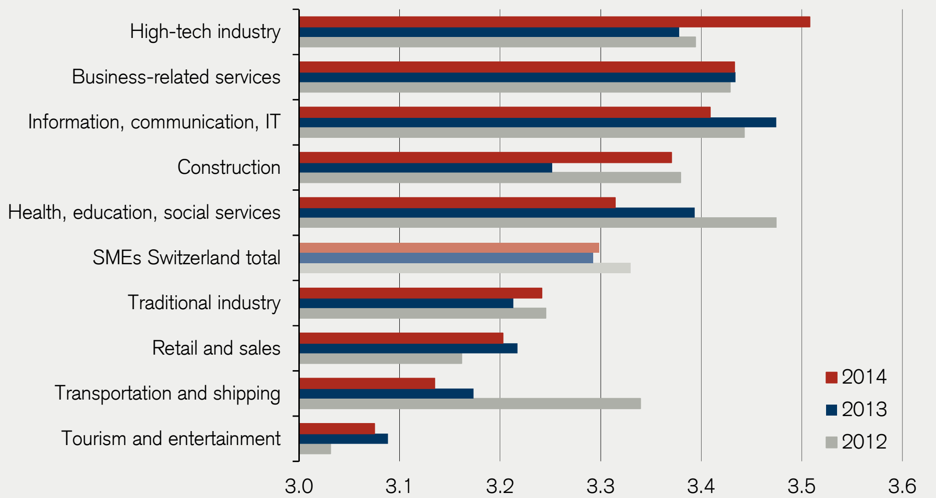
Switzerland an attractive location for SMEs in all sectors

In 2013, we launched the "Credit Suisse SME Locational Indicator" as part of the present series of studies (Fig. 8).[2] This sums up the SMEs' overall verdict on the success factors in a single figure. Here the focus is on comparison with the individual sectors and how the indicator develops over time, rather on the figure itself. In 2014, the SMEs gave Switzerland more or less the same favorable marks as they did in the previous year. The index reached a level of 3.30, thus putting it above the threshold of 3.00 – the point from which overall conditions are viewed as advantageous for business success. This applies to all sectors, meaning the good result is broad-based.

Figure 8

Credit Suisse SME Locational Indicator by sector

Weighted average of responses (1 = negative; 5 = positive) across all nine success factors



Source: Credit Suisse SME Surveys 2012, 2013 and 2014

The higher the sector's value added, the greater Switzerland's attractiveness

It is relatively clear that, with the exception of construction, the sectors that find overall conditions in Switzerland to be better are those that are research and knowledge-intensive and employ a large proportion of highly qualified staff. Conditions are more difficult for sectors that generate less value added and face strong competition on costs, for example tourism and traditional industry. In these sectors, high labor costs as well as cost-increasing regulations such as heavy protectionism in the agriculture sector via higher food prices exert a negative effect. Nevertheless, the SME Locational Indicator also reflects the current situation in the sectors to a certain extent; these influences can never be fully separated out, of course.

2 See Credit Suisse 2013: "Success Factors for Swiss SMEs – Company Succession in Practice", p.10

Expected development and recommended action

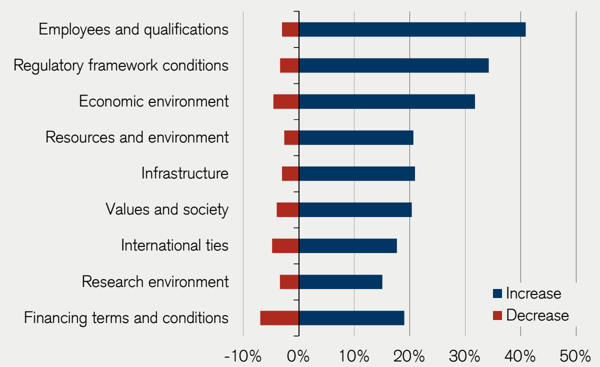
All factors more important; only three are improving

How will the success factors develop in future, in the view of SMEs? As in the previous years, SMEs believe all success factors will become increasingly important going forward (Fig. 9). At the same time, however, only the three factors of research environment, values and society and infrastructure are moving in the "right" direction and having a positive impact on business success according to our survey (Fig. 10). We have summarized this information in a "need-for-action matrix" (Fig. 11). The basic idea behind it is that negative expectations in terms of a particular factor are all the more worrying the greater that factor's significance to success and the more negative an effect it currently has on SMEs.

Figure 9

Expected change in importance, 2014–2019

Share of responses (increase/decrease) in % ranked by balance

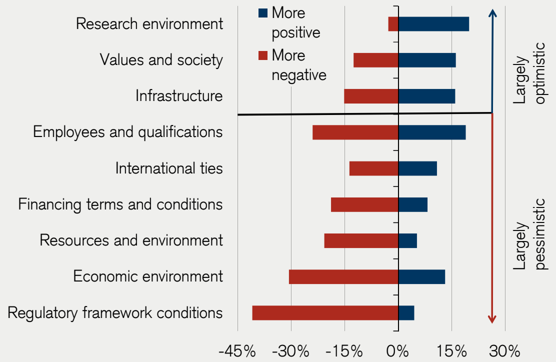


Source: Credit Suisse SME Survey 2014

Figure 10

Expected change in influence, 2014–2019

Share of responses (positive/negative) in % ranked by balance



Source: Credit Suisse SME Survey 2014

Urgent need for action on economic environment and regulatory framework conditions

The results show a fairly clear picture: The greatest need for action is in relation to the economic environment and regulatory framework conditions. Both factors are of above-average importance and SMEs are more pessimistic about their future influence than about any other factor (quadrant IV in Fig. 11). All the more so given that the importance of the two factors will increase by an above-average amount in future (Fig. 9). SMEs themselves, politicians and industry associations, for example, must respond accordingly in order to reverse this trend. SMEs' own ability to intervene is, of course, limited – especially as far as the economic environment goes. However, clever positioning, far-sighted planning and measures to minimize and diversify risk may be ways in which this can be addressed. In terms of regulatory framework conditions, politicians in particular are urged to forge ahead with the cutting of red tape as was mentioned earlier and, when it comes to new regulations, to take into account the competitive position of Swiss businesses in an international context. In this regard, SMEs themselves but also industry associations can take an even stronger stand and more actively explain the impact of regulation to the public at large.

No need for priority action on research environment or international ties for any of the sectors

SMEs are equally pessimistic with regard to financing terms and conditions as well as the resources and environment factor. As the importance of these success factors is comparatively low, however, the need for action is less acute in this regard (quadrant III in Fig. 11). Quadrant II comprises factors that are of below-average importance and whose impact is likely to improve in future. There is no need for priority action on these factors for any of the sectors. Depending on the sector, however, measures could be a good idea here too. For example, retail and sales as well as the high-tech industry are significantly more negative about the future development of international ties. In the "SME Exports" chapter, we take a more detailed look at the current challenges facing SMEs on exports and at potential solutions.

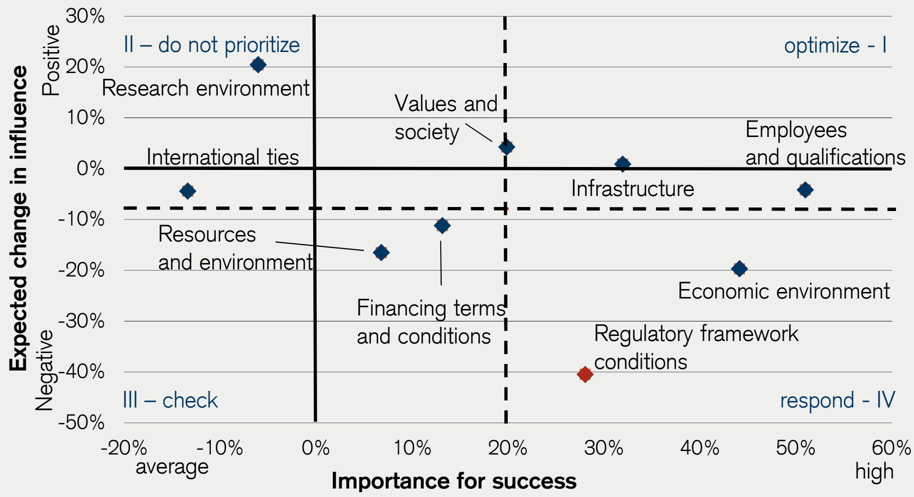
Employees and infrastructure are trump cards – but no euphoria about the future

Switzerland's economic trump cards are its employees and infrastructure. They are of major importance, and according to our survey will develop more positively/less negatively in future compared with the average for all factors. Here there is a need for an optimization strategy (quadrant I in Fig. 11). Even in terms of these factors, however, enthusiasm among SMEs is limited. A striking feature here is the degree of pessimism about the future in terms of employees and qualifications in the high-tech industry (weighted average -30%) and transportation (-20%). In light of the "yes" vote in the immigration referendum, views on this factor are likely to deteriorate in the future given that the availability of highly qualified personnel is likely to decline. Initial surveys of Swiss companies following the "yes" vote in the referendum confirm that there are worries in this regard. Politicians are urged to consider the interests of SMEs when drawing up solutions. The IT sector appears astonishingly optimistic. Clearly, some SMEs have already found a solution to the threat of a shortage of specialist skills, which is the subject of a debate in this sector in particular.

Figure 11

Need-for-action matrix

Balance of weighted positive and negative responses in percent; dotted line: average of all success factors; red dots: current influence negative



Source: Credit Suisse SME Survey 2014

Prospects and Challenges for Exports

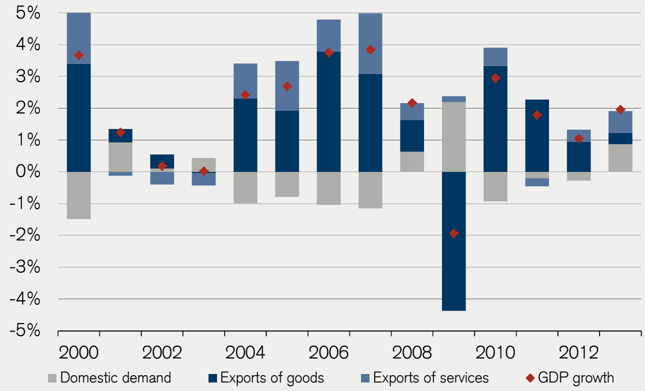
Swiss Exports | Overview

Exports a key growth driver

Swiss exports were an important growth driver in the boom years from 2004 to 2007. The Swiss franc was relatively weak during this period. Having stopped being the driver of growth in the Swiss economy during the financial crisis in 2009, exports resumed this role again in 2010. In 2013, domestic and foreign demand for Swiss goods and services each contributed around half the country's economic growth of nearly 2%. However, the volume of exports is underestimated by around two percentage points in 2013 due to a change in the method of collecting data on electricity trading. In 2013, exports of services once again contributed more than exports of goods for the first time since 2009.

Contributions to growth in gross domestic product

Contribution from domestic and foreign demand to GDP in percentage points



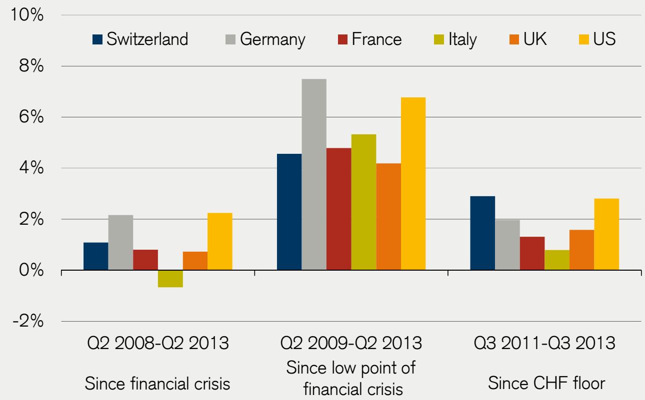
Source: State Secretariat for Economic Affairs, Credit Suisse

Swiss exporters hit by strength of Swiss franc

Switzerland's real exports rose above their 2008 pre-crisis level for the first time in 2011 and have been on a robust growth trajectory ever since. Since the outbreak of the financial crisis in 2008 and the low point of the crisis in 2009, however, the development of Swiss exports has been significantly exceeded by the development of German and US exports. The fact that exports from Germany, Switzerland's main trading partner, have developed significantly more robustly than Swiss exports since 2008 and 2009 is indicative of a negative effect of the Swiss franc's appreciation during this period. Since the introduction of the Swiss franc floor in 2011, Swiss exports have also grown more strongly than those of the five competitor countries observed in real terms.

Swiss exports in comparison with competitors

Average growth in exports p.a. by period, in domestic currency, real



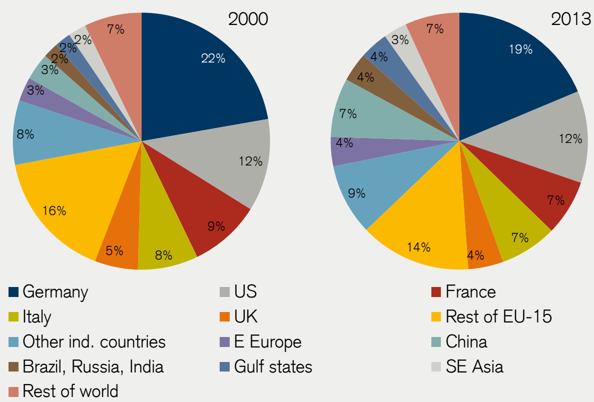
Source: OECD, Credit Suisse

Increased share for emerging markets

Although the European Union remains Switzerland's most important trading partner, the share of exports to emerging-market countries has steadily increased. In terms of their share of exports, Switzerland's neighbors are down six percentage points in the last 13 years; the main gainers are the BRIC countries (Brazil, Russia, India, China), which were up six percentage points in the same period. While Switzerland's total exports grew by an annual average of nearly 4% in nominal terms in the 2000-2013 period, exports to China expanded by an average of 10% per year. This resulted in an increase in the share of exports to China from 3% to 7%. The Gulf states also made significant gains, doubling their share from 2% to 4%.

Swiss export markets

Share of total exports, 2000 (l-h circle) and 2013 (r-h circle)



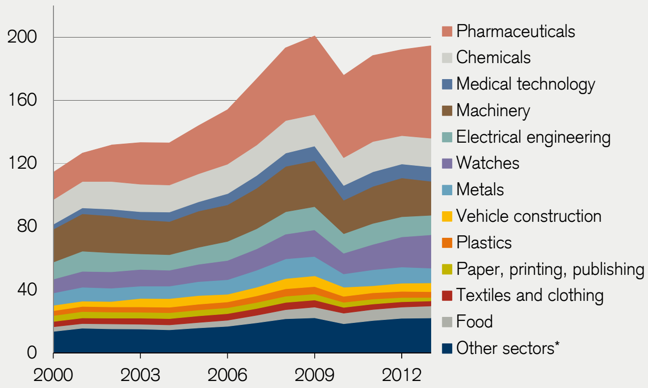
Source: Swiss Federal Customs Administration, Credit Suisse

Pharmaceutical exports increasingly dominant

The share of pharmaceutical products in total exports has more than doubled since 2000, from 14% to more than 31%. The pharmaceutical industry's significance to exports has accordingly shown exceptionally strong growth. The watch industry has also grown significantly in importance, although virtually the entire increase of three percentage points occurred post 2009. The main reason for this was its more rapid recovery from the crisis and strong demand from China. The medical technology and food industries also registered significant gains in their share. The biggest losers are the machinery and metals industries, whose share of exports has fallen from 19% to 11% and from 7% to 5% respectively in the last 15 years.

Swiss export structure by sectors

Exports of goods in CHF billions, 2000-2013: *excludes electricity



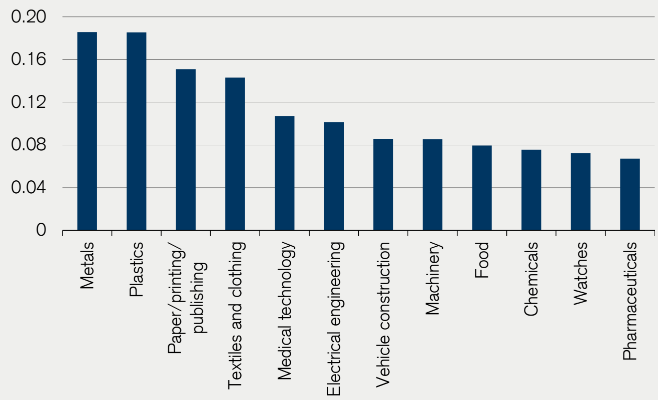
Source: Swiss Federal Customs Administration, Credit Suisse

Most successful sectors are the most highly diversified

The most diversified sectors in geographical terms are pharmaceuticals and watchmaking – the very two sectors that have seen the most significant increase in their share of exports in recent years. On the other hand, the less well diversified sectors of metals, plastics, paper and textiles have lost a massive amount of export share. In some cases for logistical reasons (high transport costs), they are heavily focused on the European market and therefore were particularly hard hit by the euro crisis. Nearly 50% of metal industry exports, for instance, go to just two countries, while nearly 50% of pharmaceutical exports are distributed across five countries. Geographical diversification and the capturing of new markets seem to be paying off for Swiss exports, above all at times of crisis.

Geographical diversification by sectors

Herfindahl index 2013 (the lower the index value, the more diversified the sector)



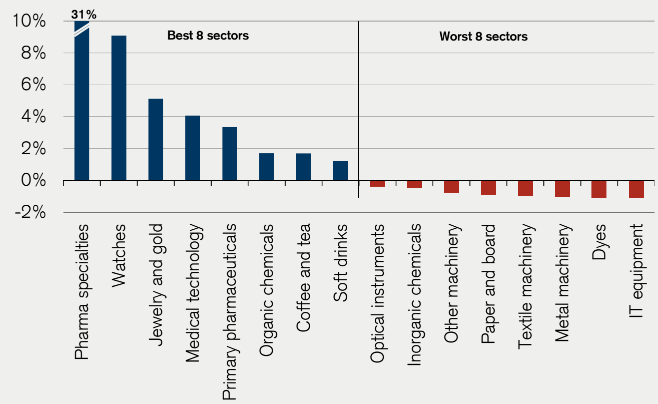
Source: Swiss Federal Customs Administration, Credit Suisse

Pharmaceutical specialties driving growth in exports

Swiss exports grew by 57% in nominal terms between 2000 and 2013 (excludes exports of electricity). Growth in pharmaceutical exports (specialties and basic pharmaceutical products) contributed 35 percentage points. Exports of watches, jewelry and medical technology also made a substantial contribution to growth. The large contribution from jewelry exports is largely due to the rise in the price of gold and a ramping-up of gold trading through Switzerland. The substantial contribution to growth from exports of soft drinks, coffee and tea is striking and largely attributable to Red Bull and Nespresso products. Industrial machinery and IT equipment, as well as dyes and paper, saw the greatest decline. They suffered from high labor costs and strong international competitive pressures.

Contribution to growth in Swiss exports, 2000–2013

Contribution to growth by sub-sectors (NOGA 4 level) in percentage points



Source: Swiss Federal Customs Administration, Credit Suisse

Positioning versus International Competitors

Unit values are approximate indicator of quality

In order to draw conclusions about the positioning of Swiss exports of goods versus international competitors, we use unit value as an indicator of the quality of a product. The unit value indicates the average price of goods per kilogram. The idea behind the unit value approach is simple: the greater the cost of research and development and the more innovative the technology and production processes, the greater the price of the finished product compared with merely the amount of materials used (measured in kilograms). A degree of caution is advised when interpreting unit values given that they constitute a simplification and reduce the many characteristics of a product to just its weight and price. For that precise reason, however, they provide a valuable way to compare similar goods with one another easily and make approximative statements about their quality. For example, if two watches have nearly the same weight but one costs CHF 100 and the other CHF 5,000, the latter would normally exhibit higher quality.

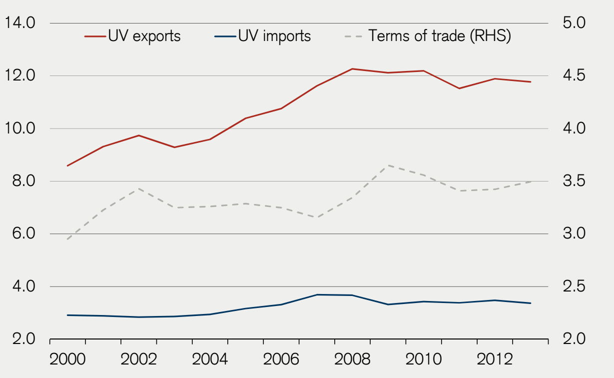
Swiss exports becoming more valuable versus imports

Unit values of Swiss exports have risen by an average of 2.5% annually over the last 13 years, while those of imports have increased by just 1.1% per annum. Over the period as a whole, this gives a significantly positive trend in the relationship between export unit values and import unit values – or terms of trade (Fig. 12). The goods exported by Switzerland in 2013 were more than three times as expensive as the goods imported per unit of weight. The growing gap between export and import prices is in part driven by the outsourcing of simple, low-margin manufacturing stages abroad and the creation of good conditions for technology and research-intensive activities as well as success in attracting high-technology firms with high added value.[3] In crisis years, a slight drop in export and import unit values was observed in each case. This was the case in 2002, for example, following the implosion of the dotcom bubble, as well as following the financial crisis in 2009, reflecting the global decline in world trade and increased price sensitivity in crisis periods.

Figure 12

Development of unit value and terms of trade

Unit value of Swiss imports and exports in CHF/kg; terms of trade: relationship between unit value export/unit value import

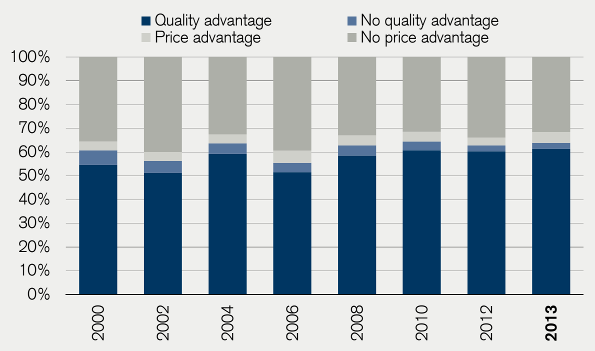


Source: Swiss Federal Customs Administration, Credit Suisse

Figure 13

Competitive position in foreign trade

Share of exports in four competition segments in percent



Source: Swiss Federal Customs Administration, Credit Suisse

Switzerland in stable, top position versus international competitors

Unit values of Swiss exports are extremely high in international terms.[4] Not only do exports of Swiss goods exhibit a record value per unit of weight, they are also considerably more expensive relative to imported goods than is the case in other major economies. Together with the long-term increase in the terms of trade, this observation indicates the high level of competitiveness of Switzerland's exports. An export industry that is consistently able to sell more expensive products relative to its imports must be highly competitive in international terms.

3 Part of this development is also likely to be attributable to exchange-rate fluctuations between the Swiss franc and settlement currencies of individual trading partners.

4 For more detailed information, see Credit Suisse Economic Research (2011) Swiss Issues Branchen. Exportindustrie Schweiz – Erfolgsfaktoren und Ausblick (German only).

Consistently high share of exports compete on quality

Despite rising prices, Swiss exporters have successfully exported more and more over the years because they are able to position their goods as high-quality, top-class products and to some extent avoid a price war with foreign producers. This is shown in Figure 13. The share of exported goods with a competitive advantage over foreign competitors in quality terms increased from 55% in 2000 to approximately 61% in 2013.[5] Since 2008, the share has been more or less stable at between 58% and 61%.

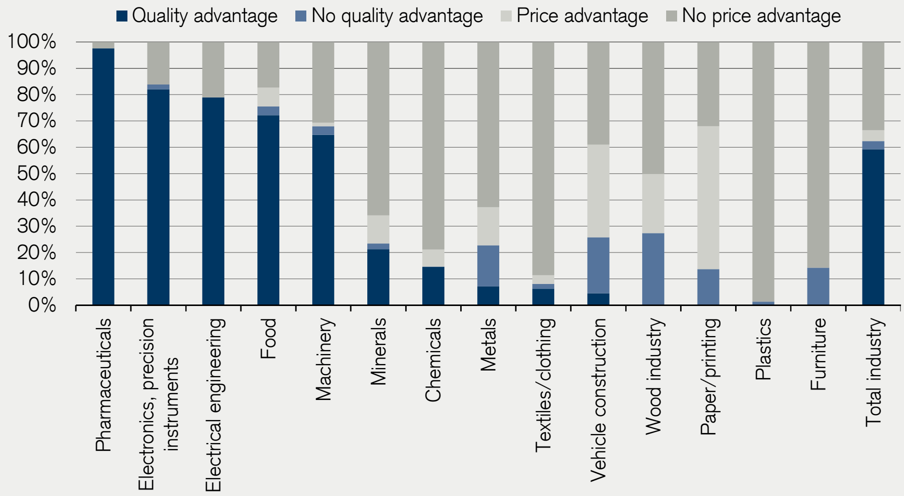
Technology and research-intensive sectors in particular compete on quality

Figure 14 shows unsurprisingly that technology and research-intensive sectors are able to position themselves considerably more strongly and successfully on a quality basis than other sectors of the economy. Thanks to intensive research output combined with the creation of temporary monopolies through patent protection, the pharmaceutical industry competes on quality in most cases. This puts it in a better position than any other industrial sector to avoid price competition. In the food industry, manufacturers of premium products such as luxury chocolate, fine Swiss cheeses and coffee capsules find it comparatively easy to rise above the competition and simultaneously force through high prices. Producers of standard products, on the other hand, have minimal opportunity to distinguish themselves internationally through the quality of their products and therefore have to compete on price to a greater extent. For labor-intensive sectors that compete more heavily on price, such as the wood processing and textile industries, it is more difficult to maintain their position on the international market due to high labor costs and major competitive pressures from abroad. The capital-intensive paper industry produces relatively homogeneous products and therefore often competes on price, although thanks to modern production technology and automated production processes it is also frequently able to fend off foreign producers.

Figure 14

Positioning of export sectors in terms of quality and price competition

Average share of exports in the four competition segments, 2008-2013



Source: Swiss Federal Customs Administration, Credit Suisse

5 For a detailed explanation of the concept of quality elasticity, see Credit Suisse (2011) Swiss Issues Branchen. Exportindustrie Schweiz – Erfolgsfaktoren und Ausblick, p.18 (German only)

SME Exports

International ties of Swiss SMEs

Sector structure of SME industry differs from that of industry as a whole

The statistics on the export of goods as discussed on pages 14-17 provide an overview of the development and structure of the Swiss export industry as a whole. For various reasons, however, these export statistics are unlikely to be fully representative of the SME export sector. Due to sector structure alone, the composition of SME exports is likely to differ from that of exports as a whole. In the domestically focused wood industry, for example, around 98% of employees worked at an SME in 2011; this compares with just 21% or so in the highly export-focused pharmaceutical industry. In addition, on a proportional basis significantly fewer SMEs are involved in exports than large companies[6]; within the SME industrial sector itself, larger companies also tend to export more than smaller ones according to our survey.

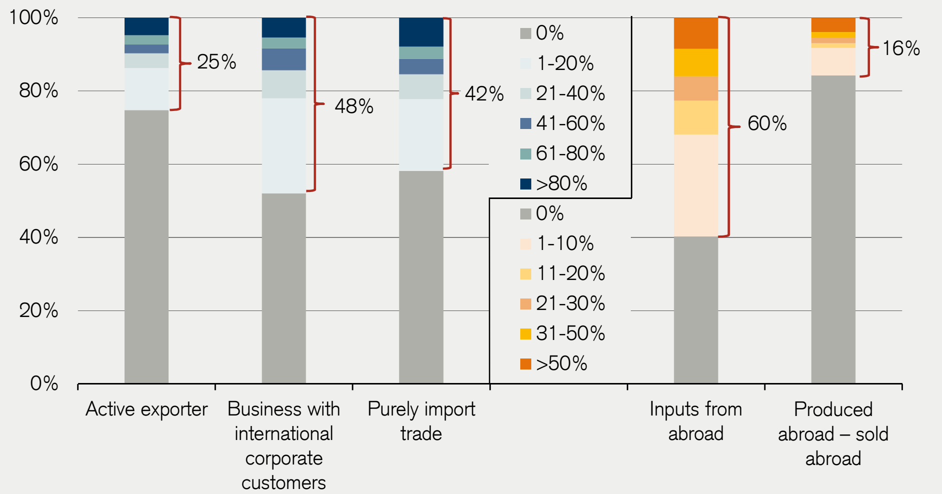
Survey also permits analysis of SME service exports

To gain a more precise understanding of the SME export sector than a look at the data on total exports allows, we put detailed questions on foreign business and international competitiveness to the SMEs in this year's survey. Thanks to the survey, we are also in a position not only to analyze the export structure of small and medium-sized industrial firms in depth but also that of the service sector on a representative basis.

Figure 15

International ties of Swiss SMEs (industrial and service sector)

Share of sales/total costs, responses in percent



Source: Credit Suisse SME Survey 2014

Two-thirds of all SMEs have some form of international ties

That the Swiss economy has extremely strong global links is well documented. In this context, one need only think of global groups such as ABB, Nestlé, or Swatch. Then there are the major internationally oriented Swiss firms such as Victorinox and Pilatus Aircraft, for which the "global group" label is scarcely apt but which cannot be considered SMEs on account of their size. However, an international dimension is not just the preserve of the big players. Our survey clearly shows that many Swiss SMEs are active internationally – globally, even – in manifold forms (Fig. 15). Around one-quarter of all Swiss SMEs are involved in exports according to our survey, with exports on average accounting for 16% of sales. However, international ties are not just confined to export activities. 60% of SMEs purchase input goods from abroad. 42% import goods and services that are then sold on unprocessed. Nearly half generated a portion of their sales from large international or export-focused corporate customers based in Switzerland.

6 See Analysen zur Betriebszählung 2005 – KMU-Landschaft im Wandel (SFSO, University of St. Gallen, 2008) (German only)

A considerable number of SMEs also produce abroad. A total of 69% of all Swiss SMEs and 87% of all industrial SMEs are involved in at least one of the cross-border activities mentioned.

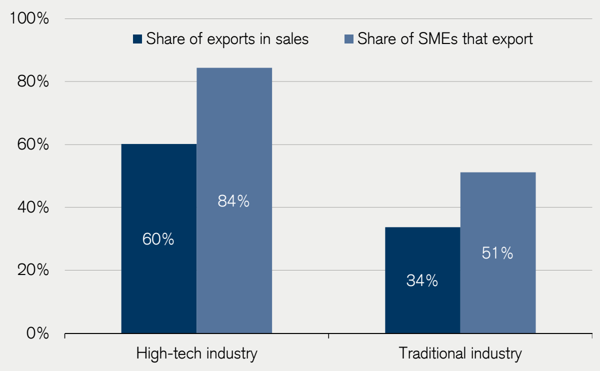
Industrial SMEs earn two out of every five Swiss francs from exports

As a rule, industrial SMEs have stronger international ties than service providers or the construction sector. Around 54% of industrial SMEs are active exporters, with exports accounting for 38% of sector sales. In the service sector, around a quarter of companies are active exporters (average share of sales: 16%); this compares with just 7% in construction. At around 60%, exports account for a particularly high share of sales in the high-tech industry – particularly in mechanical engineering and among manufacturers of precision instruments (Fig. 16). Less heavily export-focused industrial sectors include furniture and wood (4% share of sales) as well as the food industry (15%).

Figure 16

Export share by sector: industry

Share in percent

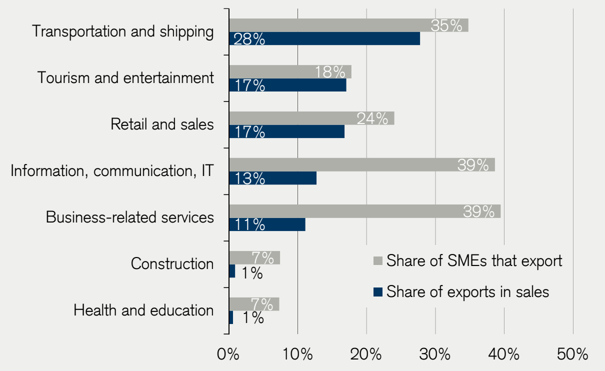


Source: Credit Suisse SME Survey 2014

Figure 17

Export share by sector: services and construction

Share in percent



Source: Credit Suisse SME Survey 2014

Service exports not negligible either

Among the various parts of the service sector, the transport and shipping industry is especially export-focused (Fig.17). Although a very large number of companies in the business services sector are active exporters, the average share of exports in sales is relatively low at 11%. In the health and education sectors, just 7% of firms earn money from exports. The fact that service providers are much less export-focused than industrial firms in overall terms is scarcely surprising. Their services are often geographically tied and therefore cannot be traded internationally by definition. This applies in particular to services provided directly to people or properties, such as a haircut, a doctor's consultation, or office cleaning. Thus 88% of all health and education service providers and 70% of all construction firms, for instance, do not export at all (or export less than they want) because their products or services are geographically tied. However, this applies to just 14% of all SMEs from the high-tech industry. Notwithstanding this, some personal services can also be "exported." For example, this might include an overnight stay in a hotel by a foreign visitor or cosmetic surgery on a foreign customer.

Swiss industrial SMEs exported goods worth around CHF 40 billion in 2012

Official figures for exports of goods do not provide any indication of the share generated by SMEs. Our survey closes this information gap: We estimate the SME share of total exports of goods by extrapolating average sales per full-time employee for each specific sector and size category as obtained in the survey to the total SME industrial sector using the latest business census. These values are multiplied by the average share of exports in sales for each specific sector and size category as obtained in the survey. Based on the resulting estimate, industrial SMEs exported goods worth nearly CHF 40 billion in 2012. This equates to around 20% of Switzerland's total exports of goods (Fig. 18). Thus the share of SME exports may be rather small compared with exports of goods by the large companies – above all because SMEs are responsible for around two-thirds of all industrial jobs. In absolute terms, the estimated volume of SME exports is nonetheless considerable at nearly CHF 40 billion.

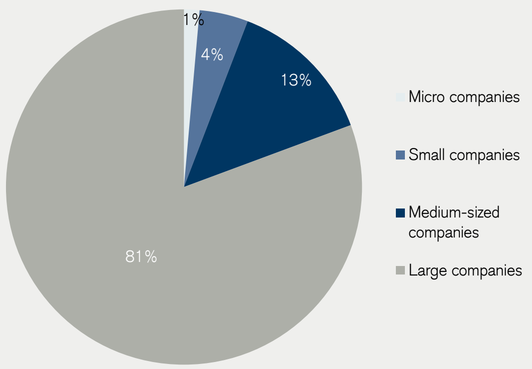
MEM exports more heavily influenced by SME industry than pharmaceutical exports

As had been anticipated, the sector structure of SME goods exports differs from that of large companies. Thus the share of SMEs in total exports of goods in the pharmaceutical industry, which is particularly heavily dominated by large firms, is only in the single digits. In the machinery, electrical engineering and metals (MEM) industry, on the other hand, SMEs account for an estimated 30-40% of all exports. Accordingly, the share of MEM exports in total SME exports is significantly greater than their share of Switzerland's total exports of goods (Fig. 19).[7]

Figure 18

Share of SME goods exports

Share of goods exports 2012 by company size

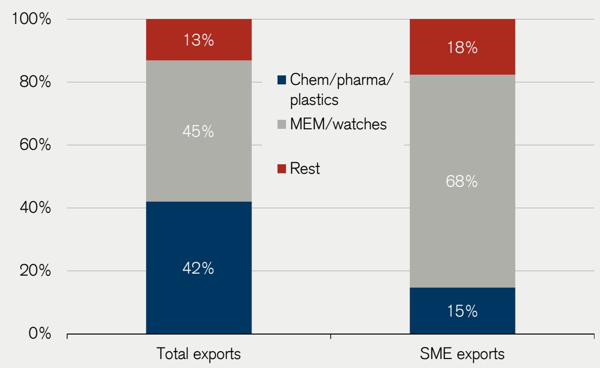


Source: Credit Suisse SME Survey 2014, Swiss Federal Customs Administration

Figure 19

Sector structure: total exports of goods vs. SMEs

Estimated share of exports by sector, 2012



Source: Credit Suisse SME Survey 2014, Swiss Federal Customs Administration

SMEs generate more than 1/6 of their sales from international corporate customers based in Switzerland

As mentioned earlier, exports are not the only form of international ties. Nearly half of all SMEs generate a portion of their sales from internationally active companies based in Switzerland and are therefore at least indirectly exposed to international competition. Indeed one-third of all SMEs not involved in exports indicated that they generate a portion of their sales from such business customers. On the basis of our survey, we estimate that Swiss SMEs generate around one-sixth to one-fifth of their total sales from internationally active corporate customers based in Switzerland. This once again shows how important the interaction between SMEs and leading multinationals is to the Swiss economy.

Export destinations for Swiss SMEs

Export destinations vary in their attractiveness

The choice of export destinations is an important success factor for exporting SMEs, particularly in the long term. Thus total Swiss exports of goods to China rose by nearly 15% annually between 2000 and 2013, whereas exports to France were up barely 2% (see "Swiss Exports | Overview" chapter). Of course, not every company that exported to China was necessarily more successful than those that exported exclusively to the French market. Among the more crucial factors are the specific business strategy, quality of local relationships, as well as sector – but also an element of luck. In light of such different growth rates, however, the structure of export destinations evidently plays a role in corporate success. This also tends to be reflected in the survey results. Thus according to our survey, industrial SMEs that export to emerging-market countries were more satisfied with their export sales in 2012 than those that confined their export activities to industrialized countries – irrespective of sector. Industrial SMEs catering exclusively to European markets were also less satisfied than those that also sold goods to non-European destinations.

7 In these sector-level comparisons, the basic proportions between the shares are plausible; however, the exact percentages should be interpreted with a degree of caution given that distortions cannot be totally ruled out due to the size of the sample.

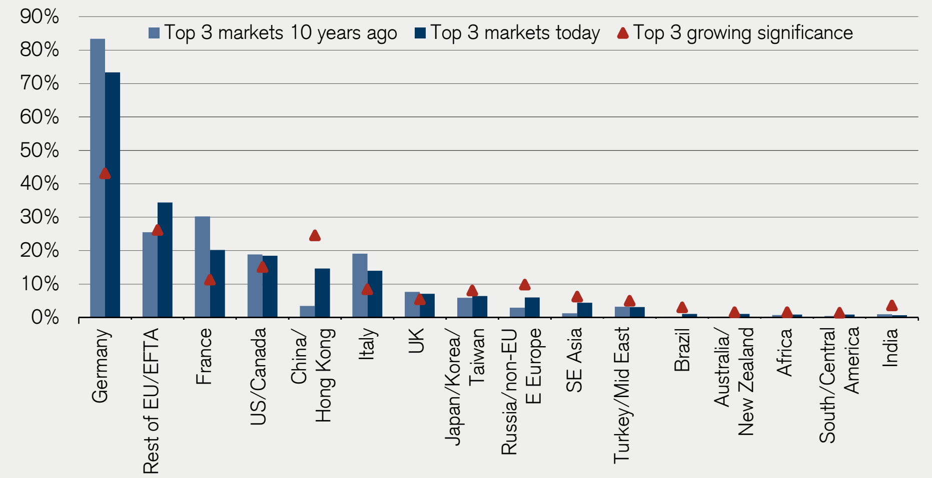
Germany by far the biggest trading partner for SMEs too

However, the European market remains by far the most important export destination not just for industry as a whole (see "Swiss Exports | Overview" chapter) but also for SMEs. Half of all Swiss industrial SMEs exported to the EU/EFTA countries in 2012. More than a third of industrial SMEs with export activities exported their goods to Europe only, with one in five exporting exclusively to Switzerland's neighbors. 73% of all industrial SMEs involved in exports indicated that Germany was one of their three most important export markets. No other market is of such major significance. The second most frequently (34%) cited market was the "Rest of EU/EFTA" (excluding Germany, France, Italy, and the UK), ahead of France (20%) (Fig. 20). The picture is similar for service-sector SMEs. It is notable, though not surprising, that SMEs in French-speaking Switzerland tend to export much more to France than SMEs in German-speaking Switzerland. On the other hand, SMEs in French-speaking Switzerland are not significantly less likely to be active in Germany than their counterparts in German-speaking Switzerland.[8]

Figure 20

Key export destinations for industrial SMEs

Share of export-focused industrial SMEs citing each market as one of their three key export destinations ("currently," "10 years ago,", "biggest increase in significance in last 10 years")



Source: Credit Suisse SME Survey 2014

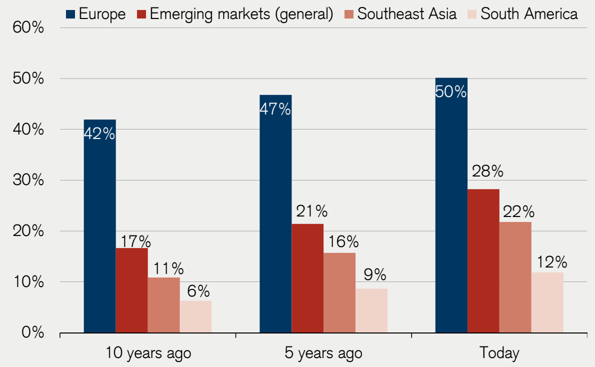
Relative winners: emerging markets; biggest gains in absolute terms: Germany

Although our neighbors remain the most important markets for the Swiss export industry as a whole, their importance has waned over the last 10 years (see "Swiss Exports | Overview" chapter). Relatively speaking, China, India, Russia, Brazil and Southeast Asia were the fastest-growing export destinations for SMEs too: Around twice as many industrial SMEs now export to these markets than was the case 10 years ago (Fig. 21). In addition, up to four times as many industrial SMEs now include emerging markets such as China or India among their three most important markets than a decade ago. But when industrial SMEs are asked directly about which three export destinations have gained most in significance for their own firm in the last 10 years, a clear 43% cite Germany, ahead of China/Hong Kong and "Rest of the EU/EFTA" (Fig. 20). To a certain degree, this reflects Switzerland's overall exports: Although total exports to China grew significantly faster than those to Germany, the contribution to growth from exports to Germany over the last 10 years was almost as large as the contribution from exports to China.[9]

8 The above figures for France are therefore likely to be slightly distorted toward the downside (by around 5 percentage points) given that SMEs in French-speaking Switzerland are slightly underrepresented in the survey in terms of responses compared with SMEs in Italian and German-speaking Switzerland.

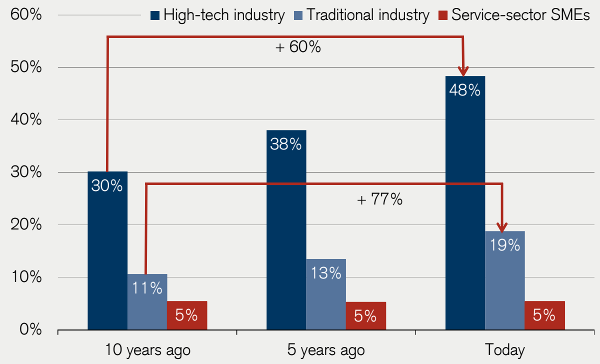
9 If we confine ourselves to the 2009–2013 period, however, the growth in exports to China and the US was more than half the total growth in exports; this compares with just 11% for Germany.

Figure 21
Growth in significance of various markets
Share of all industrial SMEs exporting to each market



Source: Credit Suisse SME Survey 2014

Figure 22
Development of emerging markets by sector
Share of all SMEs exporting to at least one emerging market



Source: Credit Suisse SME Survey 2014

The smaller the firm, the greater the focus on Europe

In this context, the question arises whether Swiss SMEs are more "Eurocentric" than large firms in terms of the volume of exports. In fact, there is evidence that small, export-focused industrial SMEs are much more likely to export exclusively to neighboring countries or to Europe only, and to export to significantly fewer non-European markets than medium-sized export-focused companies. Micro firms in particular exported less frequently to emerging-market countries. There is also evidence that over the last 10 years the emerging markets have tended to gain much more significance as an export destination for larger industrial SMEs than for small players. All in all, this leads us to conclude that the smaller the firm, the greater its dependence on the European market. The possible reasons for this are discussed in the "Outlook" chapter on page 30.

High-tech SMEs particularly active in emerging markets

The geographical bias of the individual sectors varies sharply. They have also benefited to a varying degree from the boom in the emerging-market countries over the past decade. Today, nearly half of all high-tech SME companies and nearly one-fifth of traditional industrial SMEs export to emerging-market countries; this compares with just 5% of all service-sector SMEs. Compared with industrial companies, most service providers did not derive as much benefit from the rapid growth in emerging markets – at least directly (Fig. 22). This is likely to be down to the locally based provision of many services, as discussed previously. This is compounded by the fact that language barriers play a much greater role in relation to certain services compared with the export of goods. However, many service providers are likely to have benefited indirectly from the rise of the emerging-market economies, for example as suppliers to industrial companies that export to emerging-market countries.

SMEs and international competition

Increase in competition from industrialized countries more significant than greater competition from Asia

The strong international ties of Switzerland's SME sector and the country's open economy also mean that many businesses have to stand their ground against growing international competition. Domestically oriented SMEs face increased exposure to foreign rivals in their home market, while export-focused firms operate in foreign markets that are also increasingly contested. Four-fifths of all SMEs therefore believe that competitive pressures have increased in the last 10 years. 57% experienced greater domestic competition, while nearly half were seeing greater competition from abroad. Contrary to popular belief, it is not greater competition from Asia that poses the biggest headache for SMEs but the general increase in foreign competition or an increase in competition from industrialized countries. This is also the case for industrial SMEs, although more than one-fifth of firms here are seeing greater competition from Asia. Interestingly, larger SMEs are more likely to notice a rise in competitive pressures than their smaller counterparts. The reason is likely to lie in the greater domestic orientation of small SMEs. Many small firms – especially service-sector SMEs – are primarily active at local level and therefore significantly less likely to be exposed to international competition than larger, particularly industrial SMEs.

Biggest increase in competition in retail and sales, smallest in healthcare

The subjective perception of greater competitive pressure differs from sector to sector (Fig. 23). Thus the high-tech industry – and mechanical engineering in particular – sees itself increasingly squeezed by foreign competition, while some traditional areas of industry such as food and the wood industry are experiencing slightly stronger domestic competition. Greater competition from Asia is felt above all by SMEs from the chemicals and electrical engineering industries as well as manufacturers of precision instruments. In the service-sector industries, SMEs in the retail and sales sector were particularly likely to cite an increase in competitive pressure in the last 10 years – both domestically and from abroad. This is a clear indication that shopping tourism is taking its toll but also a sign that this sector is increasingly competing with foreign competitors with a foothold in the Swiss market. Compared with other sectors, the retail and sales industry is also significantly more skeptical about the future development of the "international ties" success factor for Switzerland as a business location (see "Success Factors for Swiss SMEs" chapter). Conversely, companies in the health, education and social services sectors, as well as providers of business services, are less likely to perceive an increase in competitive pressure compared with SMEs in other sectors. Both sectors are largely shielded from foreign competition, while the healthcare sector is also protected from domestic competition thanks to regulatory requirements.

Figure 23

Perceived increase in competitive pressure in last 10 years, by sector

"=": Average increase in competitive pressure in sector terms; "–" and "– –": below-average increase in competitive pressure; "+" and "++": above-average increase in competitive pressure

	General increase in competition	More competition from abroad
High-tech industry	=	++
Traditional industry	=	++
Construction	=	–
Retail and sales	++	++
Transport and shipping	=	=
Tourism and entertainment	=	=
Health and education	– –	– –
Business-related services	–	–
Information, communication, IT	=	=

Source: Credit Suisse SME Survey 2014

Industrial SMEs marginally satisfied with development of export sales; marginally dissatisfied with margins

We not only questioned SMEs about the perceived degree of international competition but also asked them directly about the extent to which they are satisfied with their export activities. In 2012, industrial SMEs were marginally satisfied with export sales relative to targets. The verdict on the development of export sales in the last five years was also marginally positive. The margin situation was viewed more negatively, however. In 2012, the negative verdicts of industrial SMEs were balanced out by positive ones. As for the margin situation compared with five years ago, the negative views actually dominated slightly.[10] A similar verdict was obtained in the case of service-sector exporters. This comes as little surprise given the backdrop of the Swiss franc's strength: Due to the strong franc, many Swiss manufacturers have had to grant price concessions in recent years in order to remain competitive.

Precision instrument manufacturers show greatest satisfaction with export trend

Satisfaction with the development of exports also varied widely from sector to sector (Fig. 24). On balance, a majority of sectors were satisfied with the development of exports in the last five years. Exceptions include SMEs from the paper and plastics industries. As for export margins, the picture is more negative than the verdict on export sales for a majority of sectors. On balance, only SMEs in the precision instruments, chemicals and watch industries were satisfied

10 The following specific questions were asked: "If your company exports, how satisfied are you with the sales generated by exports in 2012 compared with your targets/expectations?" and "If your company exports, how satisfied are you with the sales generated by exports in 2012 compared with five years ago?" The same questions were asked in relation to the margins achieved in exports.

with the development of margins in the last five years. Overall, only manufacturers of precision instruments and watches as well as chemical industry SMEs rate the development of export sales as well as margins as positive on balance.

Small industrial SMEs more satisfied with export margins than larger players

The industrial SMEs' views about their export activities are also influenced by factors other than sector affiliation. Somewhat surprisingly, there is a statistically highly significant negative correlation between satisfaction with export margins and company size. Conversely, a greater share of exports in sales has a significantly positive influence in statistical terms on satisfaction with the development of sales – though not on satisfaction with margins – irrespective of sector and company size. Putting it in simpler terms, the conclusion is that small SMEs can be at least as successful as larger players when it comes to export activities and a high share of exports can be helpful to achieving growth targets for exports.

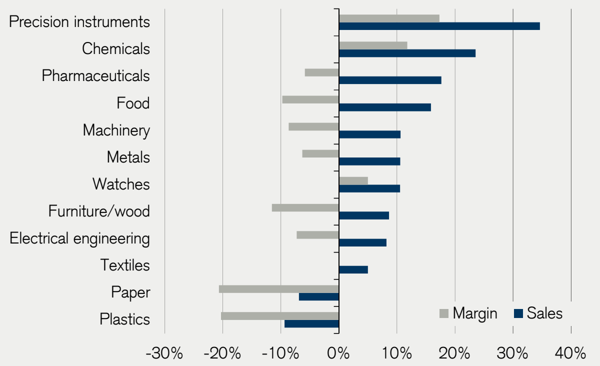
Smaller SMEs export above all if they can find a niche

Thus the negative correlation between satisfaction with margins and company size can probably be explained by the fact that small SMEs are presumably more likely than medium-sized companies to be exclusively involved in exporting to attractive niche markets. Small businesses are likely to venture a move into export activities mainly on the basis of their most promising product – that is, they will only export if they can find a niche that generates handsome margins. Larger SMEs generally distribute a broader product range and as far as exports are concerned too are probably more willing to enter into the volume business – with less attractive margins – for some products. Based on the results of last year's survey, larger SMEs also tend to be older than smaller firms; this increases the probability of them operating in more mature markets that are likely to be more heavily contested in price terms.

Figure 24

Satisfaction with export activity by sector

"2012 versus 5 years ago"; net balance of weighted positive and negative responses

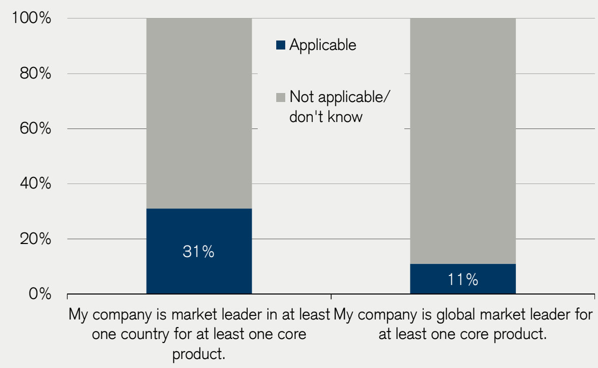


Source: Credit Suisse SME Survey 2014

Figure 25

Market leadership of Swiss industrial SMEs

Share of mentions in percent



Source: Credit Suisse SME Survey 2014

Switzerland – land of hidden champions

There are various strategies for export-focused SMEs to address international competitive pressures. One possibility is to venture into global niche markets. This is the strategy pursued by "hidden champions" – firms that are little known to the general public but among the world market leaders for certain products. A look at the business press shows that by international standards Switzerland is home to a relatively large number of such firms.[11] One example of a hidden champion is DT Swiss, a world market leader in the manufacture of bike spokes. The category also includes the likes of Winterthur-based firm Sigvaris – world market leader in medical compression stockings – and Westiform, European sector leader for illuminated signage.

11% of industrial SMEs are hidden champions

With 300-4,000 employees, most of the companies mentioned can no longer officially be termed SMEs. We therefore wanted to find out whether hidden champions also exist among industrial SMEs. In fact, around one-tenth of all industrial SMEs taking part in the survey believe

11 See, for example, "Bilanz," July 20, 2013: "Hidden Champions: - Heimliche Helden"

they are the global market leader for at least one core product. 31% indicated that they were the market leader for at least one core product in at least one country (Fig. 25). Somewhat unsurprisingly, SMEs that are the global market leader for at least one core product are much more internationally exposed than other industrial SMEs: Based on our survey, hidden champions generated an average of 65% of their sales from exports (versus 32% for the other industrial SMEs); they are also much more likely to have production outside Switzerland and on average supply twice as many foreign markets[12] as other export-focused industrial SMEs.

Global market leaders to be found in high-tech in particular

An especially large number of hidden champions can be found among manufacturers of precision instruments. Here around 60% of all SMEs participating in the survey indicated that they were the global market leader for at least one core product. The watch, electrical engineering and machinery industries (around 20-30% are hidden champions) rank some distance behind. In the traditional industrial sectors such as food, wood, and paper/printing, there are virtually no global market leaders. Not surprisingly, hidden champions tend to be medium-sized businesses with only very few being micro firms.

Hidden champions with export operations more satisfied than other SMEs – but not significantly so

This obviously raises the question of whether a niche strategy is more successful than other strategies. Our survey results indicate that hidden champions are slightly more satisfied with their export development than other industrial SMEs. However, the statistical relationship is only significant in the case of export margins. This once again shows firstly that there is no such thing as a strategy that guarantees success and second that many roads can lead to success.

Free Trade Agreements

Effect of free trade agreements

Free trade agreements ensure barrier-free trade

A free trade agreement is a treaty between two or more countries designed to make the trade in goods between the parties involved as duty and barrier-free as possible. Furthermore, a free trade agreement can include rules on the trade in services, protection of intellectual property, investment and public procurement. Under a free trade agreement, the immediate, step-by-step, full or partial dismantling of customs duties can be agreed.

No agreement with important trading partner US

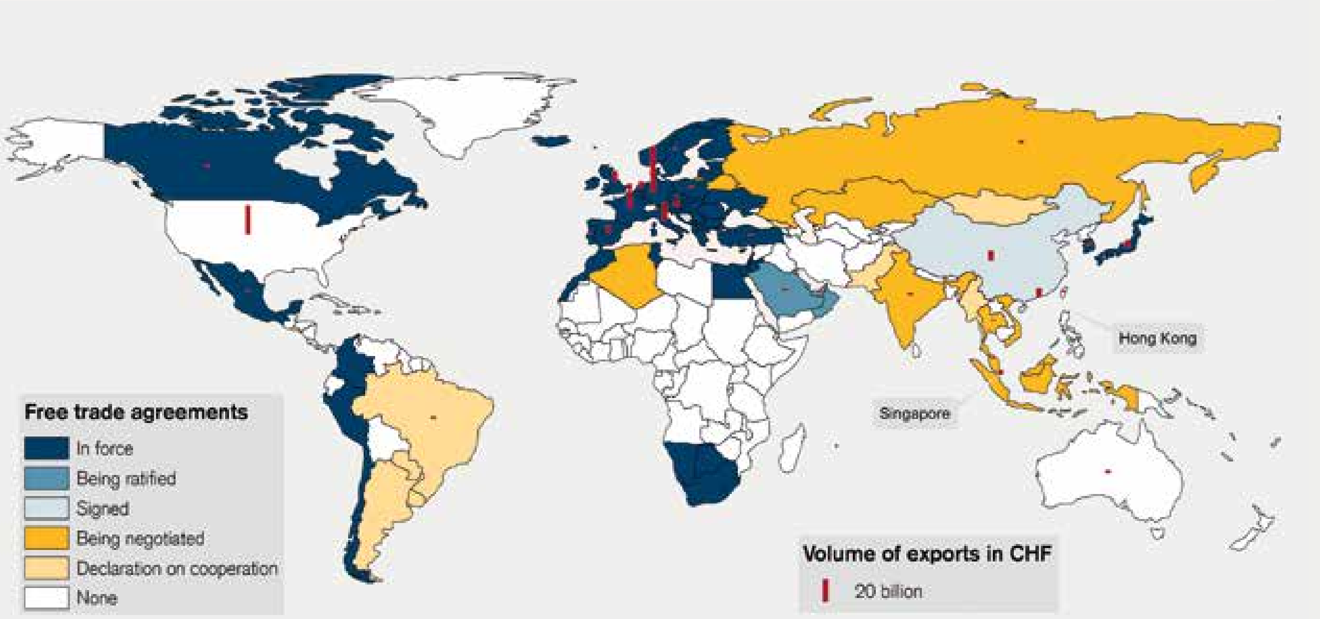
Switzerland currently has 26 free trade agreements in force, as well as four signed, with a total of 40 different partners. Most are multilateral agreements that Switzerland has negotiated with other countries via EFTA[13] (European Free Trade Association). Switzerland signed its first free trade agreement with EFTA in 1960, and its most recent one with China in July 2013. The most important free trade agreement (together with Bilaterals I and II) is the EU deal, which covered around 55% of Switzerland's total exports in 2013. Further agreements are being negotiated at the moment, in particular with countries in the Asia region (Fig. 26). There are no current plans for a free trade agreement or negotiations with the US, Switzerland's second largest trading partner, although around one-tenth of all Swiss exports are destined for the US. The two countries did seek to enter into negotiations, but the plan collapsed in 2006 due to differing objectives in relation to the agriculture sector.

12 Foreign markets based on definition in Figure 20.
13 Along with Switzerland, the current members of EFTA are Liechtenstein, Norway, and Iceland.

Figure 26

Swiss free trade agreements and volume of exports, 2013

Volume of exports: shown if greater than CHF 1 billion



Source: State Secretariat for Economic Affairs, Swiss Federal Customs Administration, Geostat, Credit Suisse

Agreements should have positive effect on exports

Free trade agreements are designed to improve access to foreign markets. Depending on the speed at which tariffs are dismantled, they should result in a clear rise in exports in the short to medium term in the partner countries post ratification. Accordingly, the rate of growth in exports to partner countries is bound to increase at least temporarily in the short to medium term. To quantify this effect, we analyzed seven free trade agreements (Canada, Mexico, South Korea, Singapore, South Africa, Japan, and Chile)[14] as well as the growth rates in total Swiss exports and those of five sector aggregates (food, pharmaceuticals/chemicals, machinery, electrical engineering, watches) over specific periods of time. We also took account of the fact that growth rates in Swiss exports are dependent not only on free trade agreements but also on GDP growth in the individual destination country, the corresponding exchange rate and the general development of international trade ties.

Free trade agreements have no clear effect on exports

The free trade agreements we examined did not show a clear picture. In our analysis, we did not identify a universal impact of free trade agreements on Swiss exports. For some sectors and agreements, on the other hand, the results were clearer. Thus free trade agreements seem to produce a significant increase in the growth of watch exports. This effect is especially pronounced in the case of the agreements with Japan, Mexico, and South Korea. Only in the case of pharmaceuticals and chemicals did the agreements with Canada, Chile and Singapore increase the growth in exports to the country in question on a short or longer-term basis. There was an increase in the growth in electrical engineering exports to South Africa in the medium term, while the free trade agreement with South Korea increased not only watch exports but also food exports in the longer term.

Swiss firms utilizing free trade agreements

Based on calculations of the degree to which free trade agreements are utilized, however, a study commissioned by Switzerland Global Enterprise (S-GE, formerly OSEC) shows that Swiss firms do indeed take advantage of these agreements.[15] So why do the export data not show any universal effect?

14 Free trade agreements were selected based on the availability of data as well as geographical and temporal distribution.

15 Ziltener P., Blind G.D. (2014): Effektivität der Schweizer Freihandelsabkommen (FHA) weltweit – Eine Evaluierung der FHA Nutzung durch Schweizer Exporteure, 2012 – 13. (only German)

Other agreements and non-tariff barriers are possible reasons for the lack of an effect

There are many reasons why the effect of free trade agreements on export growth is difficult to capture in statistical terms. Free trade agreements can indeed be ineffective for some sectors or companies if it is not worthwhile producing the certificates of origin required in order to obtain exemption from customs duties. There is also no major, visible effect if a mutual dismantling of customs duties and taxes has already taken place prior to signing the treaty and the agreement "merely" sets out in writing the route already taken and thus creates legal certainty. The impact is also likely to be minimal if other agreements governing the tariff-free trade in specific goods (e.g. the WTO pharmaceuticals agreement for tariff-free trade in pharmaceuticals) already exist prior to the free trade agreement. If, despite reductions in tariffs and duties, companies continue to experience major barriers to trade – such as an absence of contacts in the destination country, insufficient international experience, or unattractive margins – free trade agreements do not materially increase cross-border trade. All these issues can lead to a situation where export volumes show no marked change after an agreement comes into force.

Advantage lies in reduced costs

Free trade agreements are likely to have a much greater effect on the costs of exporting, however. The study commissioned by S-GE shows that free trade agreements can result in massive savings on customs duties. Thanks to the Swiss-EU free trade agreement, for example, Swiss exporters are able to save a total of nearly CHF 740 million in customs duties every year on their exports to Germany alone. Through the free trade agreement, these cost savings are legally protected for the long term.

Industrial SMEs' view on free trade agreements

Despite agreements, customs duties and taxes still a barrier to exports for SMEs

Swiss SMEs have strong international ties (see "SME Exports" chapter). However, international trade is not always barrier-free. Our survey shows that excessively narrow margins, strong competition in destination markets and the high level of investment required to enter a foreign market are the key factors preventing industrial SMEs that already export from expanding their export activities (Fig. 27). Nearly one-quarter of exporting SMEs also cite customs duties and taxes as a barrier to exports, despite the free trade agreements that already exist. Other agreements or agreements that involve a much more significant reduction in customs duties could help rectify matters.

Certificate of origin a barrier for more than one-third of SMEs

SMEs are not only burdened by customs duties and taxes: The terms and conditions under which a product can be labeled "Swiss Made" (see box on "Certificate of origin"), and can therefore benefit from the reductions in customs duties under the agreement, seem to cause problems. More than one-third of non-exporting SMEs indicate that the cost of providing a certificate of origin is one reason for their lack of export activity.

Certificate of origin

The exemptions from customs duties and taxes agreed as part of a free trade deal only apply to the respective contracting parties. Should an exporter wish to benefit from the free trade agreement, it must prove that the goods concerned were manufactured in a country that is a party to the free trade agreement ("certificate of origin"). In principle, Swiss goods are declared to have originated in Switzerland and are given a certificate of origin provided one of the following conditions is met:

- The goods are wholly obtained in Switzerland.
- The goods are sufficiently worked or processed in Switzerland.
- The goods are composed of products which have not been sufficiently processed in Switzerland, but which originate in a contracting state.

The extent to which a product was "sufficiently" worked or processed in Switzerland is set out in the origin protocols of the individual free trade agreements. For each shipment abroad, the origin of the product must be fully proven. The origin of the goods is certified by the Swiss customs authorities when the goods are exported (movement certificate) or, in the case of small shipments, confirmed by the company by means of the declaration of origin on the invoice.

Certificate of origin particularly difficult for micro and small firms

The conditions that a product must meet in order to qualify for a Swiss certificate of origin depend on the free trade agreement concerned. Thus an agreement with one country may recognize goods as being sufficiently processed or worked in Switzerland, while an agreement with another would require a switch of manufacturing stages to Switzerland (or to a partner country) in order to qualify for the certificate of origin. Certification of origin also results in considerable administrative expense. This is likely to be the reason why, according to our survey, the certificate of origin is a much more significant obstacle for smaller SMEs (in terms of sales) than it is for their larger counterparts.

Nearly 30% of SMEs describe free trade agreements as irrelevant

The high cost associated with the certificate of origin is ultimately likely to be partly responsible for the fact that nearly 30% of exporting industrial SMEs describe free trade agreements as irrelevant to them. The share rises slightly to around 33% if service-sector SMEs are also included. Those describing the free trade agreements as irrelevant also include businesses whose products are excluded from free trade agreements or whose products can benefit from other agreements (such as WTO agreements).

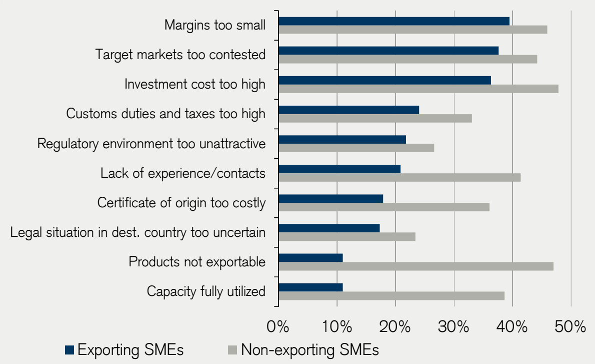
Export focus and sector affiliation affect significance of agreements for SMEs

The relevance of free trade agreements also depends on export focus and sector affiliation. Our survey shows that the significance of free trade agreements to exporting SMEs rises with the share of exports in total sales. In sector terms, free trade agreements are more relevant to chemicals, plastics, food, textiles and clothing manufacturers. This is probably due to the fact that regional textile and food industries in particular, but also markets for the relevant primary materials, are still heavily protected in some cases. Free trade agreements are less relevant for pharmaceutical SMEs, on the other hand. For these SMEs the WTO pharmaceutical agreement is likely to play an important role.

Figure 27

Most important barriers to trade

Share of industrial SMEs exporting less or not at all for these reasons.

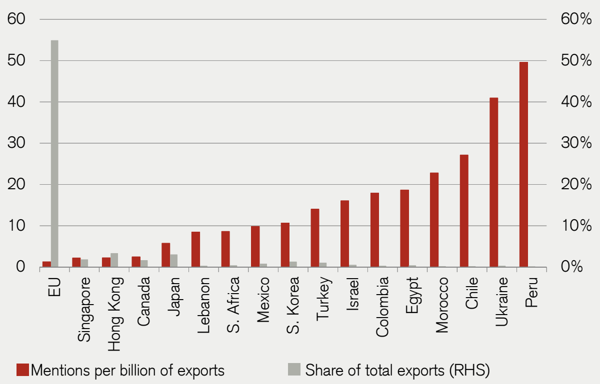


Source: Credit Suisse SME Survey 2014

Figure 28

Frequency of trade barriers per agreement

Mentions per billion Swiss francs of exports to each country in 2013; share of total exports in 2013 in percent



Source: Swiss Federal Statistical Office, Swiss Federal Customs Administration, Credit Suisse SME Survey 2014

Free trade agreement with EU means marginal barriers to trade

The relevance of free trade agreements to SMEs also depends ultimately on how effectively they overcome barriers to trade. According to our survey, the success of the agreements is variable in that not all free trade agreements mean barrier-free trade. The lowest barriers to trade are to be found in the EU (Fig. 28). Just 143 of the SMEs surveyed said they encountered major barriers to trade despite the agreement. This represents slightly more than one mention per billion Swiss francs of exports to the region in 2013. Barriers to trade are mainly likely to comprise various customs formalities, waiting times and disadvantages in relation to product approvals, and arise due to Switzerland's non-membership of the EU Customs Union. The EU's good showing is all the more important given that it is Switzerland's no.1 export market. Although Hong Kong and Japan are more or less of equal size as export markets, the barriers to trade currently seem higher in Japan. In overall terms, the emerging-market countries exhibit an average to poor performance; the same is true for the South and Central American countries. Here, large distances and the associated high cost of transport, political instability in some countries as well as poor infrastructure standards at a local level are likely to pose significant barriers to trade. The result is also likely to be distorted in the case of Switzerland's largely insignificant export markets given that only a few of the SMEs export to these countries at all.

Free trade agreements as alternative to WTO?

Swiss and EU reactions to the "yes" vote in the referendum on mass immigration once again showed the importance of stable international relations. Good, permanent access to foreign markets is especially important to Switzerland, as an exporting nation. Good market access conditions can best be achieved through a multilateral system such as that of the World Trade Organization (WTO). However, the ongoing WTO talks on the opening up of regional markets are currently blocked due to contentious issues in the liberalization of agricultural trade. Switzerland is also only partially supportive of efforts to establish free trade in the agriculture sector. To nevertheless improve access to certain foreign markets, governments are taking the opportunity to conclude bilateral free trade agreements. On account of the smaller number of contracting parties involved, bilateral deals are naturally easier to negotiate than multilateral agreements. Added to that, they leave the negotiating partners sufficient scope to take individual needs into account. More heavily protected sectors such as textiles and agriculture are therefore generally excluded from free trade agreements. However, free trade agreements have major disadvantages over WTO deals. They can result in inefficient trade allocations and barriers to trade for countries not party to the agreement by only reducing the price of the goods of parties to the agreement. Also, the network of differently structured free trade agreements is not transparent and is associated with high information procurement costs for economic players ("spaghetti bowl effect"). Switzerland's negotiating power is also likely to be limited, as it often plays a secondary role as trading partner. This is evident not least from the long transition periods and in some cases incomplete dismantling of customs duties in the free trade agreement with China. The Bilaterals I and II, complementing the free trade agreement signed with the EU in 1972, are a Swiss "free trade speciality." The Bilaterals I and II give Switzerland preferential participation in the EU internal market and therefore extend beyond the typical opening-up of markets under a free trade agreement. These agreements additionally strengthen cooperation between Switzerland and the EU in terms of research, transportation, security, asylum, environment, and culture. The difficulty of this more far-reaching integration is that it requires acceptance of the EU legislation concerned and the issuing of parallel internal rules. Adaptation and development are accordingly more difficult, which can lead to protracted political debate and render implementation more difficult. Efforts are therefore underway between Switzerland and the EU to redefine the institutional element of mutual relations, in particular the adaptation of legislation, implementation, interpretation, and dispute resolution with a framework agreement.

SMEs want deal with US

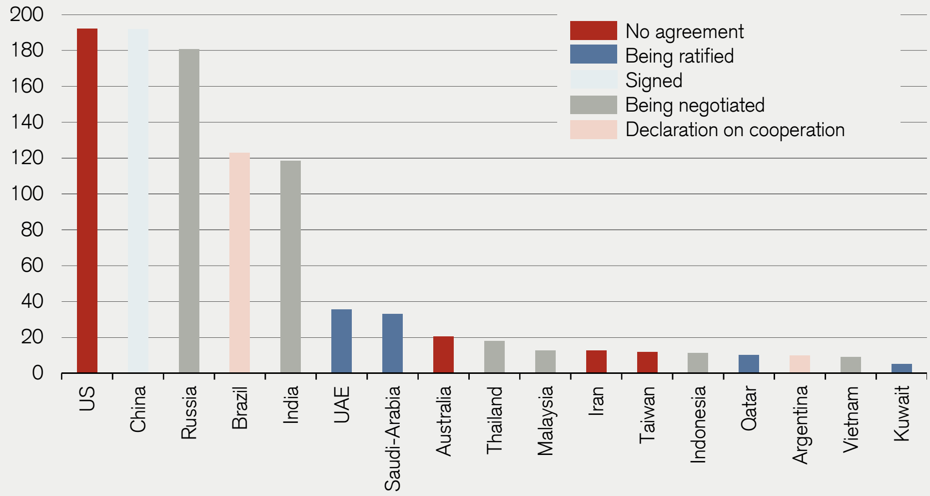
Although not all SMEs benefit equally from free trade agreements and barriers to trade still exist in some instances despite agreements, more than one-third of the industrial SMEs questioned want more free trade deals. We show how urgent individual free trade agreements are from the perspective of industrial SMEs using an "urgency index" (Fig. 29). This index shows how strongly the SMEs questioned want a specific free trade agreement in future. The number of exporting SMEs currently wanting a free trade agreement is weighted on the basis of potential growth in the relevant destination region. According to this index, a free trade agreement with the US is the most urgent of all – followed by agreements with the BRIC countries. For a large number of sectors, the US features at the top of the list of candidates. This excludes the chemical, pharmaceutical and precision instrument sectors, which put China as the clear number one. A free trade agreement with India is also of top importance to exporting SMEs in the watch industry. Swiss foreign trade policy is responding to the wishes of these sectors. For instance, a free trade agreement was signed with China in 2013. Negotiations are also underway with India and

Russia[16], while there is an EFTA joint declaration on cooperation with Brazil.[17] There are no current plans for negotiations with the US, however, and this is seen as a glaring omission from an SME perspective. A comprehensive Swiss-US free trade agreement would be beneficial to the Swiss economy as a whole: According to estimates by the Peterson Institute for International Economics, such an agreement would increase Swiss GDP by around USD 1.1 billion annually.

Figure 29

Urgency index: Degree to which SMEs want a free trade agreement

Number of mentions multiplied by potential growth multiplier of corresponding export region



Source: Credit Suisse SME Survey 2014

Outlook

Swiss foreign trade: Where is it headed?

An aid to planning: growth scenarios for external trade

Following in-depth analysis of the past and the present, we now hazard a glimpse into the future. This is by definition uncertain, and the ability to forecast decreases the further into the future one goes. Companies nonetheless need to plan beyond the short term. Pointers to future economic development are also needed when making strategic decisions for the medium and long term. Below we therefore not only examine forecasts for this year and next but also present medium to long-term growth scenarios for Swiss external trade.

Exports to euro zone rising again from 2014 after two years in doldrums

The recovery in the euro zone has gathered pace since the end of the recession in mid-2013. The upturn is also likely to continue in the second half of 2014, although with pronounced differences from country to country. In parallel with the economic upturn, Swiss goods exports to the euro zone are likely to increase in 2014 for the first time since 2011 (Fig. 30). Based on our core scenario for euro zone GDP to 2019, we anticipate that nominal growth in exports will be significantly higher in the years ahead than in the years following the financial crisis.

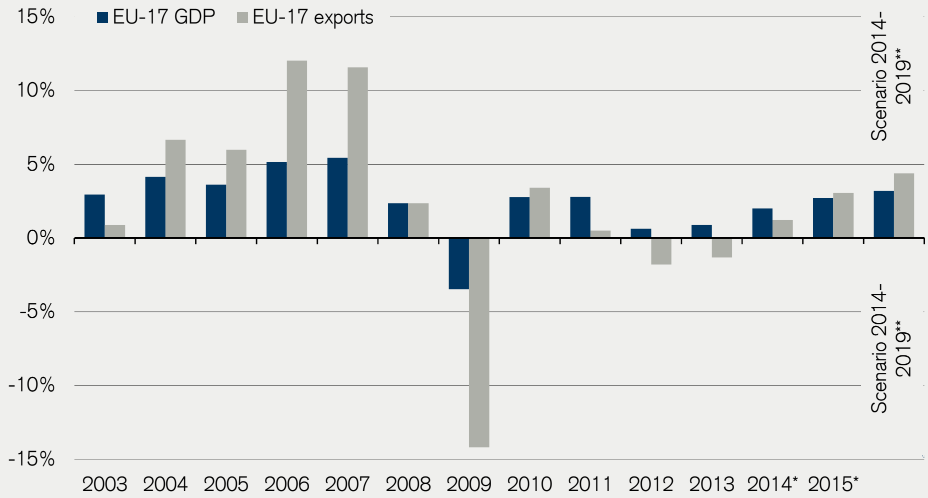
16 Due to recent events in Eastern Ukraine, Switzerland has halted negotiations with Russia.

17 EFTA joint declarations on cooperation provide for an institutionalized dialogue on the possibilities for deepening economic relations. They may culminate in negotiations on a free trade agreement at a later date.

Figure 30

Medium-term outlook for euro zone GDP and Swiss goods exports

Annual growth rates in GDP and Swiss goods exports to the euro zone (nominal); *forecasts; **Credit Suisse Capital Market Assumptions (CMA), June 2014, core scenario



Source: OECD, Swiss Federal Customs Administration, Credit Suisse

Europe currently the biggest economy together with US, but increasingly losing significance

The EU, alongside the US, remains the biggest economy in the world. In future, however, the big emerging-market economies in particular will continue to gain significance globally. Based on the CEPII's forecast model (see box p. 32), the BRIC countries alone are likely to see their share of world GDP rise from the current one-fifth or so to more than one-third by 2050. Therefore, the BRIC countries together will one day have almost as much economic power as the US and EU combined. Conversely, Europe is becoming less significant based on the CEPII core scenario. From around one-quarter of global economic output in 2013, the EU is likely to be down to just over one-sixth by 2050. Long-term forecasts such as these are obviously the subject of considerable uncertainty. Given such a long time frame, it is highly likely, for example, that unforeseen political upheavals or world-changing technological developments will occur. Therefore, this glance into the future should not be understood as a forecast in the narrower sense; instead, it should be viewed as a plausible scenario based on today's perspective.

Rise of middle classes in emerging-market countries – catch-up effect on consumer goods

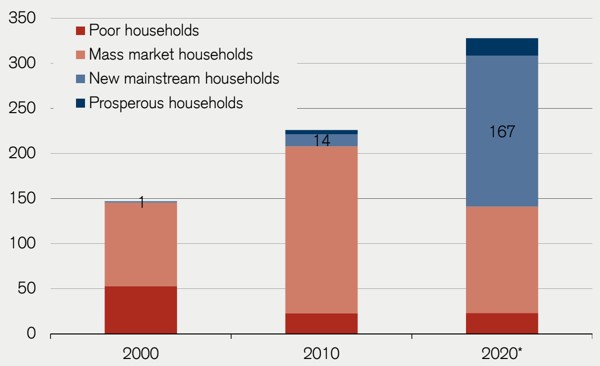
The rise of the emerging-market economies is accompanied by the development of a large middle class. This trend can be seen all over the world, but China represents the best example. Its middle class has expanded strongly in the last 10 years. This trend is not only likely to continue but also to move up a gear. In China's urban centers, the number of households with annual disposable income of more than USD 16,000 is likely to increase by nearly 170 million between 2010 and 2020 (Fig. 31).[18] Although an increase in investment projects, for instance in energy and transport infrastructure, is also likely as prosperity grows, it is manufacturers of high-value consumer goods that are likely to benefit most from the expanding middle class. A glance at Swiss external trade statistics also shows how this catch-up potential is likely to be especially pronounced in the case of consumer goods: At 20%, the share of exports of consumer goods (excluding watches) in total exports to China (including Hong Kong) in 2013 was less than half the percentage destined for other countries (Fig. 32). This is despite the fact that this share grew more significantly in the last 10 years than was the case for overall exports – that is, a certain catch-up effect was already in evidence.

18 McKinsey (2012): Annual Chinese Consumer Report

Figure 31

Disposable income of Chinese households

Number of urban households per income group in mn; "poor": USD 0-6,000, "mass market": USD 6,000-16,000, "new mainstream": USD 16,000-34,000 and "prosperous": more than USD 34,000

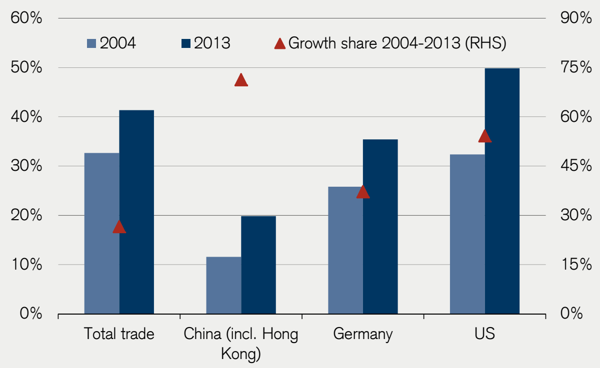


Source: McKinsey, Credit Suisse; *forecast

Figure 32

Share of consumer goods in total exports

Share of consumer goods (excluding watches, jewelry and optics) in Switzerland's total exports of goods; percentage growth in share of consumer goods 2004-2013



Source: Swiss Federal Customs Administration, Credit Suisse

Aging of society influences trade flows

In its latest World Trade Report, the WTO puts demographics at the top of a list of factors that will have a determining influence on world trade in future.[19] Demographic aging is continuing around the world, albeit with major regional differences. This has far-reaching consequences in all economic spheres. The pool of labor is changing just as much as the consumption structure of society: An older society spends more on communication, transport, and health services. Various projections indicate that services and high-tech sectors are likely to benefit most from this shift in the consumption structure. What matters in this context is the fact that the world as a whole is aging yet the geographical differences remain sizeable. Most emerging-market and developing countries will likely continue to have a younger population than industrialized countries over the coming decades – with attendant consequences for consumption and investment behavior.

Export scenario based on CEPII's GDP scenario

The geographical shifts in global economic power and demographic as well as socioeconomic change in emerging-market countries have a fundamental influence on the future structure of Swiss exports of goods. To obtain an idea of how these developments impact on the geographical structure of exports, we have used the GDP growth scenario produced by the CEPII[20] to calculate the likely shares of the individual destination countries in Swiss exports of goods in 2035 from a current perspective (Fig. 33).

GDP forecasts of the CEPII

The international GDP projections used in the current study come from the EconMap database produced by the CEPII (Centre d'Etudes Prospectives et d'Informations Internationales). Based on a production function that attributes GDP to the factors of labor, capital and energy, as well as two types of technological progress, the economists at the French research institute calculate GDP growth scenarios for 147 countries. The forecast horizon extends to 2050. The model used was aligned with the labor volume forecasts of the UN and the International Labor Organization (ILO); econometric estimates for capital accumulation, the savings ratio, the relationship between savings capital and investment rates, education levels, female workforce participation rates as well as technological progress were also incorporated.

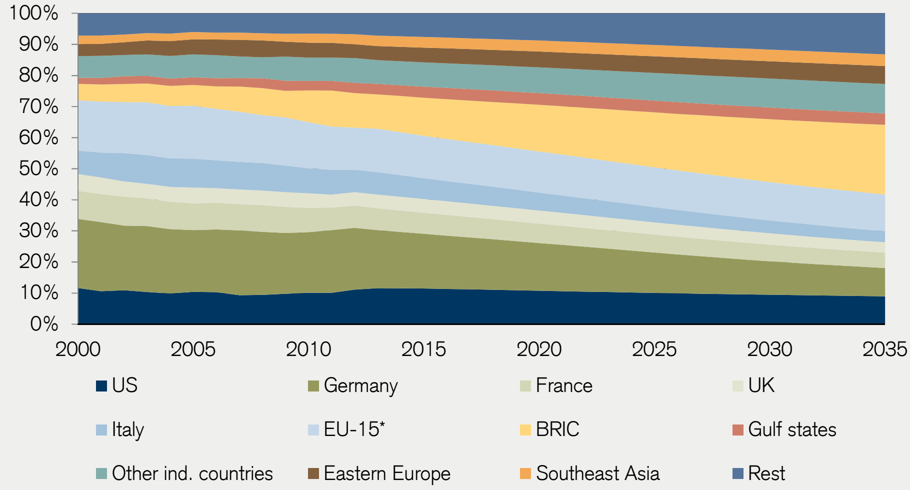
19 WTO (2013): World Trade Report 2013 – Factors shaping the future of world trade

20 Jean Fouré, Agnès Bénassy-Quéré & Lionel Fontagné (2012). "The Great Shift: Macroeconomic projections for the world economy at the 2050 horizon," CEPII Working Paper 2012-03, February.

Figure 33

Swiss export markets 2000-2035

Share of individual countries/groups of countries in Swiss exports in percent, forecast as of 2014



Source: Swiss Federal Customs Administration, CEPII, Credit Suisse; *excludes Germany, France, UK and Italy

Western Europe losing significance, BRICs gaining

In view of their increasing political and economic weight, it comes as no surprise that the emerging markets are increasing in significance for the Swiss export sector. The BRIC countries are likely to boost their share as a destination for Swiss goods from the current 11% to 22% in 2035. Southeast Asia should see its share rise from the current figure of over 3% to nearly 4% and Eastern Europe, including Turkey, from more than 4.5% to almost 6%. The US will likely shed some of its importance as an export destination, though to a lesser extent than the West European countries. The share of Western Europe (EU-15) is likely to shrink significantly, from the current 51% to just under 40%. Germany will likely account for just over 9% of all Swiss goods by 2035 as against nearly 19% today. By 2035, China (including Hong Kong) is therefore likely to have replaced Germany as the biggest customer for Swiss exports. However, it is important to mention that a decline in relative significance is not tantamount to a decline in export volume. Thus Switzerland exported goods with a value of nearly CHF 38 billion to Germany in 2013; by 2035, the figure is likely to be more than CHF 50 billion (in today's Swiss francs). Western Europe is also likely to remain the most important market for Swiss exporters in 2035.

Sectors vary sharply in terms of presence in future growth markets

The discussion thus far indicates that some sectors are likely to benefit from the rise in emerging-markets to a greater extent than others. For individual sectors, it is difficult to paint a future scenario such as that in Figure 33. We can, however, seek to examine which sectors already have a presence in the growth markets of the future and to what extent. For each sector, Figure 34 shows what share of its exports in 2013 went to markets that will likely see above-average growth (shades of blue) in the period to 2035 and what share of the goods were exported to countries that are likely to lose significance in relative terms going forward (shades of red).

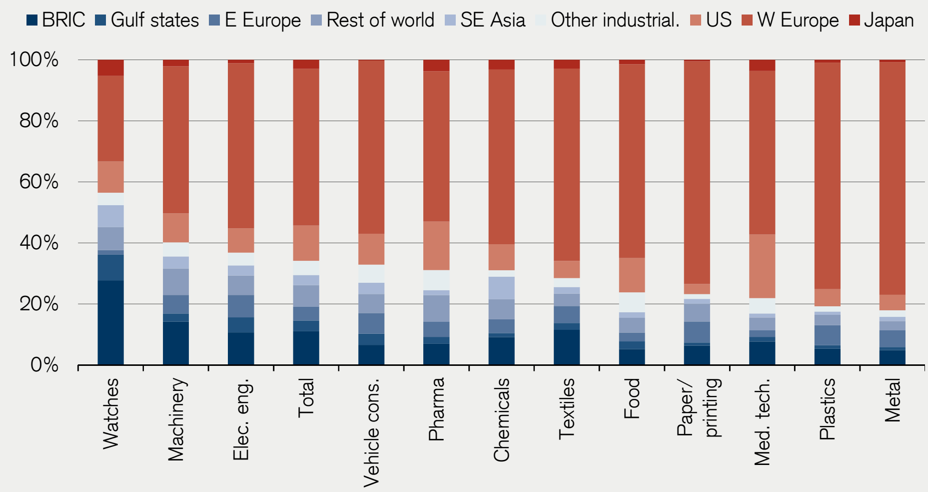
Watch, machinery and electrical engineering sectors have particularly strong presence in growth markets

It is clear that the watch, machinery and electrical engineering sectors have an above-average presence in future growth markets. The metals, plastics and medical technology sectors can be found at the other end of the scale. Firms that already have a foothold in growth markets are likely to benefit from further growth in these countries more quickly than those that have yet to build up the necessary market infrastructure. Nevertheless, this does not necessarily mean that today's greater presence should be equated with higher future growth rates.

Figure 34

Swiss export market in 2013, by sectors

Share of individual countries/groups of countries in Swiss exports in percent; shades of red: markets set to become less important in relative terms by 2035; shades of blue: markets set to become more important in relative terms by 2035



Source: Swiss Federal Customs Administration, CEPII, Credit Suisse

Catch-up potential for food, textile and pharmaceutical industries

China's market penetration in terms of Swiss watches, for example, is already relatively high. Even if this market were also to deliver future growth in sales for Swiss watchmakers, the record growth figures seen in recent years are probably over for the foreseeable future. On the other hand, many Chinese consumers are only just discovering the delights of luxury chocolate, for example. For consumer goods like food, medical technology and pharmaceuticals, the low share of the growth markets in total exports is therefore more likely to be a sign of major catch-up potential than a strategic weakness. With corresponding investment, there is an opportunity to be able to capture enormous additional potential demand. In contrast, the Swiss metals and paper industries – aside from a few niche products such as the famous Victorinox pocket knives – will probably never export to geographically distant emerging-market countries on a large scale. Transport costs alone are often simply too high for these heavy products (relative to price). In this regard, however, it should never be forgotten than many events that are potentially crucial to the future development of individual sectors are practically impossible to foresee. Thus consumer behavior can alter sharply over time, and technological advances can lead to new products that displace existing market leaders in only a short space of time.

Future of exports from an SME perspective

Future scenarios for exports not necessarily directly applicable to SMEs

The above future scenarios relate to exports as a whole. In the preceding chapters, however, we showed that the export structure of the SME industry in some instances differs sharply from that of the export sector as a whole. For that reason, our scenario in Figure 33 cannot be directly applied to SME exports. With the help of our survey, however, we are able to question Swiss SMEs directly about future changes in the geographical structure of exports.

41% of the exporting SMEs expect Germany to increase in significance

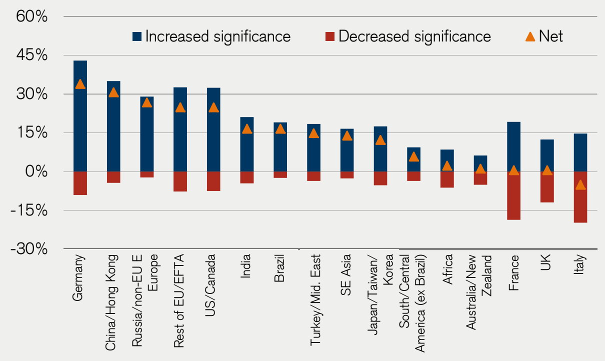
The bulk of SMEs on balance[21] expect Germany to increase its significance in future (Fig. 35). 41% of all industrial SMEs currently active in exports expect the importance of the German market to increase, with only around 9% anticipating a decline in its significance. Germany is followed by China/Hong Kong, ahead of Russia. Italy lies in last place, and is the only market that SMEs expect to decrease in significance rather than increase.

21 "On balance" in this context means the share of SMEs expecting an increase in importance less the share of SMEs expecting a decrease in importance

Figure 35

Change in significance for all export markets

Share of mentions for all industrial SMEs involved in exports; balance of "increase in importance"/"decrease in importance" shares

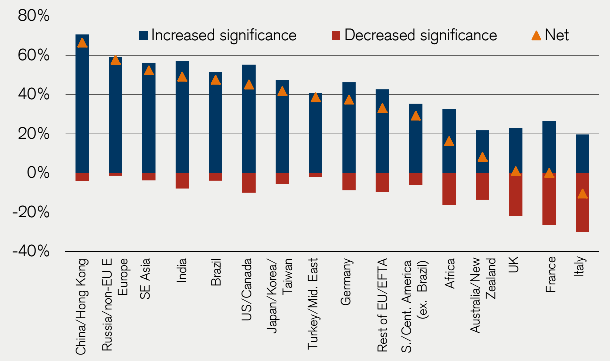


Source: Credit Suisse SME Survey 2014

Figure 36

Change in significance for actual export markets

Share of mentions for all industrial SMEs exporting to each region; balance of "increase in importance"/"decrease in importance" shares



Source: Credit Suisse SME Survey 2014

In future, emerging markets will be key for SMEs that already export there

Germany's top position in the ranking list is surprising at first glance. Our scenario in Figure 33 assumes a massive loss of Germany's importance in terms of overall exports in favor of the emerging-market countries. Although some emerging-market countries such as China and Russia also feature highly in the view of SMEs, other emerging markets such as India, Brazil and Southeast Asia lie only mid-table as in Figure 35. However, the contradiction with our future scenario for the economy as a whole is largely canceled out if we only take into account the verdict of SMEs that are already involved in the export market concerned (Fig. 36). In this ranking list, emerging-market countries feature in the top five positions; with the exception of Germany, it is West European countries that bring up the rear. Germany lies mid-table. In a nutshell, a majority of SMEs that already export to emerging-market countries expect the emerging-market countries to grow in significance as a destination for their products; the other SMEs are less likely to share this view. Conversely, SMEs that currently export exclusively to Europe are more likely than other SMEs to expect Europe's importance to grow.

Many SMEs unable to export to the emerging markets

Interpretation of this fact explains the contradiction between Figure 35 and our future scenario for the economy as a whole. When expanding abroad, SMEs usually start with Switzerland's neighboring markets. Following expansion of their activities abroad, however, the appetite for capturing new markets fades for many SMEs. Many exporting SMEs therefore fail to export to rapidly growing emerging-market countries – either because they would not be in a position to, or because it would cost too much. Thus our survey shows that the more an exporting SME feels it is constrained by high market entry costs, an absence of local contacts or a lack of international experience in the export business, the less probability there is that it will export to emerging-market nations. Instead, it will tend to export its products exclusively to Europe. In other words, many SMEs are unable to export to emerging markets or only able to do so with difficulty because the capturing of these markets consumes more time, resources, experience and personal contacts than expanding into neighboring countries. In their future international expansion plans, many SMEs are therefore tied to Europe even though they are aware that the greatest growth opportunities – theoretically – lie in the emerging markets.

In future too, smaller SMEs are likely to derive less benefit from the rise of the emerging markets

For smaller SMEs in particular, it is not easy to service a large number of different markets or gain a foothold in emerging-market countries such as China or Brazil. Accordingly, it is not surprising that larger SMEs across sectors are more likely than their smaller counterparts to expect a rise in importance for the emerging markets and a fall in significance for Europe – irrespective of the share of exports in their sales, or their sector. Nonetheless, the share of exports in sales, as well as sector affiliation, affects views on the future importance of individual markets. The greater the export share, the more likely it is for an SME to expect the emerging markets to grow in importance as a destination for their products. Also, SMEs from the chemical industry in particular, but also mechanical engineering and manufacturers of precision instruments, expect the emerging markets to grow in significance. Clearly, therefore, SMEs from the capital goods sectors in particular are more likely than manufacturers of consumer goods to expect the emerging-market countries to increase in importance. However, there is evidence that this is to some extent the case because SMEs in these sectors have a greater export share and already export to emerging-market countries to a greater extent. They therefore tend to benefit from scale effects in exports and do not need to create the necessary infrastructure, contacts and experience from scratch.

Three strategies to enable SMEs to benefit from the rise of the emerging markets

Despite all the hurdles, servicing emerging markets is likely to be a worthwhile option for exporting SMEs – and particularly manufacturers of consumer goods. Fact is, the huge expected growth in the significance of the emerging markets for SMEs that already export to these markets indicates that being in these countries is generally a good experience for industrial SMEs. Based on the survey results discussed above, strategies can be devised that might help SMEs to derive greater benefit from the imminent rise of these markets. In summary, it is fair to say that size, a high export ratio, the international experience of management as well as local contacts can ease entry to emerging markets. Three elements of strategy can be deduced from this observation:

– **Cooperation**: Our survey shows that larger SMEs tend to be able to benefit from the rise of the emerging markets to a greater extent than small firms. Scale effects are therefore clearly effective in terms of exports to emerging-market countries. Nevertheless, there are also strategic opportunities for smaller SMEs to benefit from scale effects too: Companies – including those that compete on the home market with similar products, for example – can enter into strategic partnerships in order to penetrate markets in emerging economies. Scale effects are possible, especially with regard to distribution channels, the personal nurturing of business relationships as well as administrative costs.
– **Concentration:** The greater the export ratio, the more SMEs tend to export to emerging-market countries. Due to the high fixed costs involved in market entry alone, it is usually not possible simply to generate "a few extra Swiss francs' worth of sales" by exporting to an emerging-market country. An SME owner wishing to cater to an emerging market must do so wholeheartedly and with total commitment, as well as be willing to commit major financial investments. In the Far East in particular, it is common for the head of the company to personally nurture relations with important business partners and officials. To justify this major expense, a certain critical volume of exports needs to be achieved for each country. For smaller companies in particular, this is easier to do if they concentrate on just a few emerging markets – at least at an initial stage.
– **Contacts:** The above analysis highlighted the fact that foreign experience on the part of management and a good network of contacts on the ground are generally key success factors for the export activity of SMEs. This factor is all the more important in the case of emerging markets that are often culturally challenging from a Swiss perspective. If management itself has too little international experience or has no local business contacts, discussions with business partners that have already made the move into emerging markets can be helpful. Another important option is to seek advice from an export development organization. S-GE, for example, offers advisory services in relation to export activities and helps broker local contacts.

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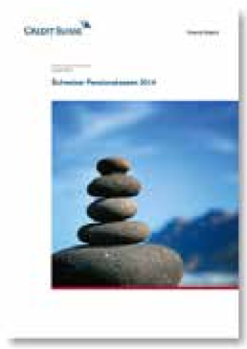

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