Kienbaum International Newsletter Q1 2020

Switzerland

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Agenda

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Country Spotlight Switzerland

Quadrilingual by nature (German, French, Italian and Romansh), wealthy by trade, independent and neutral by choice – Switzerland has acted as a role model to the world for centuries. Even though the country is mostly known for its breathtaking nature, high mountain tops and picturesque cities, it is also a **globally-admired economic powerhouse** that is strategically positioned at the heart of Europe, finding a remarkable balance between **strong local identity and international integration** (over 750 NGOs are currently operating in Geneva alone). Nevertheless, it is exactly this connectedness with the outside that makes the Confoederatio Helvetica vulnerable for developments beyond its borders (despite its size, Switzerland is the world's 19th biggest export nation by volume, even before India).

Inevitably, when speaking about the economic situation and development of Switzerland,

the single most decisive factor for better or for worse is the exchange rate of the Swiss Franc. When the European Union started to get caught up in a major sovereign debt crisis that almost bankrupted Greece on its course (which is still looming despite its peak in 2012),

the Swiss Franc became (as it has many times before) the safe haven of choice for investors. When the currency then reached record highs by the day, the Swiss National Bank decided to take a courageous step in order to protect the country's export- and tourism-reliant economy, fixing the Franc's exchange rate at CHF1.20 per EUR in September 2011. Even though this mark has been dropped again in 2015, it did reveal the country's Achilles heel.

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As a **highly-open economy**, Switzerland is **very dependent on trade**. Around 20% of Swiss exports go to Germany and a decrease of those – due to the exchange rate and/or a weakness of the German economy – is felt immediately. The same goes for its other European neighbors such as France and Italy – additional recipients of Swiss machinery, electronics, pharmaceuticals and other goods. The country is also **not immune against the woes between the US and China** (3% of GDP can be attributed to trade with China – more than in any other industrialized country). As a result, coughs in the global economy are immediately causing a cold in Switzerland. Looking forward, in the mid-term, the economic situation of Switzerland will thus **depend to an important degree on the global business outlook**, where sluggish growth in Germany, a potential hard Brexit, unrest in Hong Kong and the trade dispute between the US and China are the most important threats at the moment.

In order to dig deeper, we would now like to take an exemplary look at the Swiss **core industries – banking, tourism, pharma-ceuticals and watchmaking**.

Even though the century-old secrecy and consequent advantage of the Swiss banking system has been gradually disappearing with funds moving to more exotic and secluded places, the **financial services industry remains one of the main pillars** of the Swiss economy, making up for almost 11% of its GDP (including insurance companies and related services). Nevertheless, in the past two decades, **the Swiss banking industry has undergone a remarkable downsizing**. According to EY, 122 banks and 14,000 jobs have disappeared throughout the industry since 2000. There are several causes for these developments such as consolidation in the sector, regulatory requirements, increased transparency duties, digitization as well as the pressure of low interest rates on the banks' margins.

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Nevertheless, thanks to this downsizing and a more cautious risk management approach (related to both legal and investment-banking-related risks), **the Swiss Banking system is in solid shape today**, leaving the woes of the past behind. Consequently, aggregated net operating income of Swiss banks increased by 4.6% to CHF65.3bn in 2018.

Tourism, another big (and growing) pillar of the Swiss economy is worth taking a look at as well. As **about 55% of overnight stays are booked by foreign guests** (most of them from the big neighbor in the north), the exchange rate of the Franc has obviously a direct impact on the hospitality sector. Additionally, inverse developments abroad such as the sanctions against Russia on the one hand and increased travel appetite in newly-developed countries on the other hand cause important shifts that change the face of tourism, both in terms of where the visitors come from and what they are willing to invest. Besides a decrease in Russian visitors and an increase in tourists from the US, a remarkable development of recent years has been a **substantial rise of guests from Asia** (notably China and India). In 2018, nearly one million Chinese visited Switzerland, which is now one of Asia's favorite European travel destinations. Equipped with deep pockets and a strong curiosity for anything new and different, they counterbalance the Franc-induced drop in "traditional tourism" from Switzerland's European neighbors. Just last year, a 12,000 people-strong travel group from China (an incentive trip for Chinese sales staff of US-company "Jeunesse Global") made headlines, when it – divided into three waves of 4,000 for six days each – strolled through the streets of Luzern and Zurich. Also, when it comes to the kind of tourism, changes become obvious. Overnight stays in the country's urban centers seem immune against a strong Franc (in fact, their tourist intake and hotel development has been constantly growing), whereas rural areas (such as the skiing and hiking stations in the Alps) are suffering. After a study by the KOF Swiss Economic Institute from 2018, these two developments are related: **decreasing tourist numbers from Europe** – guests that

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are more price sensitive and inclined to nature and winter sports – and a **growing number of visitors from the far east** – less dependent on the exchange rate and often more focused on short sightseeing stays in the country's urban areas.

One of the figureheads of Switzerland, its **watch industry** (around CHF21bn in sales volume) is also facing challenges. According to the Federation of the Swiss Watch Industry, **Hong Kong was by far the biggest importer of Swiss watches globally** with CHF3bn in sales value in 2018 (ahead of the US with CHF2.2bn, China CHF1.7bn and Japan CHF1.3bn) – a title it has lost in the course of 2019 when watch sales dropped by as much as -50% (October 2019, full year sales decrease is expected to be around -10%). Usually acting as the region's shopping hub (it is particularly attractive for visitors from both Mainland China because of its tariff and VAT exemptions), Hong Kong has now officially entered a recession (GDP is expected to have decreased by 1.3% in 2019). As such, **the political turmoil and recent unrests directly impact bottom lines in Biel** (the Swiss Watch Capital). But there is no reason to worry too much – despite these developments, Swiss watch sales are overall on the rise with other Asian economies making up for the loss in Hong Kong (Chinese watch aficionados simply buy elsewhere). Expected **overall export growth for 2019 is still at a healthy 3%.** Nevertheless, it shows the vulnerability of the industry which currently experiences its second Asia-induced hiccup after the Chinese anti-corruption crackdown that impacted sales in a similar way between 2013 and 2016.

Last but not least, Switzerland's **pharmaceutical industry** presents a very positive picture. Home of many multinational Pharma corporations such as Celgene, Roche and Novartis, the industry employs over 135,000 people, invests heavily in R&D and has the biggest share of **overall Swiss exports with around 30%** (more than chocolate, cheese and watches combined). In an overall healthy shape, it continues to prosper as it is traditionally immune against economic slowdown and changes in exchange rates as production capacities can be easily shifted between different locations in and outside of the country.

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Official Name	Swiss Confederation
Government type	Federal Republic
Capital city (inhabitants)	None (de jure), Bern (de facto, 1.03m)
Time zone	GMT+1
Surface	41,285 km^2
Highest elevation	4,634m (Dufourspitze)
Head of State	Simonetta Sommaruga (President of Federal Council)
Currency (EUR exchange rate)	Swiss Franc (CHF, 1EUR = 1.07CHF)
Official languages	German, French, Italian, Romansh
Population	8.3m
Population growth rate	1.8% p.a.
Population (forecast 2050)	9.88m
GDP total	USD548bn
GDP per capita	USD83,162
GDP growth 2019	1.06%
Inflation rate 2019	0.36%
Federal income tax	11.5% (maximum)
Unemployment rate	2.6%
Birth rate	1.52 children / woman
Life expectancy at birth	82.7yrs
Median age	42.5yrs
% of population over 65	18.3%
Interest rate yield (10yr Govt Bonds in %)	-0.61%
Stock market / development 2019	Switzerland Stock Market (SMI) / +26%
Main industries	Machinery, chemicals, watches, textiles, precision instruments, tourism, banking, insurance, pharmaceuticals

Biggest trade partner	Germany
Trade volume with EU (Goods, 2018)	EU Imports EUR109bn / EU Exports EUR157bn
Trade volume with EU (Services, 2018)	EU Imports EUR72bn / EU Exports EUR119bn
Price for a Big Mac in Switzerland (Germany)	USD6.71 (USD4.31)

Source OECD, The World Bank, IMF, The Economist, The World Factbook, European Commission

In summary, despite the described challenges that will cause a GDP dent in 2019 (expected at an overall +0.9%), the Swiss **economy is still on a positive trajectory** as it can rely on a stable production and export foundation as well as a **highly-skilled and educated workforce** (attracting the best and brightest from all around Europe and the world). Its 2018, GDP growth stood at a respectable 2.8% (the highest since 2010) and in a report by the KOF Swiss Economic Institute, forecasts for 2020 and 2021 are at stable levels of 1.9% and 1.5% respectively. Even though an open, globally-intertwined economy is prone to be affected by remote turmoil, this also goes the other way round and a **well-diversified global customer base** combined with **superior products "Made in Switzerland"** will enable the country to wither many storms to come.

Four questions with Thomas Straessle

Country Head Kienbaum Switzerland

With the Swiss Franc getting stronger and stronger, where do you see the Swiss economy heading?

In January 2015, the Swiss Franc – then 1.20 CHF per EUR – depreciated against the Euro. This started a very challenging spiral for the Swiss industry. In the years after, the industry has nevertheless adjusted quite well and was able to recover. Today, this scenario could accelerate again, as the **Franc has recently gained additional strength** and is once again in heavy demand, impacting the Swiss export business. For companies' development departments, Switzerland will certainly continue to become more important, but the trend that production is being outsourced will persist. As a result, Switzerland **remains a location for highly-qualified researchers and specialists**. The country's stability, high-quality awareness and quality of life per se continue to attract such employees. In other words, the internationality and interconnectedness of the Swiss market will further increase. A good example is Google, which has expanded its European development center to now 6,000 employees in Zurich.

What are the biggest challenges for foreign companies when it comes to doing business in Switzerland?

The Swiss market is attractive, but **very strongly penetrated and "very well occupied"**. Products and offers in almost all sectors are available on a **"best-in-class" level**. Many international entrepreneurs find it difficult to tap the full market potential. A **crystal-clear market strategy with a high level of focus** is a prerequisite for success. In addition, the four languages and the federal system are relatively costly for international companies. They have to prove themselves almost

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every day in a tight economic environment, as the culture and requirements differ between every canton from St. Gallen to Geneva. The fact that Switzerland is **not in the EU** must also be taken into account with regard to specific regulations, etc. However, the business climate is still very good, as **high purchasing power and solid business practices** exist in a stable and well-balanced environment.

According to you, what are the specifics of the Swiss labor market?

Our **labor law is very liberal and employer friendly**. We have almost no protection against dismissal. On the other hand, employees have a very high level of personal responsibility and are rather willing to change jobs – which makes employee retention a central topic for all companies. The strong economic power also leads to the result that well-qualified employees are giving their notice without having signed a new contract for their subsequent position. **Wages for young employees after graduation and up to 40 years of age are by far the highest in Europe**. This is another sign of the country's prosperity and stability. Switzerland is characterized by **one of the strongest SME landscapes**. Only 2.5% of the companies have 250 employees or more. This strong characteristic helps companies to be "fit and agile" in the market and to be able to adapt accordingly. All in all, **labor law can be considered as a source of success** for the Swiss economy model and its development. An impressive example is that a few years ago, the Swiss electorate said “no” to an additional week of holidays. There shows high willingness to perform with a low level of employee identification.

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Four questions with Thomas Straessle

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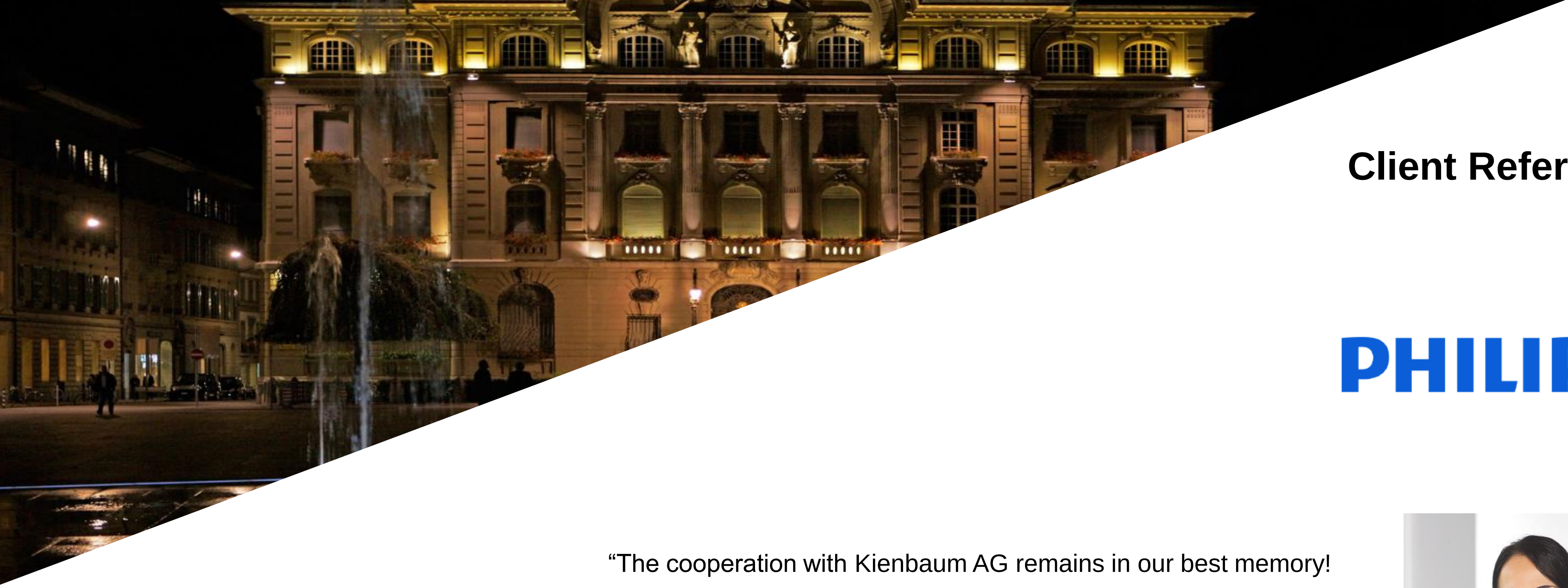
Do you have one specific case for us where Kienbaum created significant value for one of its clients in Switzerland?

We are working for an **industrial client in the heavy-metal sector** for whom we have been able to fill more than 10 management positions during the past couple of years. The initial situation was difficult, as various succession arrangements and the overall change management were the focus of attention. Thanks to a **well-thought-out and sophisticated search strategy** on the international candidate market coupled with targeted employer-branding measures, we succeeded in filling sustainable management positions for the client. We have been in close cooperation with various stakeholders as well as the company's HR department and were also able to **master their cultural requirements**. Our highly-experienced project team guarantees professional customer care and is efficiently available to the client. According to HR, we have made a **significant contribution to the successful business development** over time.

We are proud of our achievement and it is precisely this customer segment of medium-sized companies in the industrial environment that is a perfect fit for Kienbaum in Switzerland.



Client Reference

PHILIPS

"The cooperation with Kienbaum AG remains in our best memory!

A future cooperation will certainly occur again.

Due to the quick understanding of our needs and the search strategies tailored to them, the vacancy has been filled quickly and sustainably."

Diana Risola, Head of Human Resources, Philips AG Switzerland

Kienbaum in Switzerland

Having been present in Switzerland for more than 20 years, the excellence of Kienbaum’s Zurich team spreads from Executive Search to Compensation & Performance and Human Resources Management. Our Swiss advisory experts count notable national and international companies from all over Switzerland among their clients. They offer numerous years of industry-specific knowledge and extensive connections within the market. Our local Practice Groups are Construction & Energy, Consumer & Retail, Industry and MedTech & Life Sciences.

About Kienbaum

With 26 offices in 14 countries, Kienbaum is THE ideal partner for the development of your organization’s full potential – not only in Germany and Europe, but all around the globe. Thanks to more than 50 years of international presence, Kienbaum offers you an understanding of local markets that is unparalleled. From Atlanta to Zurich, our transnational excellence spreads across the most important economic centers and regions worldwide. Our experienced Kienbaum consultants in the Americas, Europe and Asia have a highly-successful track record of both local and cross-border mandates and will make sure you find the best talent for your specific endeavors.

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