

# Executive summary



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## Financial prospects

C&IP sector CFOs in Switzerland are more optimistic for their company's financial prospects than most of their European counterparts, with the exception of CFOs in France who are the most optimistic.

## Economic outlook

CFOs' expectations for economic growth in Switzerland are at an all-time high, with the confidence of C&IP sector CFOs as high as that of CFOs in other sectors.



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## Growth expectations

Expectations for both revenues and operating margins are positive, with C&IP sector CFOs in Switzerland much more optimistic than CFOs in Germany, France, Italy and the UK.



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## Investment expectations

Most European C&IP sector CFOs expect capital expenditure to increase, although they are slightly less optimistic about growth in employee numbers.



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## Digital strategy

Investments in digital technologies by C&IP companies are expected to increase substantially in Switzerland.



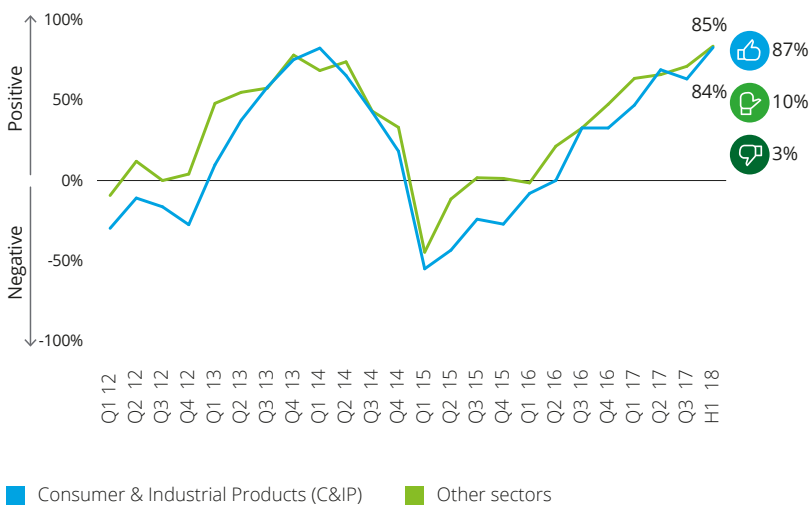
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# 1. Economic outlook

CFOs' expectations for economic growth in Switzerland are at an all-time high, with the confidence of C&IP sector CFOs as high as that of CFOs in other sectors.

## Economic outlook for Switzerland (net balance)

How do you judge the economic outlook for Switzerland over the next 12 months?



- Optimism among CFOs in Switzerland is very high: Ratings of the **economic outlook for Switzerland** are at their highest since the CFO Survey was first conducted in Q3 2009.
- The net balance of C&IP sector CFOs increased from 64% in Q3 2017 to 84% in H1 2018. The confidence of CFOs in other sectors also increased.
- The weaker Swiss Franc and economic recovery in the eurozone have benefited Switzerland's export sector. Companies have been largely successful in boosting their competitiveness despite the challenges resulting from the financial crisis and the removal of the exchange rate floor in early 2015.
- As a result, exporting companies are now well positioned to benefit from the more favourable environment. Exports had previously hampered growth in the Swiss economy, but the sector is once again expected to help boost it.
- The big question is whether the favourable global economic conditions continue.
- Recently announced protectionist measures in the US and retaliation by Europe and China could mark the beginning of a trade war that could have a serious impact on global trade in general and an export-led Swiss economy in particular.
- The probability of another crisis in the euro area has increased following the formation of a populist government coalition in Italy. As a consequence, the welcomed weakening of the Swiss Franc against the euro could be reversed.
- Other political risks such as the continuing uncertainty surrounding the Brexit negotiations and questions about Switzerland's relations with the EU could also have a negative impact on Swiss markets.

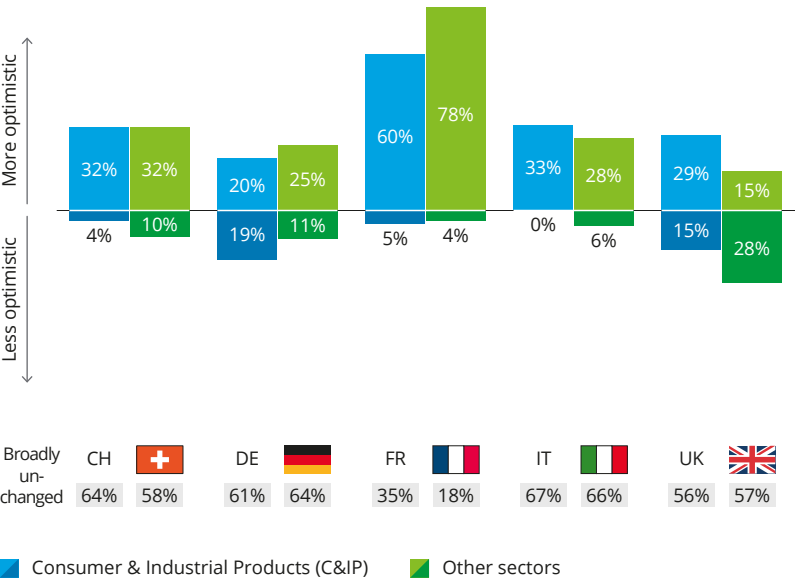
Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.  
Source: Deloitte CFO Survey

# 2. Financial prospects

C&IP sector CFOs in Switzerland are more optimistic for their company's financial prospects than most of their European counterparts, with the exception of CFOs in France who are the most optimistic.

### Company's financial prospects across Europe

Compared to three months ago, how do you feel about the financial prospects for your company? Results for selected European countries



- The outlook for Swiss companies is very positive, strongly influenced by the favourable global backdrop and improved exchange rate conditions.
- CFOs in Switzerland are more optimistic for their **company's financial prospects** than most of their European counterparts.
- 32% of C&IP sector CFOs in Switzerland are more optimistic, with only 4% less optimistic (neutral: 64%). The ratings of CFOs of other sectors in Switzerland are slightly less optimistic.
- The level of optimism among CFOs in Switzerland's most important trading partner, Germany, is more mixed. Only 20% of C&IP sector CFOs are more optimistic than 3 months ago about their company's financial prospects, while 19% are less optimistic.
- The introduction of tariffs on steel and aluminium imports by the U.S. in early June 2018 and retaliatory measures by Europe and China is a risk to the current positive business outlook.
- French CFOs are the most optimistic, reflecting the 'Macron effect'. However, it remains to be seen whether the announced reforms are really enforceable and will provide a lasting stimulus. Reforms were almost impossible to enforce in France in recent decades.
- CFOs in the UK are more pessimistic about their companies' financial prospects than CFOs in other European countries. With less than a year until the UK exits the EU, there is still considerable uncertainty about the future business environment.

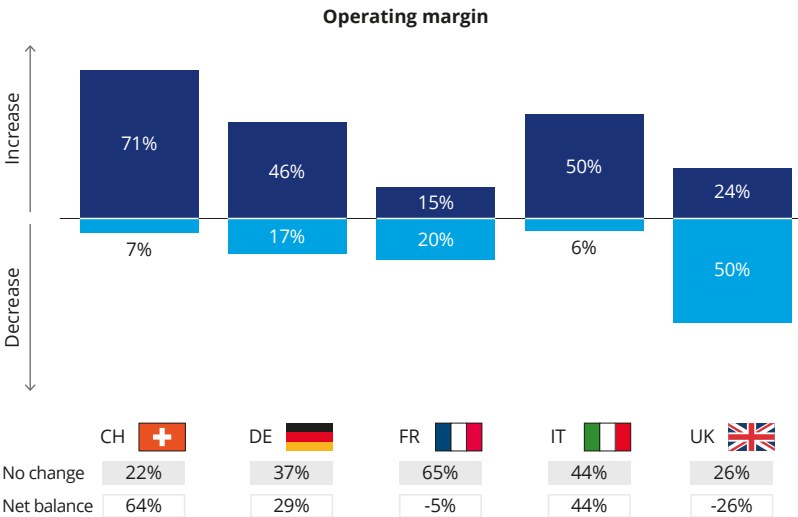
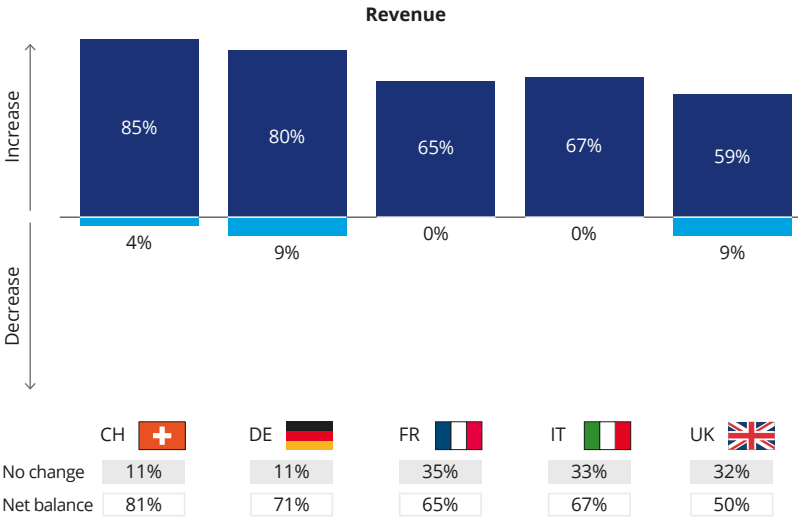
Source: Deloitte CFO Survey

# 3. Growth expectations

Expectations for both revenues and operating margins are positive, with C&IP sector CFOs in Switzerland much more optimistic than CFOs in Germany, France, Italy and the UK.

### Growth expectations of European C&IP companies (net balance)

Percentage of CFOs who expect their company's revenue and operating margin to increase/decrease over the next 12 months; results for selected European countries



- **Revenue** expectations are the most optimistic in Switzerland, with the net balance at 81%. A large majority (85%) of Swiss C&IP sector CFOs expect revenue to increase over the next 12 months. Revenue expectations are particularly strong in industrial products. Expectations are also higher in consumer business than in other sectors. The weakening of the Swiss Franc over the last months has been a major contributor to this increased optimism.
- In comparison, revenue expectations in Germany are lower with a net balance of 71%. However, 80% of German C&IP sector CFOs still expect increases and 9% decreases. Revenue expectations in France, Italy and the UK are also positive.
- Switzerland also leads its European counterparts with regard to expectations for **operating margins** (net balance: 64%). 71% of Swiss C&IP sector CFOs expect margin increases.

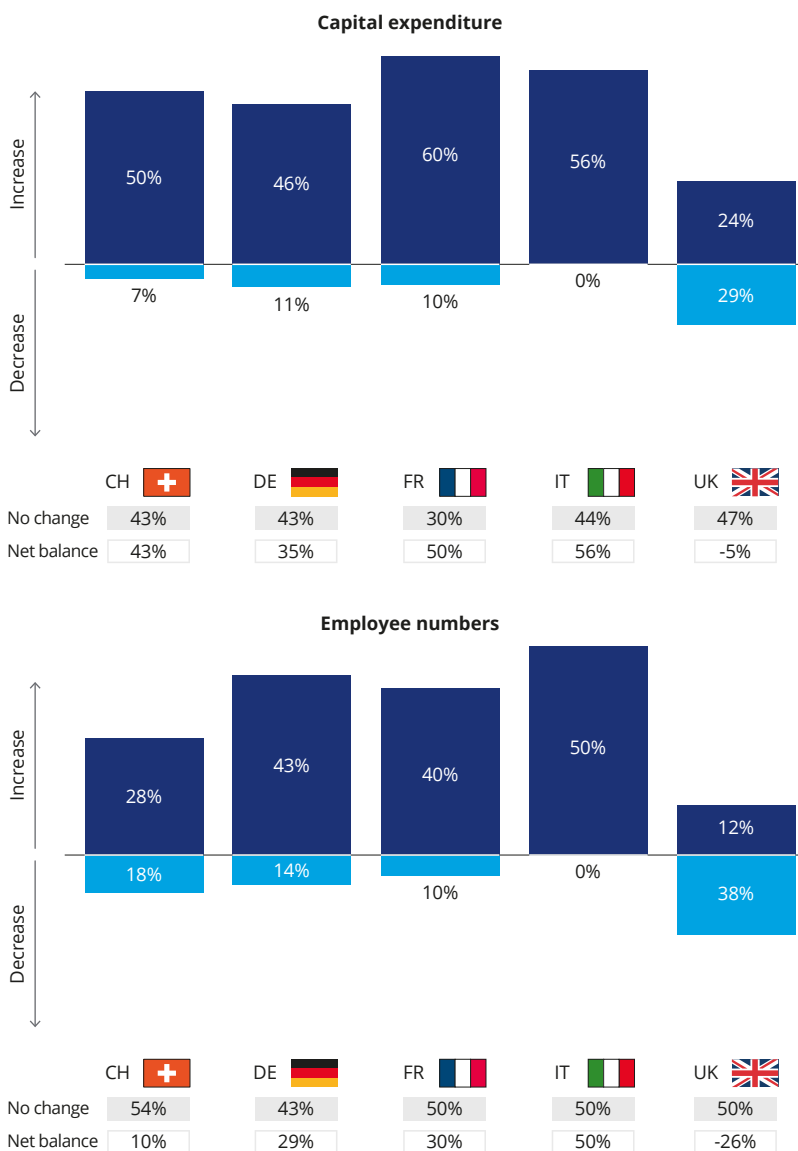
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Source: Deloitte CFO Survey

# 4. Investment expectations

Most European C&IP sector CFOs expect capital expenditure to increase, although they are slightly less optimistic about growth in employee numbers.

### Investment expectations of European C&IP companies (net balance)

Percentage of CFOs who expect capital expenditure and employee numbers to increase/decrease for their company over the next 12 months; results for selected European countries



- More C&IP companies in Europe plan to increase investment in capital expenditure and hire more employees over the next 12 months.
- Highest increases in **capital expenditure** are expected in France and Italy (net balances of 50% and over), followed by Switzerland (43%) and Germany (35%).
- The UK's net balance is still negative (-5%), demonstrating the continuing uncertainty surrounding Brexit.
- Switzerland is less optimistic regarding **employee numbers** than Germany, France and Italy, although a small majority (net balances of 10%) plans to increase the numbers of employees over the next 12 months.
- Highly skilled staff are particularly hard to find in Switzerland, and companies are becoming increasingly concerned about the skills shortage. Unrestricted free movement of people in Europe remains key for Swiss C&IP companies to access the best talent, and in future alternative working models will likely need to be considered.

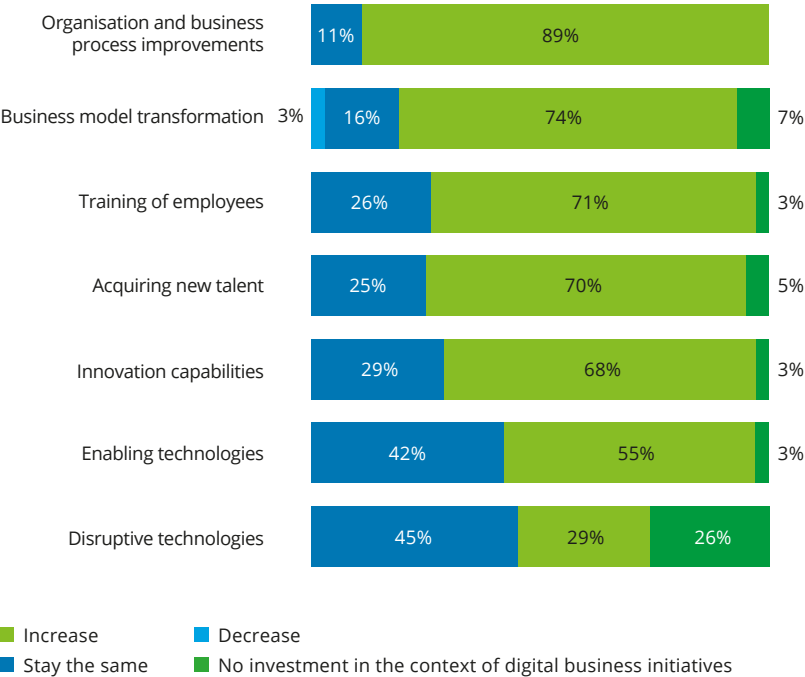
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# 5. Digital strategy

Investments in digital technologies by C&IP companies are expected to increase substantially in Switzerland.

### Investments in digital technologies by C&IP companies in Switzerland

How will your company's investments in the following digital areas and technologies change over the next 12 months compared with the previous 12 months?



- Organisation and business process improvements and business model transformation through digital technologies provide the opportunity for many companies to maximise their operational efficiency to sustain future growth.
- It is therefore not a surprise that 89% and 74% of Swiss C&IP sector CFOs expect **investments in digital technologies** to increase in these two areas over the next 12 months compared with the previous year.
- Training of employees (71%) and acquiring new talent (70%) are in third and fourth place respectively, highlighting the need in C&IP companies for the right digital skills and talent to succeed in the digital future.
- Disruptive technologies are at the bottom of the C&IP investment list, although a respectable 29% of CFOs in the sector are still expecting increases.

Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.  
Source: Deloitte CFO Survey

# Interview with Konstantin von Radowitz

## Head Consumer & Industrial Products Switzerland, Deloitte AG

**Deloitte:** The current economic outlook for Switzerland and financial prospects for Swiss C&IP companies across Europe are the best they have been in the last five years. What advice do you have for Swiss C&IP companies?

**Konstantin von Radowitz:** The economic recovery in Europe is indeed having a positive impact on revenues and operating margins, as our survey results show. This is welcome news for Swiss C&IP companies given the severe pressure on operating margins following the removal of the exchange rate floor in early 2015. The current environment is ideal to drive exports and unlock growth supported by digital technologies and transformation. The key will be to identify and adopt the right growth strategies, ranging from opening up new markets (including global trade management), pricing optimisation and a new customer focus on developing new services and innovating beyond products.

In addition, growing inorganically (through M&A) and shaping the business portfolio (carve-out) will remain an interesting option for C&IP companies. 2017 has been quite an active M&A year for C&IP companies in Switzerland. We expect ongoing business and operating model transformations to drive M&A further in 2018. Technology-driven acquisitions, more partnerships and joint ventures are also expected in Switzerland and internationally. However, one should not lose sight of efficiency and remain cost conscious in economic boom times. Creating new platforms for operational excellence will be critical for achieving growth.

**Deloitte:** Expectations of growing employee numbers are lower in Switzerland than in Germany, France or Italy, for example, and remain lower than for other capital investments. Do you think this is just a reflection of a general concern about costs of Swiss C&IP companies or a sign of the much talked about skills shortage in Switzerland?

**Konstantin von Radowitz:** Average labour costs in Switzerland have always been high when compared to other parts of Europe and the rest of the world. It is a good sign that the expectations for employee figures will remain positive for Swiss C&IP companies. Switzerland as a location for companies combines many favourable attributes (for example high quality, innovation leadership, a manufacturing tradition, political and regulatory/legal stability) that outweigh high labour costs when considering whether to retain a presence in Switzerland.

However, the skills shortage that some Swiss C&IP companies are experiencing is concerning. I expect this to intensify even more in the future. New technological and digital skill sets are required in the age of Industry 4.0.

The Swiss labour market is relatively small and many companies have to recruit their talent from outside Switzerland. The free movement of people is key for Swiss-based companies to maintain future growth..

**Deloitte:** Swiss C&IP companies are planning to increase their investments in digital technologies in the coming 12 months, especially in the areas of organisational and process improvements, business model transformation as well as digital skills and talent. Do you also hear this from your clients and what else is needed for Swiss C&IP companies to succeed in the digital future?

**Konstantin von Radowitz:** Digitalisation and digitisation are already playing a major part for many Swiss C&IP companies in supporting their respective corporate strategies. Digital technologies are essential, not only to improve processes but also to drive new revenues and higher margins through digital business models. To succeed in the digital future, C&IP companies need to invest in people and provide their workforce with the digital skills required.

If Swiss C&IP companies are to remain competitive, transformational change needs to occur throughout their organisational structure, culture, people and digital environment. New business models, processes, collaborative management styles, flat hierarchies, open collaboration and external partnerships are necessary. The corporate culture must reflect entrepreneurial thinking, a focus on the customer and the ability to adjust quickly to constant change.

Last but certainly not least, the Swiss education system needs to be critically assessed to determine whether it is still fit to meet the requirements of the future generations. It is not just the responsibility of companies to increase their focus on education, training and development of technological and digital skills of employees. My personal strong belief is that we need to have a careful and honest look at what and how we teach and educate our children. Companies that will be successful in the future are already encouraging their employees to be creative, experiment, make mistakes – and learn from them to innovate successfully and sustainably. Digital transformation in the age of Industry 4.0 represents a multidimensional challenge. The concept of transformation includes a new mindset and starts with each and everyone. Are we teaching this to our children today? I have my doubts.





**Profile:** Konstantin leads the Swiss Consumer & Industrial Products industry and is a member of the Swiss Executive of Deloitte.

By background, Konstantin is an M&A partner who has spent over 20 years in the market. He has focused on serving industrial organisations both in Switzerland and abroad..

His extensive expertise includes transformation projects and complex M&A transactions ranging from complex carve-out projects throughout the deal cycle to integration.

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