



Executive summary



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Economic outlook

CFOs' expectations for economic growth in Switzerland continue to remain very high, but the confidence of manufacturing sector CFOs is slightly lower than that of CFOs in other sectors.

Company prospects

Manufacturing sector CFOs are as positive about their company's financial prospects as CFOs in other sectors, but considerably less positive than in previous quarters.

2



Growth prospects

Revenue and capital expenditure expectations of manufacturing sector CFOs have decreased, but expectations for operating margins are much higher than in the previous quarter.



3

Business risks

Exchange rate risk, internal company problems and geopolitical risks remain the biggest threats, followed by skills shortages, demand weakness and pressure on prices and margins.

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Strategic priorities

Organic growth, cost control and cost reduction are manufacturing sector CFOs most important strategies for the next 12 months.



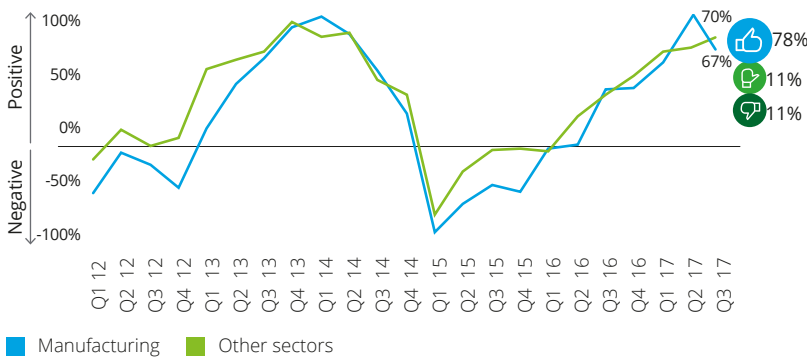
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1. Economic outlook

CFOs' expectations for economic growth in Switzerland continue to remain very high, but the confidence of manufacturing sector CFOs is slightly lower than that of CFOs in other sectors.

Economic outlook (net balance)

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



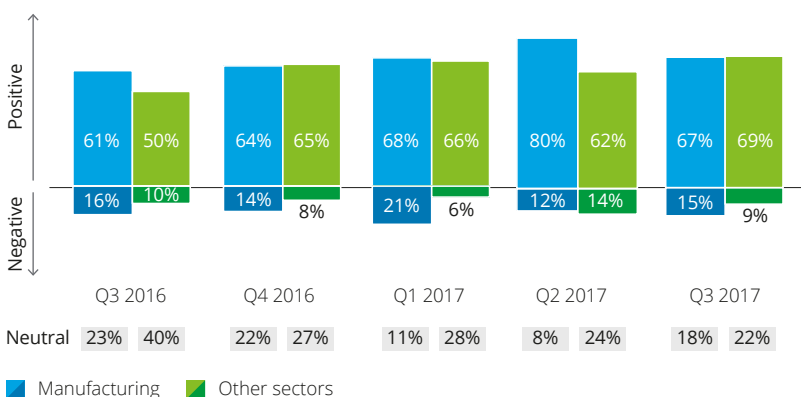
- Swiss CFOs remain very optimistic about the **economic outlook** for Switzerland in Q3 2017.
- The net balance of manufacturing sector CFOs decreased from 84% in the previous quarter to 67% in Q3 2017. The confidence of CFOs in other sectors has increased with the net balance now at 70%, compared to 63% in Q2 2017.
- Almost four-fifths of manufacturing sector CFOs (78%) are optimistic (previous quarter 84%), while 11% are pessimistic, compared to none last quarter. The number of manufacturing sector CFOs that are neutral decreased from 16% in Q2 2017 to 11%.

2. Company prospects

Manufacturing sector CFOs are as positive about their company's financial prospects as CFOs in other sectors, but considerably less positive than in previous quarters.

Companies' financial prospects

Question: How do you rate your company's financial prospects over the next 12 months?



- Two-thirds of manufacturing sector CFOs (67%) view their company's **financial prospects** as positive in Q2 2017, considerably less than in the previous quarter (80%), but roughly in line with CFOs in other sectors (69%).
- 15% of manufacturing sector CFOs rate their company's financial prospects as negative (previous quarter 12%). The number of manufacturing sector CFOs who view them as neither positive nor negative increased from 8% to 18%.
- The number of CFOs in other sectors that are optimistic increased slightly (69% in Q3 2017, previous quarter 62%). Fewer CFOs in other sectors judge their company's financial prospects as negative (9% compared to 14% the previous quarter).

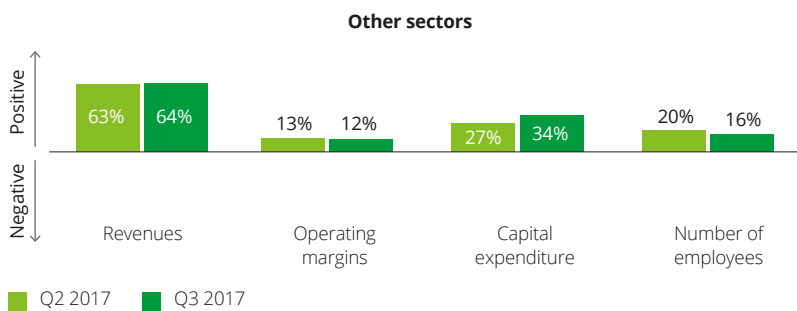
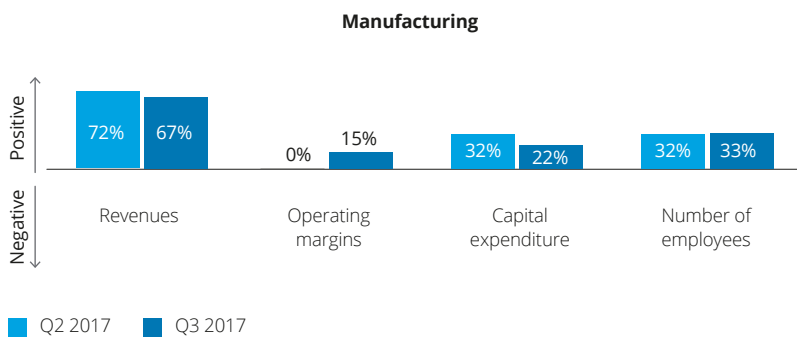
Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Source: Deloitte CFO Survey

3. Growth prospects

Revenue and capital expenditure expectations of manufacturing sector CFOs have decreased, but expectations for operating margins are much higher than in the previous quarter.

Key metrics (net balance)

Question: In your view, how are the following key metrics for Swiss corporates likely to change over the next 12 months?



- **Revenue** expectations of manufacturing sector CFOs have decreased slightly in Q3 2017 to a net balance of 67% (previous quarter 72%). However, 82% expect still an increase in revenue over the next 12 months and only 15% a decrease. Revenue expectations of CFOs in other sectors remained almost the same (64%, previous quarter 63%).
- Expectations for **operating margins** among manufacturing sector CFOs have increased substantially, with the net balance moving from 0% to 15%. 45% of manufacturing sector CFOs expect margin increases and 30% expecting decreases. Margin expectations of CFOs in other sectors remained about the same (12%, previous quarter 13%).
- **Capital expenditure** expectations of manufacturing sector CFOs have decreased from a net balance of 32% to 22%. 41% of manufacturing sector CFOs expect increases in capital expenditure, with 19% expecting decreases.
- Expectations for the **number of employees** remained about the same in manufacturing while they decreased in other sectors compared to the previous quarter.





















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

4. Business risks

Exchange rate risk, internal company problems and geopolitical risks remain the biggest threats, followed by skills shortages, demand weakness and pressure on prices and margins.

Top 10 risks (Q3 2017)

Question: What do you see as the greatest internal and/or external risks for your company over the next 12 months? Please list up to three risks

	Rank Q3 17		Rank Q2 17	Risk factor
	1		2	Exchange rate risk
	2		5	Internal company problems
	3		1	Geopolitical risks
	4		4	Skills shortages
	5		-	Demand weakness
	6		3	Pressure on prices and margins
	7		7	Digitalisation/technological change
	8		8	Foreign demand
	9		6	Barriers to trade
	10		9	Pressure from competitors

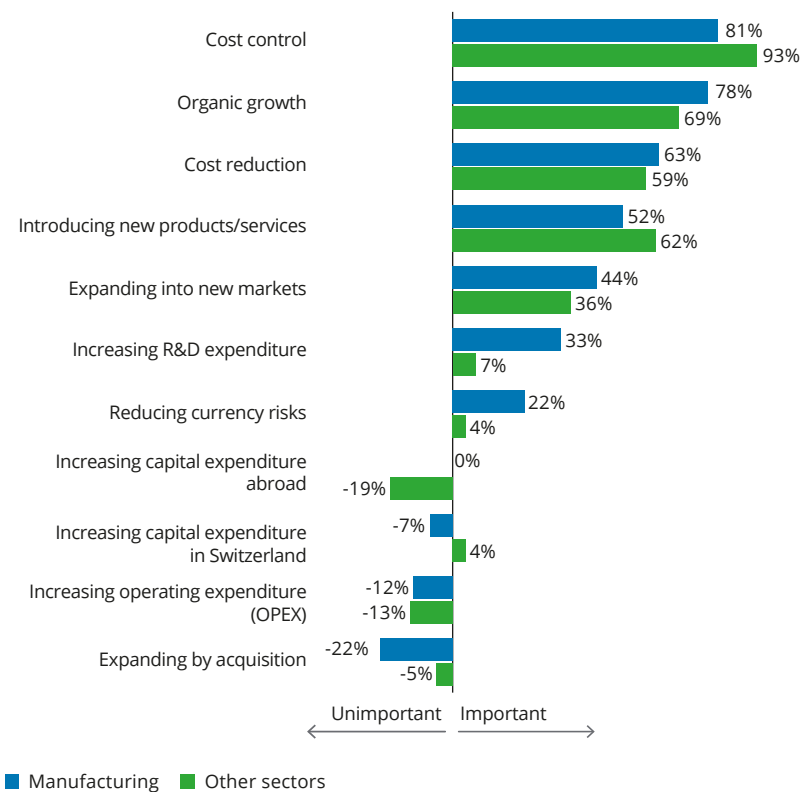
- Exchange rate risk is seen as the most significant risk factor in Q3 2017 for Swiss manufacturers, followed by internal company problems.
- Both risk factors are now seen as higher risks for the next 12 months compared to the previous quarter.
- Geopolitical risks remain high on the agenda for many Swiss manufacturers, but have dropped slightly in the ranking.
- In addition, skills shortages, demand weakness and pressure on prices and margins remain issues for many Swiss manufacturers.

5. Strategic priorities

Organic growth, cost control and cost reduction are manufacturing sector CFOs most important strategies for the next 12 months.

Strategic priorities (net balance) (Q3 2017)

Question: Please state to what degree the following strategies are likely to be important/unimportant for your business over the next 12 months?



- Four-fifths of manufacturing sector CFOs (81%) and more than nine-tenths of CFOs in other sectors (93%) view cost control as the number one **strategic priority** for the next 12 months.
- Organic growth is the second most frequently mentioned corporate strategy for both manufacturing sector CFOs (78%) and CFOs in other sectors (69%).
- Cost reduction is in third place among manufacturing sector CFOs (63%) compared to 59% for other sectors.
- Other corporate strategies that are considered important are introducing new products and services (mentioned more frequently by CFOs in other sectors), expanding into new markets, increasing R&D expenditure and reducing currency risks (all more important for manufacturing sector CFOs).
- Strategies that all CFOs consider less important for the next 12 months are increasing capital expenditure abroad or in Switzerland, increasing operating expenditure and expanding by acquisition.

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

Interview with Prof. Dr. Torbjörn Netland

Chair of Production and Operations Management, ETH Zurich

Deloitte: The economic outlook and company prospects are viewed by a majority of Swiss manufacturing sector CFOs as positive and set for growth, however the strategic focus remains firmly on cost control and cost reduction. Do you think that Swiss manufacturers are just cautious and learning from the past, or that cost initiatives and lean management have now become permanent fixtures for manufacturers to remain competitive?

Torbjörn Netland: There are two sides of the coin and manufacturers must pay attention to both. On the cost side, lean manufacturing has to be an integrated way of how business is conducted. I cannot think of any business process where lean cannot help create more value and save costs. When done correctly, lean can create the slack needed to find new value streams and growth. That is not to say that C-suite managers should just focus on cost control and lean production. On the revenue side, Swiss manufacturers – known for their consistently high quality and good service levels – are well positioned to win new contracts at home and abroad. Growing abroad is the best insurance for keeping manufacturing at the home base too.

Deloitte: How large do you think the potential of lean management and operational excellent programmes is for manufacturers to keep their production in high cost locations such as Switzerland and/or to help bring operations back (reshoring)?

Torbjörn Netland: The answer unfortunately is 'it depends'. As a Norwegian, I know of solar wafer manufacturers closing some of the leanest plants in Norway because they were less competitive on price than government funded Chinese wafer plants. But also in such an extreme case, the operational excellence programme of the Norwegian company helped them do better than they would without such a focus. Lean programmes have different effects on different industries and on different plants within the same company. For example, if 90% of your manufacturing costs are purchased materials, you can expect different bottom-line effects than if the same number was 50%. Still, a 20% reduction in cost of 10% of your manufacturing costs amounts to a sizable competitive improvement that is worth seeking. The biggest benefit of a true lean programme is not the savings on the next quarterly balance sheet, but the development of a learning organisation that will continue improving incrementally for years to come.

When it comes to reshoring, I am not so positive. Our research shows that more manufacturers move out than come home, and we have not seen a big trend shift. I like to see it more as an opportunity than a problem for Switzerland. It keeps Swiss manufacturers on their toes, making them more innovative and requiring them to be at the cutting edge.

Deloitte: What do you see as the main challenges many manufacturers are now facing in their production and operations management, and how can they address them?

Torbjörn Netland: The digitalisation of society can be a double-edged sword for manufacturers. Those that ignore it altogether risk being replaced by competitors and new entrants. Those that go 'all in' risk huge costs with small pay-offs. I believe that the average manufacturer should continue building on their competitive advantages and strengthen them further with lean or operational excellence programmes. As the speed of technological change is increasing, manufacturers need to open more up and let ideas flow to them rather than try to stay up to date in all domains internally. We call this 'open process innovation'. Watch out for our article on open process innovation in a next-year issue of MIT Sloan Management Review.

Deloitte: What do you see as best practices in production and operations management that could help Swiss manufacturers become leaders in an increasingly competitive global environment?

Torbjörn Netland: Perhaps it is not as exciting as your readers would hope for, but I have no doubt that the main formula that provided production success in the last century, still applies today: focus on processes. Build 'Swiss quality' at a competitive price and provide quick, fault-free deliveries with excellent after-sales service. Alongside a continued focus on lean production, several new technologies can assist this journey: 3D printing, Augmented Reality, the Internet of Things, Robotics, Digital Shadow, and so on. The trick is to figure out which technologies can help improve which processes.

Deloitte: How important will digitalisation and automation be for leading production and operations management in the future?

Torbjörn Netland: Important, but not as important as most people seem to think. We are decades away from the visions that many present in the media and at industrial conferences, and often the visions are built on an erroneous understanding of how manufacturing works. I do not believe in any sweeping revolution for most manufacturing industries. There will be more change in the downstream business models than in upstream manufacturing. In the typical factory, everything boils down to the timeless question: what processes are we trying to improve?

Profile: Prof. Dr. Torbjörn Netland is a Tenure Track Assistant Professor and the Head of Chair of Production and Operations Management at the Department of Management, Technology, and Economics, ETH Zurich, Switzerland.

He has previously held positions at the Norwegian University of Science and Technology (NTNU) and SINTEF Technology & Society, Trondheim, Norway.

His research on “Managing Corporate Lean Programs” has been carried out in close cooperation with global companies. His research appears in top academic journals and the book that he edited, *The Routledge Companion to Lean Management (2017)*, has recently been awarded the Shingo Research Award.

He is a Fellow of the World Economic Forum’s Initiative on the Future of Production and an elected board member of the European Operations Management Association (EurOMA).

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