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Artikel: "The strong Swiss franc? An opportunity to adopt a different approach to manufacturing"

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tween the two zones had remained stable (at CHF 1.31 to EUR 1.00). The professor's view is that the weakening of the Swiss franc since 2011 is solely due to movements in the dollar exchange rate which has had a positive impact on the section of the Swiss economy exporting goods to the dollar zone.

Marcelo Olarreaga points to the difficulty faced by Latin American countries in sustaining their currency, a policy which involves buying their own money with dollars. "Defending a floor rate is easier than supporting a ceiling. Switzerland did not need dollars to sustain its policy but instead just francs which it prints itself. It could have maintained the minimum rate without major risks, reacting only in the event of a real fall in the euro."

The situation is even worse at the moment, in the view of this expert in development economics, because Switzerland will now have to intervene to a much greater extent on the market to convince people that the franc is not as strong as it seems. "The minimum rate gave an idea of the value of the currency. Furthermore, the SNB had not intervened for months before the end of 2014. Now there is no longer any reference point," he concludes.

The implications of an excessively strong Swiss franc

Increase in export prices, rising relative wages, decline in the competitiveness of Swiss companies and growth in unemployment: these are the ills threatening the Swiss economy. Blaise Matthey, chief executive of the FER Genève, provides two specific examples of the impact of the rise in the Swiss franc. The first concerns a Swiss manufacturing company that asked a foreign supplier – which is paid in Swiss francs – to adjust its prices. "It refused, leaving the Swiss business backed into a corner," sums up the head of the FER Genève. The second example relates to a Swiss company near France which prints books and exports them to the eurozone. "It recently invested in a new production line. But now its export prices are too high. It therefore plans to cross the border to carry out the bulk of its production, just keeping its administrative activities in Switzerland," reveals Blaise Matthey. The advice to companies from the State Secretariat for Economic Affairs (SECO) provokes acerbic laughter. "Companies have already taken action in a number of areas to improve their productivity, innovation and so on," he underlines.

Describing an industrial sector under pressure, he believes that Switzerland's "going it alone" is no longer a tenable option in an economy now faced with major economic blocs, not least Europe and the US. He asks, "What is the value of a Swiss franc which is strangling its economy?".

With the end of the minimum rate, Swiss salaries rose sharply by 15 to 20 %, points out Professor of Economics Marcelo Olarreaga. With a large share of its exports going to Europe, the country is seeing its prices increase, resulting in a fall or at best stabilisation of its GDP. "It's quite simple," he observes, "you can now go skiing in neighbouring France for far less."

"The strong Swiss different approach

A specialist in cutting production times,

STÉPHANE HERZOG

American management professor Suzanne de Treville believes the abandonment of the minimum rate paradoxically represents an opportunity for Swiss companies. "Some business owners have told me they face a desperate situation. But at the same time their willingness to explore new opportunities will be greater, a bit like someone who has suffered a heart attack being more receptive to advice on their diet," explains the researcher and professor at the Faculty of Business and Economics of the University of Lausanne (HEC). It is also a chance to reaffirm their faith in the Swiss economy, which is based on "excellent foundations".

At the end of March, Suzanne de Treville flew to Washington to take part in a conference organised under the aegis of the US Department of Commerce. The relocation of firms was a subject under discussion. The Harvard-educated academic nevertheless believes that this often creates more problems than it resolves, not least because it

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American professor Suzanne de Treville sees the strong Swiss franc as an opportunity for Switzerland.

severs the link between research and development and production of goods. "Companies are obsessed with the cost reductions afforded by relocating," laments the Harvard alumna. This is why she deploys an analysis tool that indicates the real costs, and therefore also the losses, of such relocations abroad: the Cost Differential Frontier.

A three-point overview of what it does

■ **Calculation of the real costs of relocation:** From the mid-1990s, Swiss companies began to relocate some or all of their production activities, in particular to Asia. What was the aim of this? A reduction in production costs of up to 30 %. But Suzanne de Treville believes that the real costs of such decisions are hidden. Various factors enter into play here, including the lengthening of lead times, the difficulty of controlling product quality and the separation of production from research and development, undermining innovation. These costs are identified using qualitative financial analysis tools. This is the purpose of the Cost Differential Frontier, an analysis tool developed together with her colleague Norman Schürhoff, Professor of Finance at the Faculty of Business and Economics (HEC) Lausanne. "Managers have to do their sums," concludes the researcher. In her view, this is the only way of applying measures that are "counter-intuitive" but necessary.

"Companies are obsessed with the cost reductions afforded by relocating"

■ **Producing high quality and standard goods:** Many Swiss companies supply high-added-value products. Suzanne de Treville cites the example of Fischer Connectors, a group supplying thousands of different connector and cable assembly solutions. "These are products for which demand fluctuates, requiring local and flexible production to meet and adapt to demand," she explains. There is consequently no question of relocating their production at the risk of reduced competitiveness. This is what happened to Flexcell, a solar panel manufacturer, in 2012. It decided to shift towards standard products manufactured in China. However, these products no longer met Swiss requirements.

Suzanne de Treville suggests that Swiss companies should combine both approaches. This involves continuing to provide high-tech products while at the same time manufacturing "B products" which can be stored, an option not available with highly volatile goods. However, such a step again entails counter-intuitive decisions the benefits of which can only be shown by using mathematical analysis tools. "It is a matter of giving the machinery fleet surplus capacity," indicates the academic. During peaks in demand, the plant produces the goods in which the company specialises, where margins are large and for which it has a customer base. During quieter times, it uses its capacities for standard products that do not require great production capacity. An increase in capacity therefore has to be accepted.

■ **Reduced lead times:** "Lead times cannot be reduced without providing additional capacity," observes Suzanne de Treville. On the other hand, lead times will increase at plants that only produce high-added-value goods but with just-in-time delivery. "During these periods, the competition will offer a standard product and the customer will abandon product A, even though it is closer to its requirements," she remarks. Turning words into action, Suzanne de Treville introduced HEC students into four Swiss companies in March. They will identify a high-volatility product A in each company and a standard product B, which can be stored. Mathematical modelling will then enable the reduction of production lead times. "I sometimes ask managers if they would be able to reduce their lead times from 20 days to a week to enhance competitiveness. They often reply that they would like to but it is unfortunately impossible. They think that increasing capacity will reduce utilisation of the machine fleet. Our toolbox nevertheless reveals that it is a solution that works well."

STÉPHANE HERZOG IS AN EDITOR WITH THE "SWISS REVIEW"