**The Experience of Swiss Companies offshoring to Asia (India)**

The focus of this article should be on **small and medium sized firms** which have become multinationals in the process of globalization. Some produce 100% at home, some of them have been in Asia for close to 50 years and become local companies in their own right.

1. Small and Medium Swiss enterprises (SMEs) and their industry base

Switzerland is a small country, however with a sizeable population and business community. 2010, 12’596 companies were freshly established employing 23’482 people in a country with an active workforce excess of 2 Mio. As these numbers indicate, most new companies are small ones, 10’557 come from the service sector, and 2’039 are from industry.

As part of a two way trade between Switzerland and India, close to 4 Bio USD are exported and imported. Swiss Exports from the secondary sector cover machinery, pharma, jewellery/ stones, precious instruments, chemicals, fertilisers, watches and metals.

Swiss Imports traditionally deal with chemical products, textiles, agriculture, precious stones, transport equipment, fertilisers, metals, machinery and leather products. More recently Swiss Government has promoted new technology exports such as:

* Food processing, medtech, cleantech, nanotechnology and solar industries
* 50% of established Swiss firms are concentrated in the Western Region, close to 25% each in the southern and northern region of India. A lot of companies still work with India through Mauritius.

Switzerland has a **business friendly environment** with:

* The largest and most successful life science cluster in Europe (Basle)
* Highly developed machinery and metal based industries
* Modern clean- and medtech industries and research labs
* Financial services facilitating business production and export
* Competitive tax environment with limited tax on commercial and financial services with Switzerland and towards Europe
* Home to regional and global headquarters of large multinational industrial and service firms
* Leading educational institutes which are technical and vocational learning based
* A world economic forum, gathering government and top management of many global firms for a week in February
* A cross-cultural environment in central Europe with an educated, friendly and supportive population
* A stable currency, with high employment
* A hub for tourism and recreation in the centre of Europe

Particular **advantages** are:

* Specialised export industries oriented towards high capital investment, promoting continuous quality and technology improvement
* Increasing comparative advantage as compared to foreign investors
* Quality enhancement strategy prevails over price sensitivity approach (high value added and superior quality products)
* Marketing distribution from Switzerland, over time to be complemented by local production overseas
  + Joint ventures and offshore industry establishment
  + Experienced management team
  + Investments into comparative advantage and offshore labour skills
  + Activity of born globals, people who have experienced themselves life abroad and know how to deal with foreign countries and cultures
  + Carefully assessed site establishment
* The focus of this article should be on medium sized firms which have become multinationals in the process of globalization. Some of them have been in Asia for close to 50 years.

**Success Factors** for Swiss firms in Asia and India according to the Chairman of the Swiss Mechanical and Electrical Engineering Industries (MEM industries) Hans Hess are:

* A good product line which can be exported to existing and new markets
* A good channel to the market e.g. through a trusted agent network, diversified markets
* Continued innovation of processes and products through continued research effort
* Quality and competitiveness (also in pricing)
* Leadership in specialised markets and product niches

1. Efforts to establish in Asia

To restrict the analysis of this article to the sample of a sizeable group and given the strong established base of Swiss manufacturing in Pune, we shall look a little further into the this sector and analyse its key policies towards Asia and India. Most of them direct their first efforts to China, before India and some have had difficult experiences with joint ventures and with local partners.

As one colleague, involved with support to offshoring industries from Europe put it, many thought that they could delegate authority and management control of their operation abroad to a third party and they only came in with their own efforts when it was late. Disappointment was the result and reluctance to try it again.

Now-a-days some think it is preferable to automate their production at home. It could be impossible to move, as sophistication is too prominent, few others feel that it is very easy to go overseas and underestimate process complexity and cultural issues. Most of their markets still lay in Europe and to be able to produce from China or India into Europe they need reliable production (partners), stable output and minimal lead times, from production to export to reaching the customers destination. Transportation is also an issue.

That is why the **predominant patterns of cooperation** also with India now is either establishment under one’s own name or export of existing and 100% overseas manufactured products through a trusted partner network. Few try to go through the route of working together with a trusted partner and in a network to make progress on their own issue. There are a number of well-established Swiss firms that took the time to develop their presence over years. They either established their own proprietary production model or they found a partner, capable to translate their model into a successful Indian framework.

Education always played a key issue and whilst Swiss Manufacturers would benefit from their vocational education training based knowledge initiatives, they could learn from their Indian counterparts how to become more efficient in their local production process, thus ultimately translating into more competitive pricing of their products.

1. Firms established some time ago and with experience in production and cultural issues

In Pune, such firms are for example:

**Rieter:**  <http://www.rieter.com/en/rieter/>

**Sulzer:** <http://www.sulzer.com/>

**Burkhardt Compression**: <http://www.burckhardtcompression.com/default-n59-sE.html>

**Bobst:** [http**:**//www.bobst.com/chen/](http://www.bobst.com/chen/)

They have a well-established production base and they operate from outside like Indian firms. Their turn-over lays between 100 USD and over 500 Mio USD and they have a qualified local workforce. They do both, production and research and their local units interact on a global scale with other production centres in Switzerland and overseas. They export from India into the entire world. Their top managers at times are also on the top management of their mother company. These firms know what they need, their staffs including management mostly consists of local people, but they equally second people from overseas for the purpose of knowledge exchange, networking and quality control.

1. Firms that produce 100% in Switzerland and export to the key Asian markets

A good and successful example of this is the Swiss Watch Industry, with many different firms, producing in Switzerland and exporting to local sales’ points. As a rule this group consists of companies that produce a high value added content and proliferate through style and mechanical excellence. However there are also companies in the mechanical engineering and tool manufacturing sector such as for example **PB Swiss Tools**. The way they operate can be seen from their company video <http://www.pbswisstools.com/de/about-us/company-video.html> . They produce tools for general and special purposes and excel in high class manufacturing, based on research (1/5th of the budget is spent on product innovation), performed with a dedicated workforce and produced with modern process and machinery. They sell through a worldwide established sales network and don’t intend to move overseas.

1. the Group in between

**Machine tools and manufacturing technology** is an industry, which has a big reputation and knowledge. As MEM writes in its webpage:

*‘Swiss machine tools are appreciated by quality-conscious manufacturers in sectors such as tool and mould production, medical technology, telecommunications, automotive industry, aerospace and general mechanical engineering - in fact, wherever high precision, performance, flexibility and reliability are called for. Production technologies: grinding, tool grinding, milling, lathing and turning, calibre drilling and grinding, electrical discharge machining (EDM), gear manufacture, moulds, precision punching and other processes. No matter whether the machines you are looking for are simple and small or fast and flexible with high precision - Swiss manufacturers can supply them.*

The group «Machine tools and manufacturing technology» is member of CECIMO, the European umbrella organisation of the machine tool manufacturers.

<http://www.swissmem.ch/en/members/divisions/machine-tools-and-manufacturing-technology.html>

There is a list of member companies and many of them have current challenges. As the local Swiss Newspaper NZZ writes on 27th September 2012, *‘specialization and exports aren’t sufficient any longer, as our domestic producers can only just follow the current market shifts.* ‘The article elaborates about the need to localise production as these machines are very big and costly to export. After the initial move into new markets local producers have copied the mostly European based SME’s[[1]](#footnote-1) and local industries are being protected from overseas competition, making localisation an imminent need. Swiss manufacturers, amongst the leaders in this segment additionally had to cope with the high Swiss Franc (SFR), adding an additional competitive element.

What can be done under such circumstances illustrates the example of **Tornos** <http://www.tornos.com/en>. With a more flexible, internationally supported business model Tornos aims at producing 1/3rd more, doubling its revenue margins, without substantially increasing its net profit. Today 2/3rd of the production is SFR – based and only 1/3rd of its revenue is in SFR. [[2]](#footnote-2)

The model looks as follows: Tornos gets 40 Mio. SFr in a loan financed by two private investors. This loan will be translated into a share capital increase within 1 to 2 years. This structure allows to avoid expensive bank financing. Staff in Switzerland will be reduced by 1/3rd, with the key components still to be produced in Switzerland. A partner in Asia will produce machines which are less expensive. This allows Tornos to live with turnover fluctuations of 50% without losing money, whereas until now they could only afford 40% which was insufficient in the recent crisis. Raw materials will be bought at a lower price in the local markets and less critical parts will be produced locally too. There is a reduction in types of products and platforms at home to further save costs and capital. The service business related to existing machines will be expanded, as it is a good business (there exist over 30’000 Tornos machines in the market and it is proposed to cooperate with another manufacturer, **Starrag:** <http://www.starrag.com/index.php/en/> , to achieve this. The mid-range market is expected to make up for 60% of all machines, with the top end and the bottom end sharing the remaining 40%. It is to be expected that the demand in developed markets stagnates and in emerging markets grows.

**External risks** to this scenario are:

* Unexpected slow-down of market demand in emerging markets
* Further erosion of European demand because of structural problems in Europe
* Asian producers entering European home markets with cheap products
* Over-exposure of staff at home base with both technical and emotional factors
* Lack of quality of supplier input/ products, with quality problems to end customers and reputational risk to Tornos

1. Recommendation from the University study on 45 Swiss practitioners, entering the Indian Market

In a study in India ‘Market Entry Challenges for Swiss Companies’ [[3]](#footnote-3) the authors found out that Swiss experience clashes with Indian reality. Following **challenges and soft factors** were considered to be crucial:

* *Correct evaluation of market potential and adaptation of a product portfolio for Indian market (market evaluation)*
* *Rigorous financial planning (market entry planning)*
* *Developing a strong and trustworthy leadership team in India (market entry implementation)*
* *Quality Management (local operations)*

Executives perceive the following challenges as most **complex** to address:

* *Right adaptation of own product portfolio for Indian Market*
* *Taking the right entry mode decision (independently versus with Indian Joint Venture partner)*
* *Finding a business process design which works (Swiss versus Indian way of doing business)*
* *IP/ Technology protection (on-going operations)*

Analysis suggests that the most complex challenges along the market entry process to India can be effectively addressed by the following **guidelines**:

* *Patience: allocate sufficient time to know the market*
* *Invest in personal overlapping networks*
* *Calibrate the Swiss versus the Indian way of doing business/ combine strengths of both management cultures*
* *Align IP/ Technology protection measures with overall business strategy/ value chain.*

Some **key statements** from participants are:

* *Show commitment and visit the country regularly to get a flavour and to build the local network*
* *The Swiss company brought the technical and commercial know-how and the Indian colleagues displayed a high customer focus and were extremely good at handling the unexpected*
* *Having the right partner you can trust is key for success in India*
* *Having a strong local management team from the beginning, but avoid overdependence on them*

1. Some key findings

Some Swiss companies are prepared to go offshore, if they haven’t done it already, some wish to stay as they are, producing a 100% from home and exporting overseas. Size is of lesser importance than core competence, financial fitness and flexibility of approach. Both models can be successful.

Asia is increasing as an option for local production, as production focus and technology are shifting from Europe to Asia (see the example of the component manufacturer Tornos above).

Swiss Companies have gone over their cost-, production- and distribution structures again, although they did this already during earlier crisis. They still feel the impact of the expensive SFR.

Partnering with Indians counterparts can be an option Swiss and Europeans are prepared to learn.

To find the right partner can take time and precise contract terms together with a basic mutual understanding are key.

Producing the Indian way can be an option, but some Swissness remains important.

Indian manufacturers are looking into increasing their production capacity, improve their production quality and reduce their cost through technology up-gradation and modern machinery. As such Swiss and Indian manufacturers needs’ can be complementary.

Experienced consultants can help in the matchmaking process, however before a party is prepared it has to do its homework (identification of core competence, business plan, strategy fit etc.)

Interaction has to be sustained and lead to quality and reliability of output at both ends.

Industrial Chambers by means of interaction and seminars can serve as venue to open their participants’ eyes to the effects of globalisation and to enable their members to pragmatically access the tasks, through a step-by-step approach.

Research results achieved through the work of study groups can be shared amongst the participants, especially benefitting the smaller firms.

Management training and vocational educational training initiatives can be exchanged through interactive Chamber networks.

Horgen, 10th March 2013

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1. In Europe there are about 1‘500 Machine tools and manufacturing technology firms. 80% of them are SMEs. 10 years ago European SMEs produced 40% of the world market production with an aggregate turnover of 20 Billion Euro. Their output peaked in 2008 with 24 billion Euros. Due to the financial crisis, their output reduced by 30% to reach 21 billion Euros in 2012. Supply and demand of such heavy machinery shifts to Asia, leading to the comment that there is a **threat of deindustrialisation**, going forward. [↑](#footnote-ref-1)
2. NZZ, 17. October 2012, ‚Tornos setzt auf Asien‘. [↑](#footnote-ref-2)
3. India Competence Centre, University from St. Gallen, The bumpy road to India’ [indiacenter@unisg.ch](mailto:indiacenter@unisg.ch) 45 practitioners were asked about their experiences, by a study commissioned by the Swiss Indian Chamber of Commerce [www.sicc.ch](http://www.sicc.ch) 2011. [↑](#footnote-ref-3)