The strong Swiss Franc: how do companies manage?

The Swiss National Bank (SNB), to the surprise of most if not all people, "changed their mind" by de-linking the Swiss franc from the Euro. On 15th January 2015 the SNB stopped maintaining a currency peg of 1.20 francs to the Euro. This has sent more than shockwaves through Switzerland:

At first there has been an immediate spike of about 30% in the Swiss franc's value versus the Euro, it then "settled" with a slight gain of 20% against the Euro and 18% against the US-Dollar. So, after the first shock, many of us were thinking that everything will "become normal" again and this indeed was only a short-lived period of uncertainty.

However, the Swiss franc continues to be very strong and is close to parity to the euro. It has hit the economy very hard. Export business and subcontractors have been affected the most and this is indeed dramatic, because they account for half of the country's GDP.

Especially at that particular point in time it has had the additional effect of timing: suppliers were paid before but payments received by customers have occurred only after this date. So the result is an immediate loss of 20%.

On top of that, the advantage of being right in the centre of Switzerland, has somewhat become a disadvantage, namely countries like France, Germany and Italy are so close and are even more now used for the so called "shopping tourism". The Swiss basically immediately gained a 20% net salary rise by shopping in the neighbouring euro-countries. And I do not even go into an additional saving with the VAT…

How did the industry deal with it so far?

Swiss research institutes have cut their 2015 economic growth forecasts by 75 percent and many companies fear they will have to put new projects on hold. It is expected to take up to 3 if not 4 years to absorb such a shock.

Most companies had to be quite quick in their actions and lowered the prices- some without having had the chance to even start negotiations with their suppliers. Foreign companies stopped projects or put them on hold. How long will it take to absorb the cut? And what else can be done?

Especially US-American companies which tend to pay expats in their home currency had to deal with an immediate increase in (anyway high) cost for their population. Companies that have a global employee or expat population froze or put a cap on benefits such as COLA particular for Swiss inbound expats, fixed the benefits in the host currency for Swiss outbound expats etc. Localising expats has also been a topic, but this would have merely been postponing a problem, namely when the expats repatriate and have a gap in the social security and/or pension schemes. Also, localising in Switzerland is not necessarily the cheaper option since wages are high. Some argue that this shock is somewhat self-induced, because how can a company rely on a single institution, namely the SNB ? Should the industry have known that this peg caused nothing but an artificial situation that at some point will have to collapse? Well, the SNB was always very strong in saying that they will keep this peg. I would even go as far to say that this was (or used to be) a cornerstone of their monetary policy. Was it bad luck that this happened? The Swiss culture is also a very trusting culture, so was it wrong to trust?

Fact is that companies had to deal with this and the solutions apart from immediately lowering the prices have been the following:

- Check on all their cost- where are opportunities to save?
- Review all processes
- Review their supply chain
- Freeze salaries and review bonuses, reduce benefits, etc.
- Re-structure the pay currency
- Change pay out location

The latter two options have been a very emotional topic, yet it has shown that most companies opted for all the above. However, to change processes and supply chains are not as quickly done as the other options, so we have seen that hardly any companies gave salary increases. Especially companies that have many cross-border workers have opted for changing the remuneration into euro. Employee cost simply is the highest cost in most companies, so it is somewhat natural to look at the "biggest pile" first to help addressing the issue.

This further caused a lively debate about pay in Switzerland in general, because since a couple of years, Switzerland actually has a deflation and not inflation. This lead even more companies to not increase any salaries, because even with a "zero-increase" Swiss employees actually enjoy a net increase.

The companies tended to communicate in writing and sent the explanation out with the salary slip. There are possibly better ways to do this such as an employee meeting where questions can be asked by everyone to the management; it depends on the company culture what is best, however, transparency and clear communication about the reasons are never wrong.

One can argue that reducing salaries and/or increasing working hours is not fair on the employees. Eventually it will affect the domestic demand, enforce the shopping in the neighbouring countries and weaken the Swiss economy even more.

No matter which means have been used, so far most companies have managed to deal with these challenges relatively well. The question is if they will manage to remain competitive in the long term. Affected industries and companies will have to come up with other approaches and more thorough measures. The first step along the way is to identify the risks a company is exposed to. The second step is to define specific financial, operative and strategic types of action such as continuous improvement measures and strict business process management.

Some say the best solution is to simply do nothing and wait for the market to relax. Some say it has been time that the generally rich Swiss industry had to do something to stay competitive in the world market and not rely on their domestic market only.

Well, the future will show… but surely we as mobility professionals are more competent now to deal with currency changes … .