

## The Role and Effectiveness of Off-shoring / Near-shoring

### - Executive Summary -

**Off-shoring / near-shoring of production processes to other countries to reduce costs and increase competitiveness is not a new topic and our study demonstrates that it is very much at the top of the agenda for CEOs in Switzerland. 80% of the companies surveyed are already off-shoring / near-shoring, on average 30% of their production activity, with 70% indicating a positive experience. The dual challenge of a strong Swiss franc and intensifying competition from low cost countries is forcing them to think about further increasing off-shoring / near-shoring by between 30% and 60% over the next 5 years, targeted to make them more agile, competitive and profitable, and enabling them to seize new market opportunities. Should the €/CHF rate go below 1.1 and the US\$/CHF rate go below 0.90 most companies would further accelerate their plans.**

Of the companies surveyed, 20 % have no off-shoring / near-shoring experience, mainly because they were not subject to strong cost pressures, or because there is a policy of keeping operations in Switzerland. Nevertheless all of them believe that they will start off-shoring / near-shoring modest volumes of up to 30% within the next 5 years. In contrast to companies already doing so, those considering it for the first time are generally looking beyond operational performance improvement to internationalization of competencies and even innovation. Potential disadvantages of off-shoring / near-shoring relate to the potential risks economic/political stability of the selected countries, the ability to produce at expected quality levels, as well as the potential lack of loyal, committed workers and competent management.

The three top reasons for off-shoring / near-shoring remain “decrease costs”, “increase flexibility”, “get closer to customers”. 85% of the companies have at least 2 low-cost production locations, in most cases one in Asia (off-shoring) and one in East Europe (near-shoring). China is the most mentioned off-shoring location but these units are slowly shifting to also serving the local and regional markets. East Europe, and particularly the Balkans, is getting renewed attention for low cost near-shoring, with the advantages of better logistics, improved delivery times, and being easier to manage from Switzerland. Swiss companies are off-shoring / near-shoring mainly operations activities (production, assembly, and customer service), and in some cases engineering and product development. Enterprise services (e.g. payroll, accounting, IT) are much less delocalized, mainly due to critical mass. However there is acknowledgement that these activities are potentially delocalized indirectly through Swiss service providers, who themselves operate partly in lower cost countries.

Companies measure off-shoring / near-shoring in different ways (e.g. apportioned costs/revenues, number of employees, production volumes), but on average they do it today for 30% of their activity. Expected to grow to 51% over the next 5 years, this will mainly be achieved by increasing capacity at current locations. All agree that there must be a minimum production volume to justify off-shoring / near-shoring, but the opinions vary over the level. For 30% it is above CHF 30m, for 30% between CHF 10 to 30m, with the rest indicating justification for volumes even below CHF 10m. Investment incentives do not appear to play an important role, although foreign governments could do more to make their countries more attractive. The preferred approach for off-shoring / near-shoring is greenfield investment to create an affiliated company in the new location. Planned investments in off-shoring / near-shoring over the next 5 years range from CHF3m to over CHF25, with half over CHF10m, with 80% of companies expecting a payback in less than 4 years.

Switzerland remains the strategic base for all companies surveyed, a key factor being the high quality of the infrastructure and human resources. Those activities that they would absolutely maintain in Switzerland include holding processes and functional coordination, as well as innovation, R&D and IP management. 75% of those interviewed acknowledged that increased off-shoring / near-shoring would in parallel lead to restructuring in Switzerland and none indicated that they are actively thinking about repatriating currently off-shored / near-shored activities.

In summary, in the wake of a continuously expensive Swiss Franc, the level of off-shoring / near-shoring will steadily increase over the next 5 years and the surveyed companies do not believe that the Swiss government can do much to slow the trend. There is no major shift in the relative attractiveness of off-shoring / near-shoring locations, although East Europe is starting to become more popular for reasons of low costs, proximity, and simplified logistics.

**“Challenges faced by Swiss Manufacturing Companies : The role and effectiveness of Off-shoring / Near-shoring”  
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## Information About the Survey

The survey entitled “**Challenges faced by Swiss Manufacturing Companies: The Role and Effectiveness of Off-shoring / Near-shoring**” was conducted by ClusterBridge in collaboration with Professor Carlos Cordon of IMD. It was conducted in 2 phases between March and September 2013 and involved 21 Swiss companies active in the MEM industries (Industrial components, equipment & systems, technical materials, infrastructure products, medical products, white goods). The participating companies ranged in size from below CHF10m to over CHF1 billion in revenues, with 50% over CHF250m. Export levels ranged from 10% to 90%, with an average of over 70% mainly to the EU, then US, and Asia. With 80% already off-shoring / near-shoring, 60% were from German speaking Switzerland, 30% from the French speaking part.

### **ClusterBridge** ([www.clusterbridge.com](http://www.clusterbridge.com))

ClusterBridge was founded in Switzerland in 2002 and provides "hands-on", international business development & corporate finance services, in both an advisory and interim management capacity. Leveraging solid operational and consulting experience across industries and geographies, and employing proven methodologies and tools, ClusterBridge has supported more than 30 clients to be pragmatic, bold, and innovative in architecting new business. To build experience in East Europe, allowing it to better serve its clients, ClusterBridge relocated to Bulgaria in early 2012.

### **Professor Carlos Cordon** ([www.imd.org/about/facultystaff/cordon.cfm](http://www.imd.org/about/facultystaff/cordon.cfm))

Carlos Cordon is the LEGO Professor of Supply Chain Management at IMD Business School in Lausanne, Switzerland. He has won various prizes for his cases and articles on supply chain management, outsourcing, and process management. He is also a consultant to multinational companies in the electronics, food, chemical, pharmaceutical, car, and other manufacturing industries. He has designed and directed numerous executive development programs in the areas of supply chain management, outsourcing, and purchasing.

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