



Press release

2015 Export Risk Monitor: Swiss companies minimize their risks by diversifying export destinations, with a growing emphasis on the United States, China and the Gulf States

ZURICH – 21 APRIL 2015 – A survey of 357 Swiss exporters, two-thirds of which generate at least 30% of their sales through exports, was conducted by the Bern University of Applied Sciences and Euler Hermes. It highlights current and future risks.

Of the companies surveyed, 56% Swiss exporters stated that they had lost contracts due to the current currency situation, 25% said they have unpaid invoices from foreign customers and 10% even acknowledged that they faced liquidity problems because of unpaid invoices.

“In the near term, costs can be reduced to dampen the impact of the Swiss franc’s strength. We are already seeing that,” said Ludovic Subran, chief economist for Euler Hermes. “Over the long term, however, that will not be enough. The key will be greater diversification in terms of both products and sales regions. The U.S. dollar has barely depreciated against the Swiss franc. Companies should therefore look to export to regions where invoices are settled in dollars or where the local currencies are linked to the dollar – such as in Southeast Asia and Arab countries.”

Exporters face three main risks

The survey shows that the three largest risks for Swiss exporters are cyclical, currency and counterparty risk. One surprising finding was that companies consider cyclical risk and currency risk to be of almost equal importance.

Overall, approximately 80% of the companies believe that risk levels will either remain the same or possibly increase in the near future. Currency risk affected 87% of the Swiss export-oriented companies to a high or average degree. Approximately one half of the companies are increasing their purchases abroad and lowering their costs in Switzerland. Some 29% have hedged their currency exposure, and a remarkably high 32% of companies disclosed that they are able to bill customers in Swiss francs. 24% reported being able to raise their prices abroad in connection with the Swiss franc’s appreciation. Only 5% of the surveyed companies have not taken any measures.

“These companies have done their homework and have a competitive advantage that enables them to pass some of the higher costs due to the Swiss franc’s appreciation on to their foreign customers,” noted Dr. Paul Ammann, the head of the survey representing Bern University of Applied Sciences.

Nearly half of all surveyed companies are seeking to mitigate the risk through diversification, i.e. with a presence in the key export countries. Other companies are taking steps early on to adjust their resources in the corresponding countries or withdrawing from the affected countries in the event of cyclical problems.

Lastly, 55% of the companies surveyed were affected by counterparty risk (customer inability or unwillingness to pay) to a high or average degree. Companies try to mitigate the risk through prepayments, advance payments, letters of credit and basic creditworthiness assessments. Guarantees, credit insurance and third-party collection are used infrequently.

Shift in export target markets expected and Swiss economic environment

Companies expect exports to the United States, China and the Gulf states to increase, and are forecasting a decline in exports to the European Union, including in their largest export markets such as Germany and France.

In light of rising credit risks, the number of insolvencies in Switzerland should increase more

noticeably for the first time since the financial crisis. Euler Hermes is forecasting around 4,450 company insolvencies in 2015, 5% more than in 2014. This figure will likely increase slightly in 2016.

“The biggest issue will be private and public investment, which barely grew in recent years. How can investment be increased, when demand from Europe is weak?” asks Subran. “For their purchasing operations, Swiss companies need to find more partners in other European countries, where prices are currently attractive. Meanwhile, investments are needed in order to justify the higher prices for Swiss-made products. Services need to be up to the level of the traditional products. Overseas, customers should receive the same high-quality service as in Switzerland.”

Protective measures

The survey also sought to reveal what types of events prompt companies to adopt protective measures against risks. The findings showed that declining profit margins and losses on foreign receivables were the most likely events to spur companies to take preventive measures against pending risks.

The most frequently cited protection measures require the participation of the foreign customer, such as prepayments (35%), invoicing in Swiss francs (28%) and letters of credit (8%).

“For many risks deemed significant, a surprisingly large number of companies answered that they do not take protective measures. Swiss companies need to make risk management a strategic priority, mitigate risks proactively and review risk assessments and protection measures on a regular basis at the executive management level,” concludes Ammann.

Survey information

For the first time in Switzerland, all export risks were analyzed in depth and companies were polled about protective measures. The goal is to provide exporters with a basis for comparison and to support their efforts to protect against risks and point out potential areas for improvement. The vast majority of the surveyed companies were small- and medium-sized businesses with between 10 and 250 employees. The survey focused exclusively on exporters.

More information : www.ti.bfh.ch/expoctrisiko_monitor

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