



Clarity on Business Location Switzerland

**Is Switzerland ready for
business transformation?**

October 2016



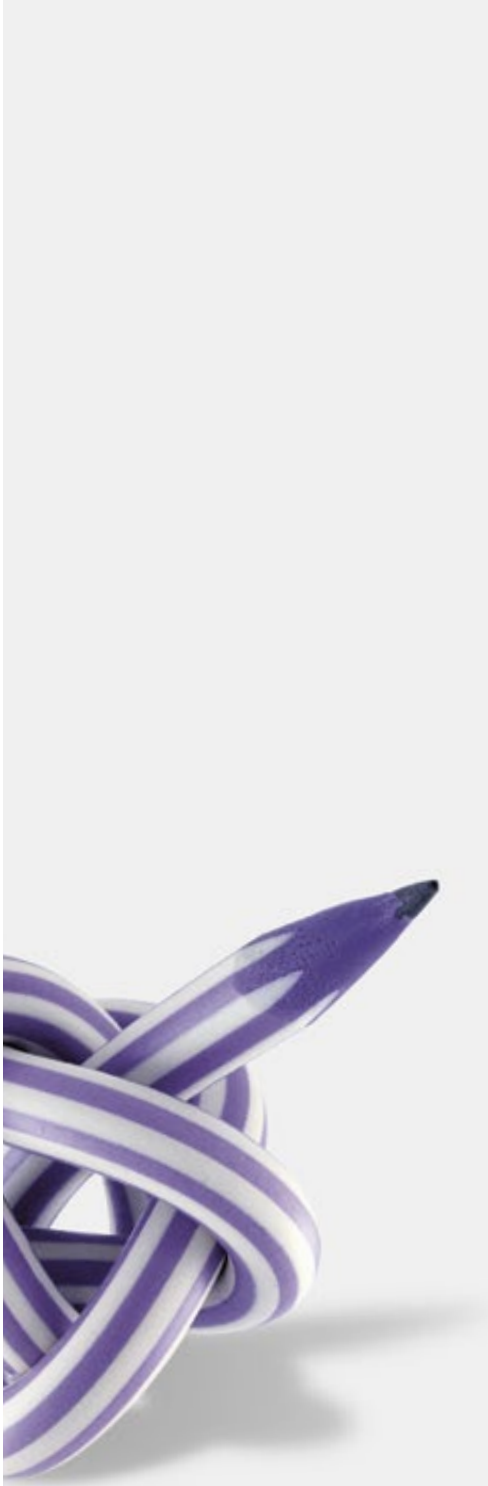
**Swiss-American
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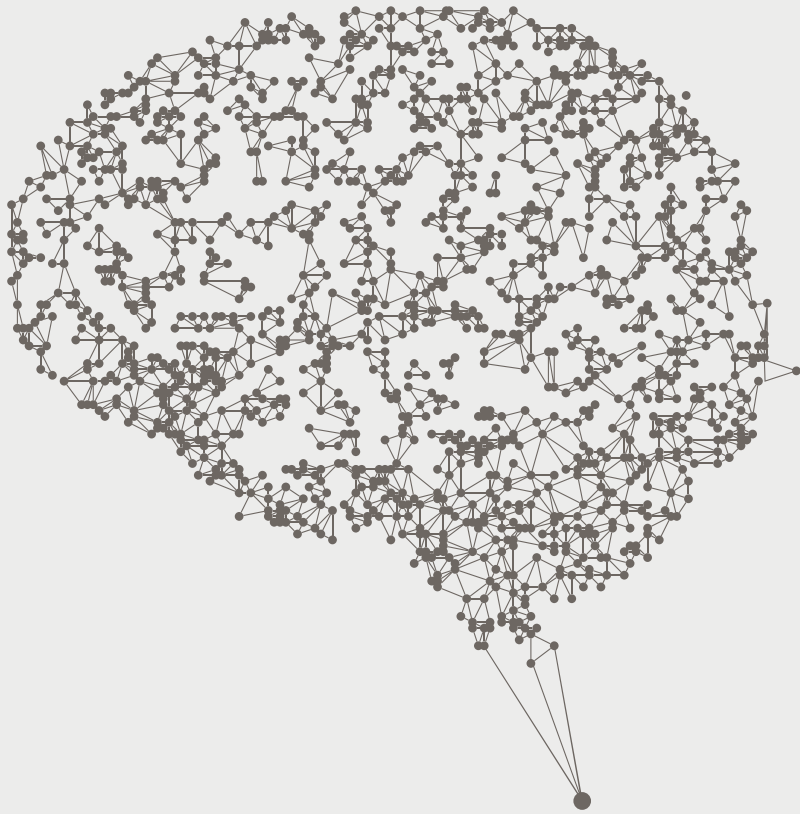
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Welcome



Peter Uebelhart
Head of Tax

Multinational corporations (MNCs) currently produce 40 percent of the world's GDP. Ongoing globalization is steadily increasing this contribution, particularly through the rise of new players from emerging markets. At the same time, disruptive new innovation and changes in consumer behavior are combining with greater macroeconomic volatility, reducing the life cycles of existing technologies and traditional business models. In parallel, local governments and supranational bodies are trying to regain control over MNCs by increasing regulatory and compliance requirements. In this environment, MNCs across the globe are attuned to the urgent need to permanently transform their business model.

KPMG, in association with the Swiss American Chamber of Commerce, IMD World Competitiveness Center and S-GE Switzerland Global Enterprises, has undertaken research into more than 850 foreign-owned MNCs that have international operations in Switzerland. As part of this research, we have asked over 90 senior executives of such MNCs how they view doing business in Switzerland and what they see as the related opportunities and challenges. We have complemented the survey with opinion pieces from two experts regarding the economic importance of foreign-owned MNCs in Switzerland and on Swiss competitiveness compared to other countries.

Whether you are an executive at an MNC that has existing operations in Switzerland or is considering such operations, or you are a policy maker or government official involved in matters that impact the competitiveness of Switzerland as a business location, or even if you are an interested observer keen to find out more, we trust you will find the results of this survey thought provoking.

A stylized handwritten signature in blue ink, consisting of a large 'P' followed by a series of loops and a long horizontal stroke.

Peter Uebelhart

Things must change to remain the same

Joining the debate

Switzerland is about to introduce a new tax system to respond to demands from the EU and the OECD. The country also faces unprecedented challenges from new technologies, macroeconomic and demographic shifts and increased competition from other business locations. The way it responds will determine whether Switzerland can remain a leading global business location.

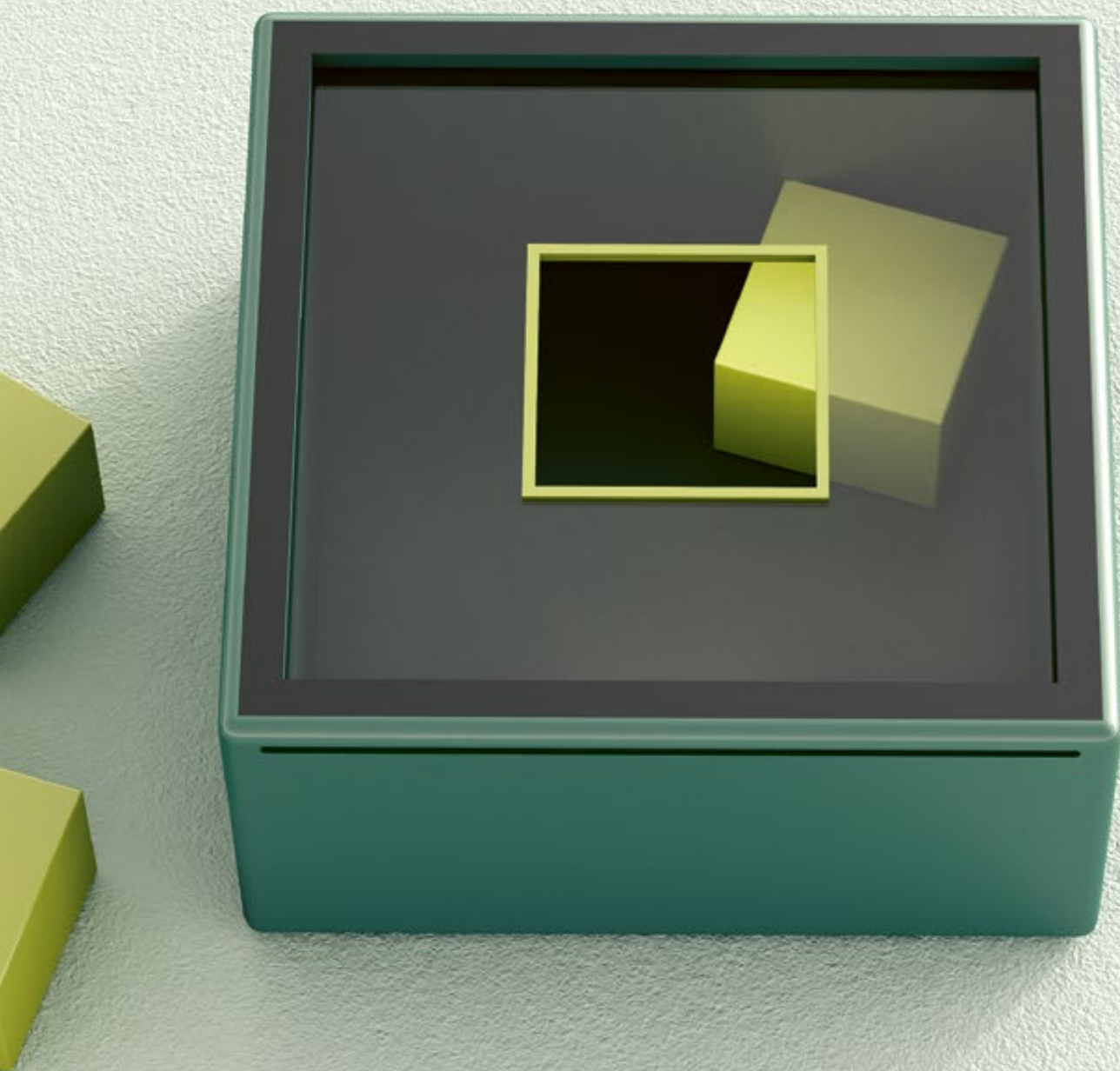


Keeping it simple

Reducing regulatory complexity

As the world moves towards more intensive regulation, industries find themselves governed by rules and requirements to an extent never seen before. Against this background, a robust but pro-business regulatory environment will be crucial for fostering business transformation among multinational corporations.





The world is flat

Value chain analysis is key

The world's top business locations compete fiercely to attract the most profitable and productive parts of fast-growing multinational corporations' value chains. From the perspective of multinational corporations it has never been easier to relocate their most important value drivers to environments that offer the most conducive business conditions.



Is Switzerland ready for business transformation?



Michelle Lock, Martin Naville and Daniel Küng share their views on whether Switzerland has what it takes to remain one of the world's attractive business locations.



ROUNDTABLE DISCUSSION

‘The only constant is change’,
as the old adage goes. But is
Switzerland evolving quickly enough
to keep up with the times?

Interviewees

Top

Martin NavilleCEO at Swiss-American Chamber
of Commerce

Bottom left

Michelle LockBiopharmaceutical Vice President and
General Manager – Alpine region, EU
– at Bristol Myers Squibb

Bottom right

Daniel Küng

CEO at Switzerland Global Enterprise



Interviewer

André GuedelHead of Business Development,
Tax, KPMG in Switzerland

André Guedel Martin, you once described Switzerland as “Dr. Jekyll and Mr. Hyde” – can you explain?

Martin Naville Well, as you know, Dr. Jekyll is the good guy and Mr. Hyde is the bad guy. It’s the same person in persona. On the one hand Switzerland has the highest innovation score, a great foreign employee group and belongs to the most globalized countries in the world. But on the other hand, Switzerland also has the highest protectionism in agriculture, is the furthest behind in liberalization of postal and telecoms services and has a very complicated political system. Bringing these two characteristics together is particularly difficult.

André Guedel Given the economic and political volatility we’re currently seeing around the world, is Switzerland still the safe haven for multinational companies?

Daniel Küng Switzerland is certainly one of the most stable economies. For companies who want to relocate, it is still a very good option. Of course it has shortcomings, but all in all I believe we offer an outstandingly predictable and flexible business environment.

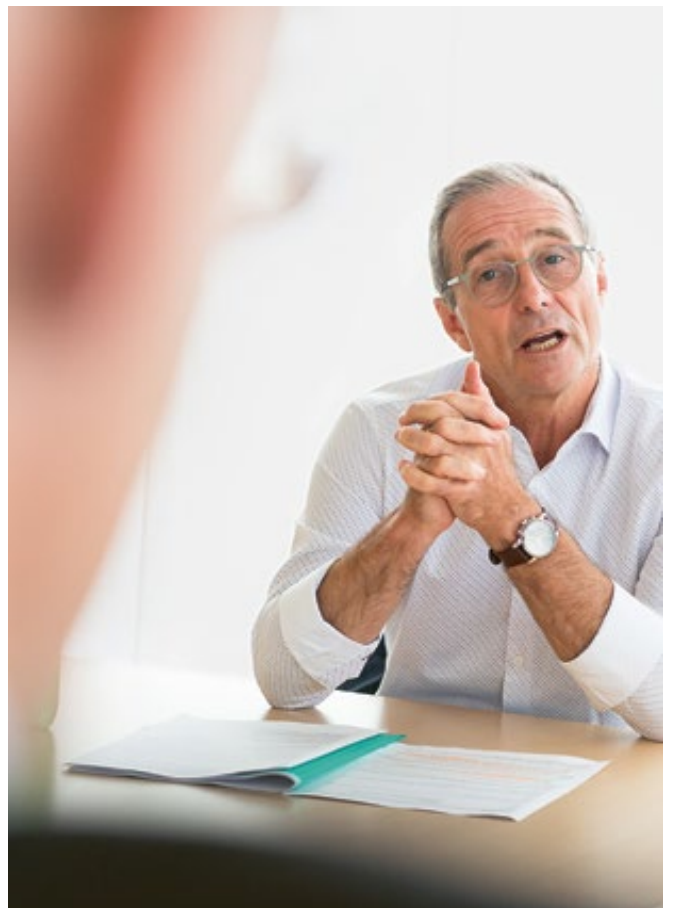
André Guedel Michelle, you won an internal competition against other European locations to set up your new digital marketing center in Switzerland – in hindsight, was it worthwhile?

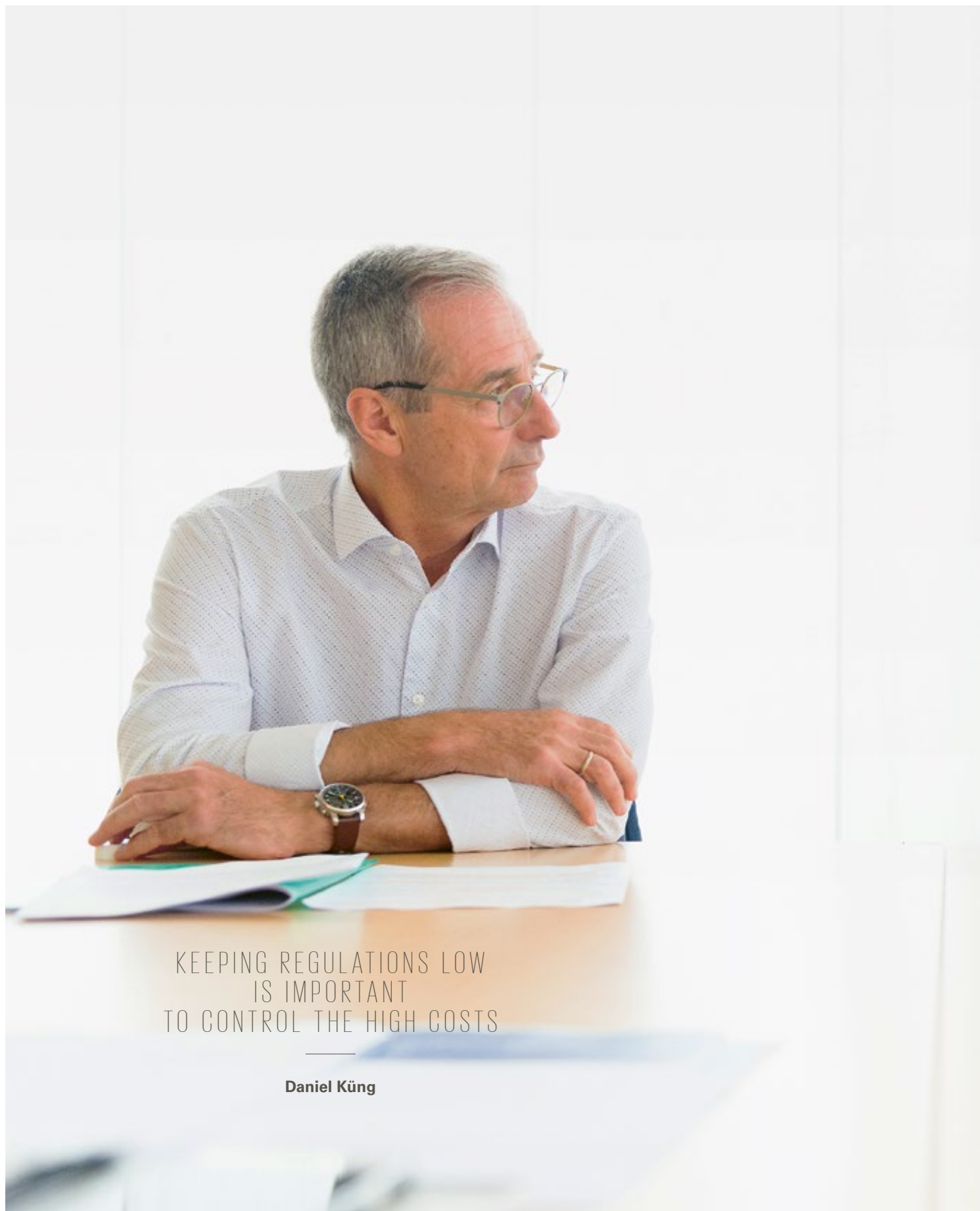
Michelle Lock BMS have just won the “Great place to work awards,” and the best company for Millennials to work in, both of which we are very proud of. Our vision has always been to ensure patients receive the highest standards of treatments, something we have been doing in Switzerland for over 50 years now. Recently we expanded our business capabilities in Switzerland to also include a commercial capability hub which provides support to EU and international countries. This international team is based out of our offices in Cham and provides international support for

an entire commercial infrastructure which includes marketing analytics, market research, digital capabilities and several other activities. Why have we done this? Much because of what Daniel just said: we see a great deal of stability and predictability in Switzerland. The workforce, being both local and international, brings innovation and skills which enable us to connect with and provide resourcing to our international countries with ease.

André Guedel Competitive international tax planning is the single most important advantage to locate key value drivers in Switzerland. As Switzerland has to change its tax law, should we be worried?

Martin Naville Yes, we should be worried because we are changing everything at the same time on multiple levels. We have a big change in front of us with the Corporate Tax Reform III and at the same time with BEPS. If we look 3–5 years into the future, thanks to BEPS we will have a much more level playing field across nations and Switzerland will not have a particular advantage of low taxes. We will have to play our other advantages better. Worry is a good motivator for Switzerland and I am convinced that Switzerland will succeed staying a most competitive place.





KEEPING REGULATIONS LOW
IS IMPORTANT
TO CONTROL THE HIGH COSTS

Daniel Küng

WE CLEARLY NEED THE FLEXIBILITY
OF INTERNATIONAL MOVEMENT,
TO BRING PEOPLE INTO SWITZERLAND
FROM AROUND THE WORLD.

Michelle Lock



André Guedel For many executives of foreign multinational companies in Switzerland the capacity to innovate is not a primary reason for companies to select Switzerland. On the other hand, Switzerland is consistently rated one of the most innovative countries in the world. Do we have a communication problem?

Martin Naville For me, there are two kinds of innovation. One by companies, the other by government. I think Swiss companies are extremely innovative, as are our universities. However, if you come to Switzerland with headquarter functions, I don't think you want a country or government that is too innovative and changing all the time. Stability and planning security is good!

Michelle Lock Going back to our international digital capabilities hub, we brought it into Switzerland because of the successes in innovation. The medical field is not an easy area to move digital innovation into given the clear regulations, but we continue to make progress in Switzerland. Other countries have moved faster in this area.

André Guedel Innovation and a qualified workforce are so closely allied. Is Switzerland losing ground in terms of attractiveness to highly qualified workers?

Michelle Lock I am not sure we had the ground in the beginning. I think the referendums have created some challenges at a corporate level. Many corporations are watching this space carefully as international companies need to retain the flexibility to move people in and out of Switzerland. The referendum did create a degree of instability for a period of time, much like Brexit is doing now.

Martin Naville I think this is another area where we should be worried and need to work very hard. Two and a half years after the vote on mass immigration, we are still nowhere and we have a deadline of 8th February 2017 to implement it. Nobody really knows how to deal with it, because it's a very complex, three-dimensional game of chess with the EU and bilateral treaty partners.

André Guedel Michelle, how important is it for you to be able to hire people from outside of the EU?

Michelle Lock Up until now we have been able to bring in people from outside of Europe. We have a number of US people in our organization, but also from all over the world. If we start having problems with bringing people in from the US, as an American company, that could create significant challenges, particularly with the international capability hubs located in Switzerland. We clearly need the flexibility of international movement, to bring people into Switzerland from around the world.

André Guedel So flexibility is key. And one of Switzerland's main advantages is how flexible its labor laws are. Yet here too, only a few respondents to our survey believe that this will be an asset in the years to come. Is Switzerland becoming the new France in terms of labor regulations?

Daniel Küng No, I don't think it is. We need to look at how other countries are changing too. It's not just Switzerland that is changing and has more regulation. Of course this is the case, but other countries are increasing their regulation far more than us. I don't know of any country that is actively deregulating.

Martin Naville I think the enforcement of the time stamping law is very bad symbolically. I mean how can you do that in 2016?

Michelle Lock You've picked up on an important point. I agree that this time stamping is not good for us. Why? Because Switzerland markets itself on being a very innovative country that moves the needle forward. Time stamping is not perceived as being progressive, but rather old fashioned. Not only in the eyes of companies but in the eyes of individuals working in Switzerland. Symbolically it is not a positive step and is counterintuitive to our modern day practices of allowing for flexible working hours and empowering employees to work remotely.

André Guedel Labor productivity growth in Switzerland is moderate across industries. At the same time, labor costs are high. Is labor productivity or cost the real issue?

Daniel Küng We have a cost problem because foreign companies perform their calculations in their own currency and we have had a very strong valuation of the Swiss franc. Productivity has increased in the last 7–8 years, but it's not been able to keep up with how quickly costs have risen, basically because of the Swiss Francs valuation. In my view, the remedy is to bring down costs. I think we have more leverage if we manage to reduce regulations across business relevant fields, which will reduce the cost of doing business.



André Guedel Finally, what's your prediction – will Switzerland still be 'lean and mean' in five years from now?

Michelle Lock Let's not forget how unbelievably successful this country is. For my part, I have total confidence that Switzerland will continue to create a successful business infrastructure. The key success factors are flexibility, business friendly regulations and access to the international labor market.

Daniel Küng It's clear that we have more competition because the world is becoming more and more globalized. But you also have more companies looking for places where they can go. So we are also seeing globalization in the marketing of business locations. It's getting more and more about the detail and you have to become better

in order to prevail. I think we are very well placed for this challenge. If we look two years ahead, we are well positioned and can keep our unique mix of flexibility and stability.

Martin Naville We have had the most flexible business rules and at the same time the most rigid system of changing the rules. Companies knew that the rules would stay the same. Yet, we have started to scratch away at them, implementing some less flexible rules and starting to change existing ones. But I am very confident that in three to five years Switzerland will still be very competitive. It all depends on how change is introduced. It's like our glaciers and crevasses – the gaps may only be a meter wide and straightforward to jump over, but if you miss your step it's a very long fall indeed.

MULTINATIONAL COMPANIES



Author

Martin Naville

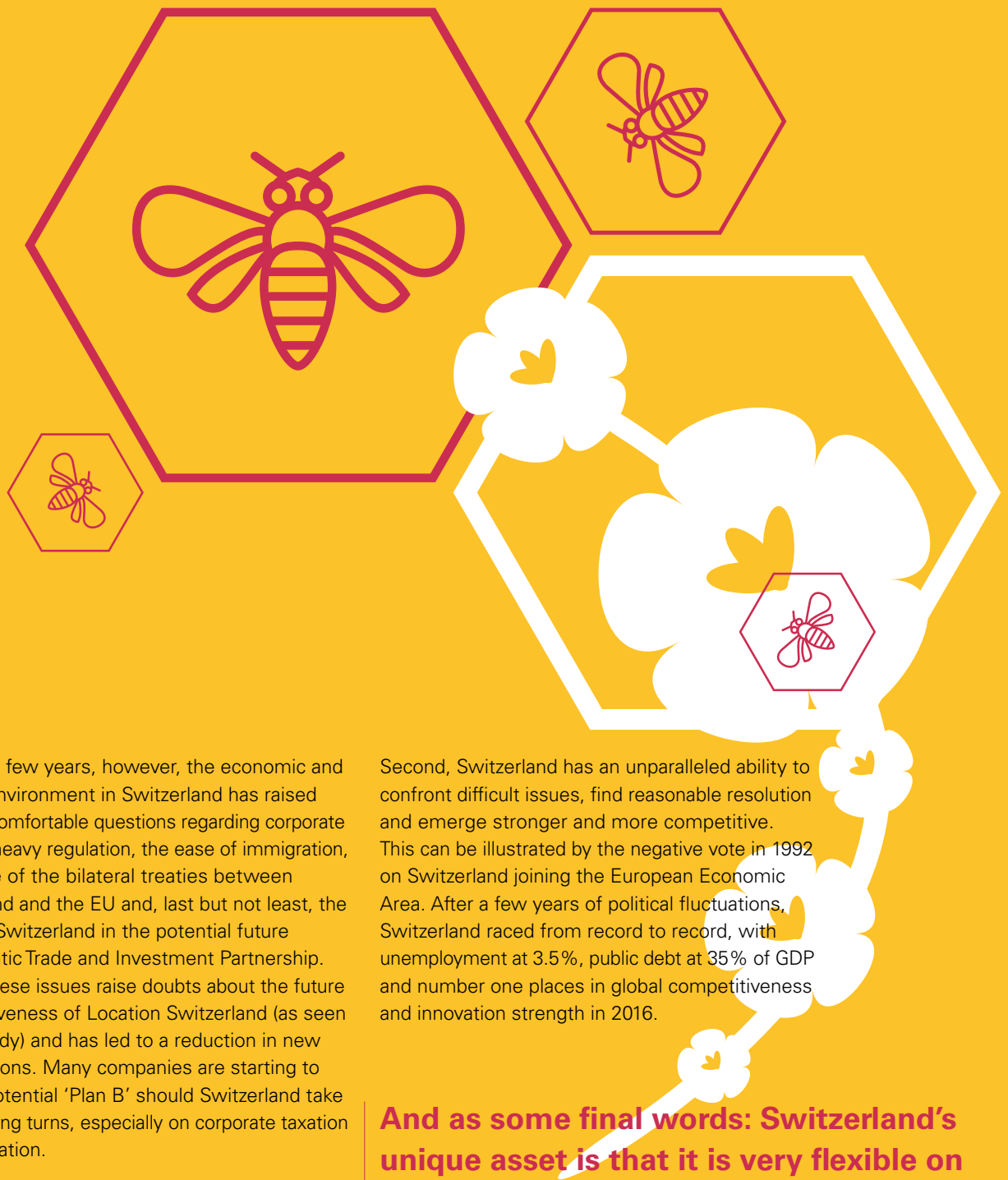
CEO at Swiss-American
Chamber of Commerce

A major asset for the Swiss economy

Switzerland boasts the highest concentration of Fortune 500 companies per capita. In fact, at two per million, it hosts three to four times as many Global Fortune 500 companies per capita compared with the largest OECD countries such as the USA, Germany, France, Italy, UK or Japan. And what is good for these large Swiss companies is also good for a large number of International Headquarter Companies (IHQ). Switzerland has the largest cluster of IHQs with blue chip companies such as P&G, Caterpillar, Mondelez, HP, Hewlett Packard Enterprise, Biogen, Amgen, Celgen, DuPont, Dow, Johnson & Johnson and many more.

These companies are attracted by top framework conditions such as flexible labor laws, competitive corporate tax charges, impeccable infrastructure, political stability, high quality education, proximity to world-class universities and research centers, great quality of life, generous immigration conditions, a very international environment, open societies and, above all, strong clusters of multinational companies in many sectors including pharma, biotech, precision engineering, medtech, sustainable technologies, IT and more. What more could one want?

For the Swiss economy, these multinational companies (MNCs) make the difference between being a solid economy and being in the top rankings for global competitiveness and innovation strength. First and foremost, these companies create some 150,000 jobs for Swiss and immigrant highly qualified employees, as well as 300,000 to 400,000 secondary jobs, from lawyers, bankers, IT specialists and consultants to catering, security, IT, cleaning, car leasing and many others. Second, these MNCs pay approximately half of the corporate taxes and the many people with high paying positions deliver a large proportion of individual's taxes and contribute significantly to social schemes. And third, these companies are crucial in the sustained competition for global competitiveness and innovation strength. They serve as a benchmark and motivator for Swiss companies, they import substantial knowhow and attract highly qualified people from around the world who will later populate other Swiss companies, attractive start-ups and universities. In summary, MNCs and IHQs are crucial for the sound functioning of the Swiss economy and for the further development of our resource-poor knowledge economy. Together, we all need to nurture these companies, keep them in Switzerland and attract additional ones.



In the last few years, however, the economic and political environment in Switzerland has raised some uncomfortable questions regarding corporate taxation, heavy regulation, the ease of immigration, the future of the bilateral treaties between Switzerland and the EU and, last but not least, the future of Switzerland in the potential future Transatlantic Trade and Investment Partnership. Rightly, these issues raise doubts about the future competitiveness of Location Switzerland (as seen in this study) and has led to a reduction in new implantations. Many companies are starting to make a potential 'Plan B' should Switzerland take some wrong turns, especially on corporate taxation or immigration.

Worries are justified, but there are many reasons to remain positive about the future of Location Switzerland. First, the realization of the importance of MNCs to the Swiss economy is rising fast in politics, media and the public. A first vote on a reduction of nearly 50% in cantonal corporate taxes in the Canton of Vaud passed the public ballot with an enormous majority. With the right amount of work by the concerned circles, similar results can be achieved on all topics.

Second, Switzerland has an unparalleled ability to confront difficult issues, find reasonable resolution and emerge stronger and more competitive. This can be illustrated by the negative vote in 1992 on Switzerland joining the European Economic Area. After a few years of political fluctuations, Switzerland raced from record to record, with unemployment at 3.5%, public debt at 35% of GDP and number one places in global competitiveness and innovation strength in 2016.

And as some final words: Switzerland's unique asset is that it is very flexible on key issues such as immigration and taxation, and at the same time very inflexible in changing these flexibilities. These are perfect conditions for international companies needing flexibility to consistently change strategies, organizations, structures and processes.



SWITZERLAND

*Author***Arturo Bris**Director of IMD World
Competitiveness Center

Still a leader among leaders

Without doubt, Switzerland is one of the most successful economies of recent decades. It tops most international rankings in terms of productivity, innovation capacity, life satisfaction and competitiveness. Some of its companies are the leaders in their industries; it has contributed to the world with some of the most value-enhancing innovations, from Velcro to the Red Cross.

Switzerland also possesses one of the most efficient financial systems in the world.

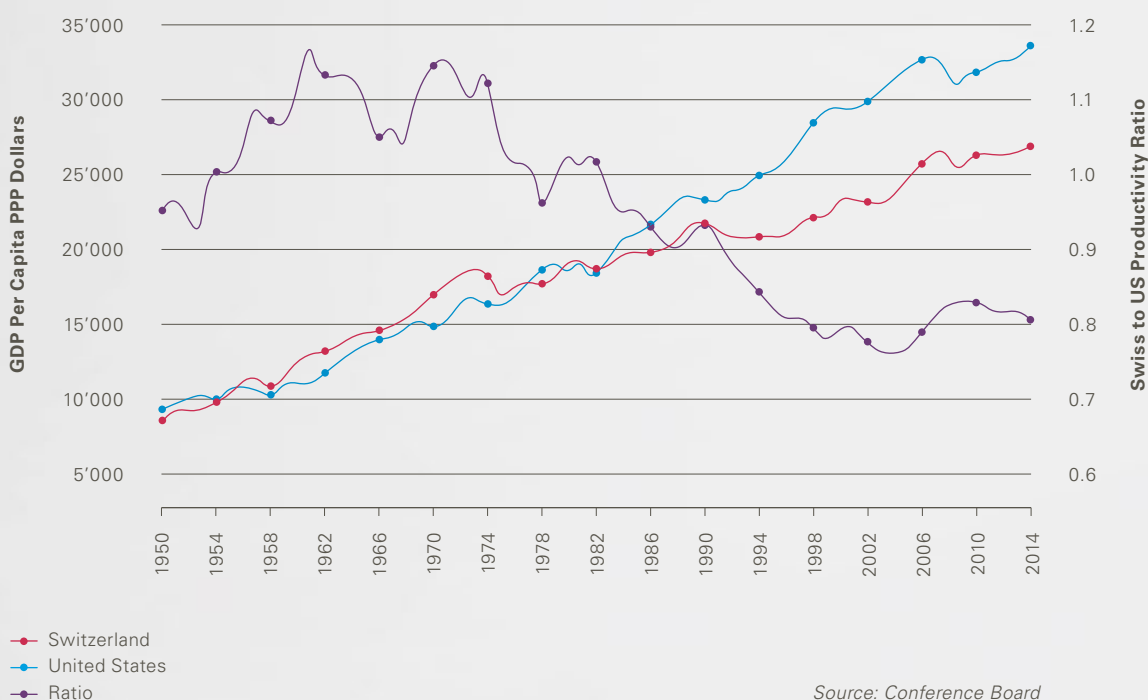
These achievements add to the attractiveness of the country to foreign multinationals (MNCs), which, in recent years, have chosen this small country in the middle of Europe as a center of manufacturing, marketing and sales, and supply chain operations. In parallel, many other foreign MNCs' headquarters have moved to Switzerland, with a particular emphasis on international operations.

This has happened despite the country's inherent conditions which make it unnatural as a focal point of attention for foreign MNCs. Geographical position is usually praised as one of Switzerland's advantages; yet Switzerland does not have direct access to the sea, and we know that most of the current and future trade routes are maritime. Moreover, the United Nations estimates that about 40 percent of the world population currently lives by the sea.

Not only that – Switzerland largest city (Zurich) hosts around 400,000 people. This is in contrast to a world where close to 20 percent of the population lives in urban areas of 10 million people or more, with this number expected to double in the next two decades.

Switzerland has also suffered from a decline in productivity growth rates in recent years. While output per capita grew in Switzerland by 1.5% per year on average between 1995 and 2005, it has grown only 0.69% in the last ten years. Relative to the US, where the same pattern can be found, its performance is even more disappointing. The graphic shows productivity in Switzerland and the US between 1950 and 2016. In 1950 both countries displayed similar levels of output; by 2016 Switzerland's productivity is only 80 percent of that of the US.

Productivity: GDP Per Capita



Source: Conference Board

ONGOING RISES IN REAL WAGES HELP MAKE SWITZERLAND THE MOST EXPENSIVE COUNTRY

Unlike the US, however, labor costs – and especially real wages – have not declined in the last 25 years. Our World Competitiveness Report shows that, while nominal labor costs have increased 17 percent on a cumulative basis since 2007, the increase in Switzerland was 39 percent. Given inflation levels, in real terms the difference is even more striking.

In this regard, Switzerland is also the most expensive country in the world. It ranks second to last in the IMD World Competitiveness Rankings in terms of cost of living (only better than Hong Kong), its currency has appreciated massively throughout 2015–16, and the Big Mac index released by The Economist puts prices in Switzerland at 20 percent above the second most expensive country (Norway). As a result,

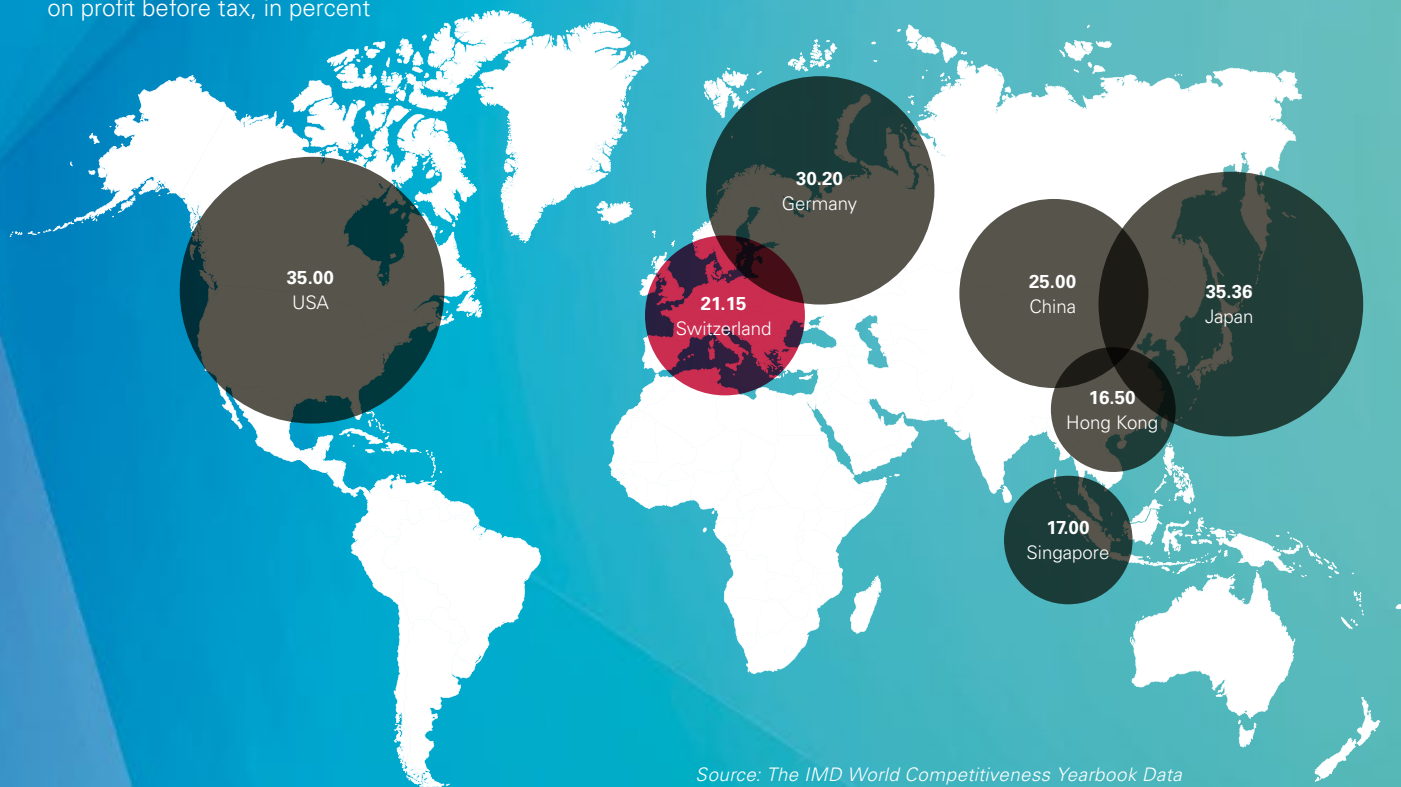
remuneration of employees, executives and professionals is the highest in the world, which makes relocation very costly for foreign MNCs.

Why do MNCs such as Philip Morris and ABB have Switzerland as a base for their operations? Why, after the merger between Lafarge of France and Holcim of Switzerland, was the latter chosen as home for the new entity?

Foreign MNCs consider taxes to be the prime reason why Switzerland is attractive. Switzerland compares to Singapore and Hong Kong in terms of corporate taxes on profits, despite being a manufacturing rather than a service economy. Compared to Germany, Japan and the US, corporate taxes in Switzerland are certainly the source of a significant competitive advantage.

Corporate Tax rate on profit

Maximum average tax rate calculated on profit before tax, in percent



Source: The IMD World Competitiveness Yearbook Data

COMBINING EFFECTIVE TALENT DEVELOPMENT WITH INNOVATION

The second factor to consider is the availability of talent. The IMD World Talent Report has emphasized that, in order for countries to excel in talent quality, they need: a good education system; the ability to attract and retain foreign talent and avoid brain drain; and companies that promote and develop talent within the organization by matching talent and activities with the utmost efficiency. Our 2015 ranking positions Switzerland in top position, and it is ranked number one in attractiveness and development factors.

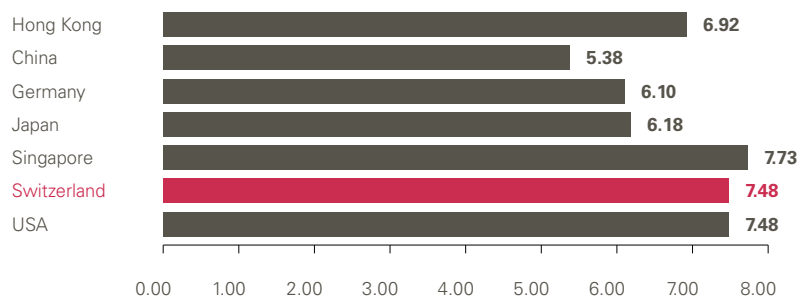
Talent management and innovation constitute the pillars of business competitiveness, our analyses show. Switzerland is indeed the most innovative country in the world, on a par with the US. Innovative capacity, referred to here as the set of processes and practices that companies put in place to facilitate entrepreneurship and failure, cannot be measured only by the number of patents released. When asked whether the “innovative capacity

of firms (to generate new products, processes and/or services) is high” in Switzerland, survey respondents rank the country 8.29 on a scale from 1 to 10.

With regard to political issues, Switzerland is a European democracy with a sound and reliable legal system. For corporations this is not enough, yet Switzerland offers policy stability within a system where the rule of law is upheld which has no rival in the world. While Hong Kong and Singapore compete for such a status, they are flawed democracies. And while other

countries such as the UK or the US have governance systems – both in the public and private sectors – where rule of law is paramount, these are countries where policy is unpredictable. The IMD World Competitiveness Center research has shown that policy stability is key to competitiveness. Policy stability is not political stability: in Switzerland there is a social consensus that guarantees that future regulatory decisions will satisfy certain basic principles such as free enterprise, profit maximization and corporate friendliness.

Innovative capacity of firms



Source: The IMD World Competitiveness Yearbook Data

ACCESSIBLE FINANCING IN A BUSINESS-FRIENDLY ENVIRONMENT

A manufacturing country cannot survive, however, without access to financing, especially for small and medium enterprises. The economic development of Switzerland has happened as the financial sector has grown. Today, Switzerland is the country where executives consider that access to finance is among the easiest in the world. When asked about availability of credit in the country, respondents to the IMD World Competitiveness survey rank Switzerland number 1 in the world, with Sweden, Hong Kong and Denmark right below.

Additionally, regulation is business friendly and policy is regularly oriented to favor entrepreneurship and the creation of firms. Within a Europe that is slowly moving to a more flexible labor market, Swiss labor regulations provide a different landscape for employment protection and labor costs, resulting in low unemployment but also very low costs of hiring a very qualified labor force.

Lastly, connectivity is key for a country's success in a world where borders are losing relevance to the movement

of people and products. Switzerland has recently being ranked number 4 in the world (only surpassed by the US, Singapore and Sweden) by the Global Connectivity Index produced by Huawei. Investments in soft and hard infrastructure have created a very efficient distribution network, key for foreign MNCs that see Switzerland as their base for procurement and logistics.

Overall, the benefits of a Swiss location definitely outweigh their costs.

Survey

With their value chains spanning countries and continents, senior executives of MNCs need to take bold decisions on where to locate their key value drivers in order to ensure the flexibility needed to create high-performing organizations. This survey investigates whether Switzerland – as a leading global location for MNCs – offers a sufficiently flexible environment to create and transform high-performing organizations, as well as the legal and political stability to provide for sustainable, profitable growth.



Executive summary

MNC executives are aware of the need to constantly remain in transformation mode in order to respond to changing stakeholder needs and disruptive technologies. MNCs seeking transformational change to respond to evolving customer behaviors, disruptive technologies, regulatory developments and globalization, need an in-depth understanding of where and how they create value. A Value Chain Analysis (VCA) identifies the relevant **functions, assets and risks**, weighting them with regard to their contribution to profitable growth. Such an analysis is the basis for a possible redesign of the value chain **including the relocation** of key value drivers. The goal is to future proof the value chain and to allow for scalable and profitable growth while maintaining compliance with local and international rules and regulations.

This survey investigates why MNCs have located key value drivers in Switzerland and whether the country continues to offer the necessary **flexibility and stability** to allow for **business transformation with the related redesign of the value chain**. Chapter 1 provides an analysis of the size of current activities, origin, activities and locations of foreign-owned MNCs in Switzerland. This analysis is based on more than 850 foreign-owned MNCs, identified for this study from the non-financial services sector in Switzerland. The following chapters shed light on the activities of MNCs in Switzerland and how they see the future of 'Business Location Switzerland'. The findings in chapters 2 – 4 are based on online and personal interviews with more than 90 executives of such MNCs in Switzerland.

Key survey findings

Switzerland: a country for highly profitable and fast-growing MNCs

Foreign MNCs investing in Switzerland come from a variety of industries, with a particular focus on Diversified Industrials and Life Sciences. They choose Switzerland for their complex and high value operations such as international HQs, R&D and manufacturing. Despite a challenging global economic environment many MNCs have high profit margins and impressive growth rates. The possibility to transform businesses thanks to an internationally competitive tax system, the availability of a highly qualified workforce and flexible labor regulations are seen as clear Swiss advantages. These factors are, however, also a source of considerable concern, with uncertainty among MNCs as to whether Switzerland can maintain its position as one of the most business friendly countries in the world.

Growing labor costs and stagnant productivity

Survey respondents refer to labor costs as one of the main challenges of doing business in Switzerland. While the most senior positions in business or operations are not viewed as significantly more expensive than in other first rate locations, the cost of mid-level positions has in recent years grown at a faster rate than labor productivity. Uncertainty surrounding the development of the Swiss franc exchange rate exacerbates this concern.

Labor regulations

The flexibility of Switzerland's labor regulations is cited as business friendly and supportive for companies in business transformation mode. Given recent changes in labor regulations, however, large numbers of MNCs fear that this key advantage will be lost in the years to come. Almost 30 percent believe that increasing labor law regulations will pose a challenge to doing business in Switzerland in the future.

Innovation

Switzerland is recognized as a leader in innovation. The capacity to innovate is, however, an important reason for locating key functions in Switzerland for only a minority of companies that take the opportunity to use Switzerland to develop new technologies or launch innovative business models.

Availability of qualified workforce

MNCs not only fear the fallout from a possible restriction of EU labor due to the mass immigration initiative, they are also concerned about Switzerland's attractiveness to a highly qualified workforce. Restrictions on the most senior employees moving from outside the EU are a particular issue as this type of employee also has attractive options to work in other countries. Access to a qualified workforce is seen as absolutely key to responding to changing business environments. Around 50 percent of executives believe that the restrictions on workers entering from outside Switzerland will present a significant challenge in the next three years.

Competitive taxation

While the efforts of the Swiss Government to determine suitable new solutions to replace current tax structures are widely recognized, a significant number of MNCs has doubts about whether these reforms will be implemented. The general impacts of BEPS for Business Location Switzerland are seen as significant. Between 36 and 50 percent of respondents see a major challenge for the coming years arising from uncertainty over BEPS and the Corporate Tax Reform III.

Outlook

Switzerland's strengths for the coming years are seen as its stable political environment and comparatively small income imbalance, quality of life, strong educational/academic sector and the high quality of its workforce. Innovation in Switzerland is viewed as strong, though it is not a decisive factor for many MNCs setting up operations in Switzerland.

If Switzerland can maintain these assets and successfully move forward with the Corporate Tax Reform III as well as at the same time remaining a magnet for qualified workers from around the world while keeping its business friendly labor laws, most respondents to the survey are confident that the country will maintain its high ranking as a global center for MNCs.

An important factor will be the growth of labor productivity where it is crucial to return to a growth level that is comparable with other leading industrialized countries.

If Switzerland manages to further position itself as an innovation leader, also outside of Pharma/Biotech and the Medtech segment, its position will be even stronger.

Diverse group of companies

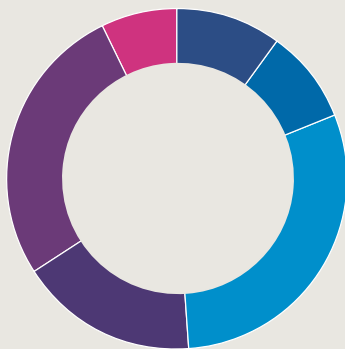
Of the more than 850 foreign-owned MNCs that have international activities in Switzerland and that were identified for this study, around 400 (almost 50 percent) are publically listed. An in-depth analysis of the publically listed companies reveals that, on average, these companies employ approximately 44,000 FTEs – ranging from fewer than 100 FTEs to more than 450,000 FTEs – and generate global annual sales ranging from well below USD 100 million to more than USD 300 billion.

The large majority by number (93 percent) started operations in Switzerland through Greenfield investments. Only 7 percent invested in Switzerland by way of acquisition.

The fact that 10 percent of the publically listed companies are comparatively small and 50 percent of the entire sample of companies are privately owned is a sign that Switzerland offers a healthy and attractive environment for SMEs as well as for privately owned groups. This is in line with Switzerland's own domestic industrial structure, which is dominated by SMEs as one of the pillars of the country's economic success.

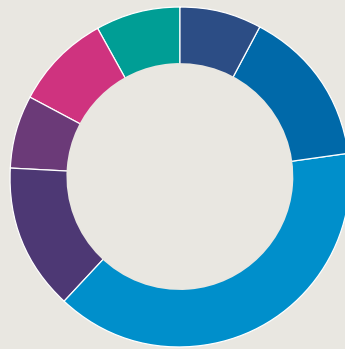
That one-third of the companies have global sales in excess of USD 10 billion, 17 percent reported sales growth of more than 10 percent and almost 30 percent have net profit margins greater than 10 percent is a clear sign that Switzerland has the capacity to host key value drivers of some of the largest, most profitable and fastest growing global players.

Size of publically listed MNC with subsidiaries in Switzerland by global sales, 2015 (sales range in USD million)



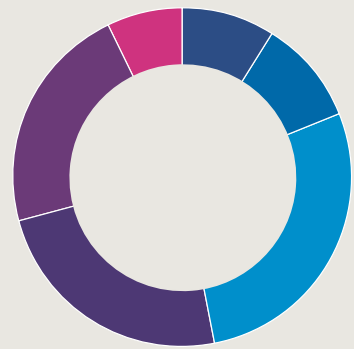
< 500	10%
501 – 1,000	9%
1,001 – 5,000	30%
5,001 – 10,000	17%
10,001 – 50,000	27%
50,001 and above	7%

Number of companies by global sales growth range, 2015



Less than -20%	8%
-20 to -10%	15%
-10 to 0%	39%
0 to 5%	14%
5 to 10%	7%
10 to 20%	9%
20% +	8%

Number of companies by net profit margin range, 2015

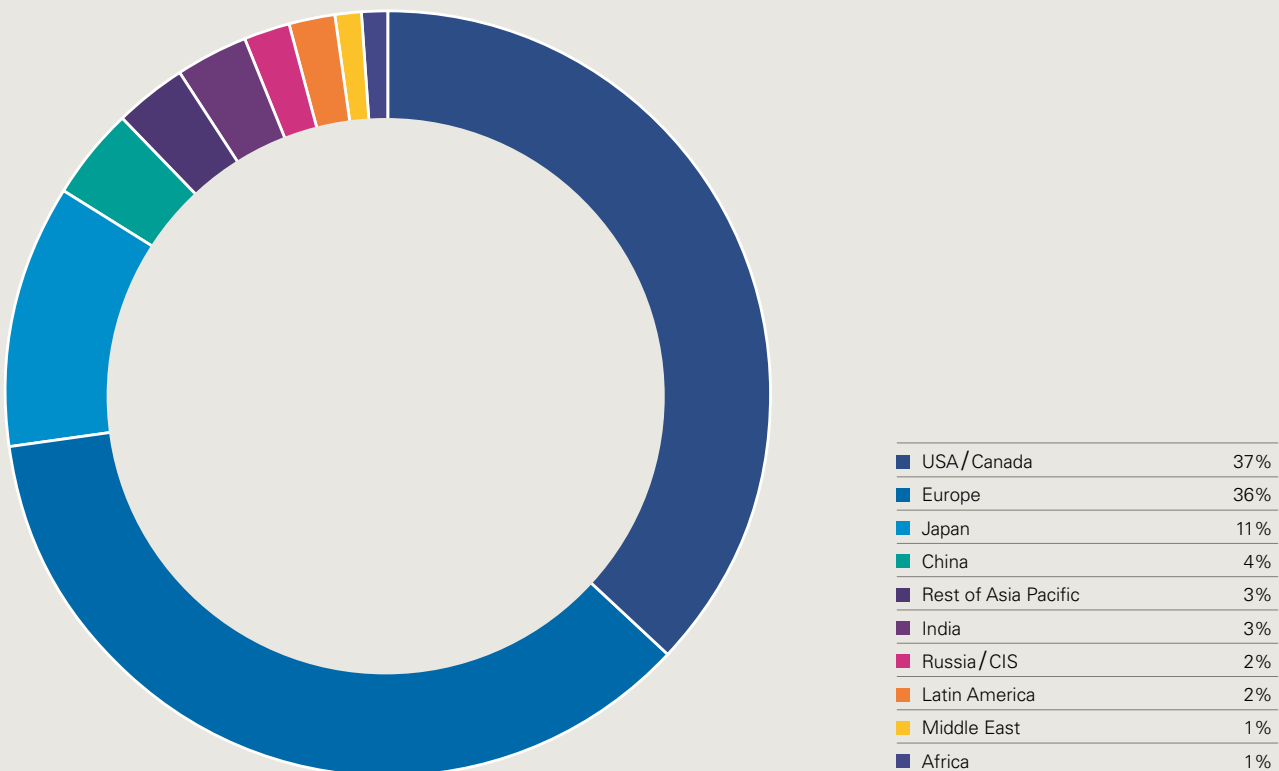


Less than -10%	9%
-10 to 0%	10%
0 to 5%	28%
5 to 10%	24%
10 to 20%	22%
20% +	7%

Country of origin

North America and Europe are the top two regions of origin for MNCs with subsidiaries in Switzerland. Together they command almost 75 percent of the number of subsidiaries in Switzerland. While Japan has for many years been a strong investor in Switzerland, with 11 percent of foreign investments having Japanese roots, China is catching up quickly, mainly through

acquisitions. India 'discovered' Switzerland some years ago and continues to invest in the country, mainly through its ambitious Pharmaceutical companies. A number of investments also come from Russia and the CIS, often through commodities trading companies. Latin America, the Middle East and (South) Africa play subordinate roles.



"Our Switzerland depends more on highly trained immigrants than they depend on Switzerland."

Raimond Gatter, Managing Director, Swagelok AG

Industry sectors

Excluding the financial sector, which is not covered in this survey, most investments into Switzerland come from the large Diversified Industrial sector followed by Life Sciences (Pharma – Biotech and Medtech). The ICT sector may be less prominently represented, but investments from this sector are still significant, as underlined by the presence of several European research centers and EMEA HQs of leading US technology groups.

Being a leading global commodities trading center, Switzerland attracts significant investments from leading companies in this

sector. With one of the world's largest food companies being headquartered in Switzerland, it comes as no surprise that many international Food and Beverages companies choose Switzerland for their international operations. The international Fashion and Apparel sector is also well represented due to Switzerland's proximity to Milan and Paris, as is the Luxury Goods, Cosmetics and Watch segment. The Automobile/ Machinery industry is mainly marked by very large US groups having their IHQs in Switzerland.

Diversified Industrials	26%
Pharma – Biotech	13%
ICT	7%
Medtech	6%
Agri and Chemicals	6%
Commodities	6%
Food/ Beverages	5%
Automobile/ Machinery	3%
Logistics/ Transports/ Shipping	3%
Fashion and Apparel	3%
Consumer Goods	2%
Cosmetics	2%
Metals	2%
Luxury Goods/ Watches	2%

Engineering	1%
Advisory/ Consulting	1%
Communications	1%
Education	1%
Gaming/ Entertainment	1%
Household Goods	1%
Travel and Leisure	1%
Aviation	1%
Hotel Industry	1%
People Services	1%
Retail	1%
Aerospace/ Defense	1%
Others	2%

Location in Switzerland

Foreign MNCs in Switzerland cluster around the areas where they are close to their peer

companies but also close to international airports.

Zurich area	31%	Zurich, Zug
Lake Geneva area	26%	Geneva, Fribourg, Vaud, Valais
Basel area	13%	Basel Stadt/Basel Land
Swiss Plateau/Jura region	10%	Bern, Neuchâtel, Solothurn, Aargau, Jura
Eastern Switzerland	9%	Schaffhausen, Thurgau, St.Gallen, Appenzell
Central Switzerland	6%	Lucerne, Obwalden, Nidwalden, Uri, Schwyz, Glarus, Graubünden
Southern Switzerland	5%	Ticino

Life Sciences investments, for instance, clearly favor the Basel Area. The Zug/Zurich, the Lake Geneva area and Swiss Plateau/Jura region have recently also attracted important investments from this industry. Commodities trading, where the Lake Geneva area is the clear international leading location – shares its attractiveness with Zug and, in part, Ticino. The Fashion and Luxury

industry is strongly represented in the Ticino and Lake Geneva areas, whereas Diversified Industrials can be found across the country with a focus on the Swiss Plateau/Jura region and Central and Eastern Switzerland. ICT can often be found close to the two Federal Institutes of Technologies in Zurich and Lausanne.

“Switzerland has to be careful not to lose on stability and predictability. This is particularly true as regards tax rates and immigration issues. Other than that, the location is one of the most business friendly in the world.”

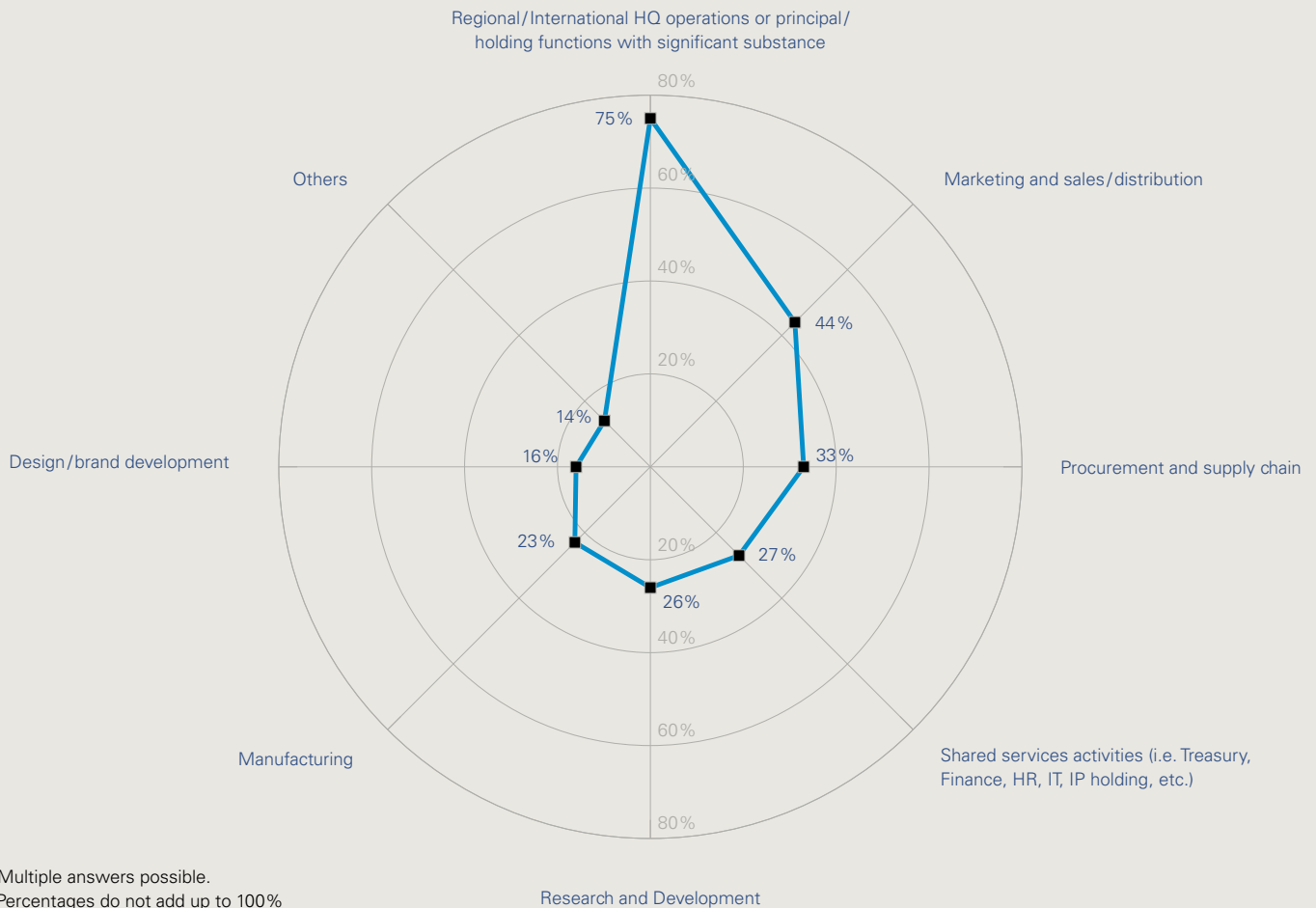
Andrew Etkind, Vice President and General Counsel, Garmin Ltd.

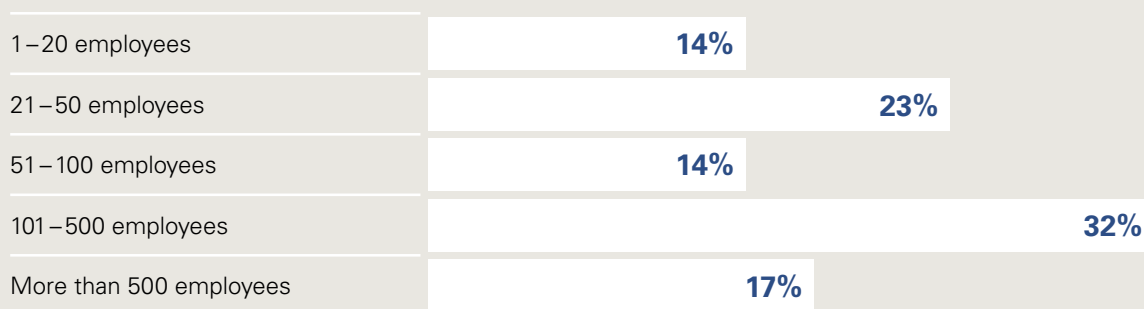
Growing a business in Switzerland

Which functions and assets are located in Switzerland?

(Re)locating key value drivers in a location that provides a supportive business, tax and legal environment is essential to transforming businesses and redesigning the value chain. MNCs across industries consistently locate their greatest profit contributing functions and assets

in Switzerland. 75 percent operate regional HQs functions while 26 percent conduct some form of R&D and 23 percent manufacturing. Around one-third of companies employ between 100 and 500 people, while 17 percent employ more than 500 people.





The significant percentage of Regional/International HQ operations located in Switzerland is a clear sign of Switzerland's attractiveness, but also a reminder of its vulnerability to a shifting business environment. The business transformation process almost always includes changes to Regional/International HQ operations, with the comparatively small capital investments in such functions allowing for quick adjustments.

The relatively high proportion of companies with R&D and Manufacturing – particularly within the Pharma, Biotech, Medtech and ICT segments – demonstrates that the reliability of infrastructure combined with a high quality workforce, productivity and labor regulation flexibility can offset the high labor costs.

What is the added value of a presence in Switzerland?

The single most important factor why foreign companies locate their key value drivers in Switzerland is the possibility of efficient tax planning. The second factor is the high quality of products and services that they can offer to their clients and the related high productivity and profitability. Third is the general way in which business in Switzerland is conducted (the corporate culture). One-quarter of the survey

respondents say that the capacity to drive innovation in Switzerland is very important, while a significant number sees reputation/branding and optimized processes playing a significant role. Unsurprisingly, revenue growth is not a main driver of investments into Switzerland.

Answer	No value-added	Low value-added	Moderate value-added	High value-added	No answer
Tax efficiency	12%	12%	33%	35%	8%
Quality of products and services	11%	12%	42%	29%	6%
Productivity/Profitability	11%	24%	30%	29%	6%
Innovation	26%	23%	17%	27%	7%
Corporate culture	15%	18%	33%	23%	11%
Reputation/Branding	15%	27%	32%	17%	9%
Optimized processes	17%	24%	35%	12%	12%
Revenue growth	24%	35%	24%	9%	8%

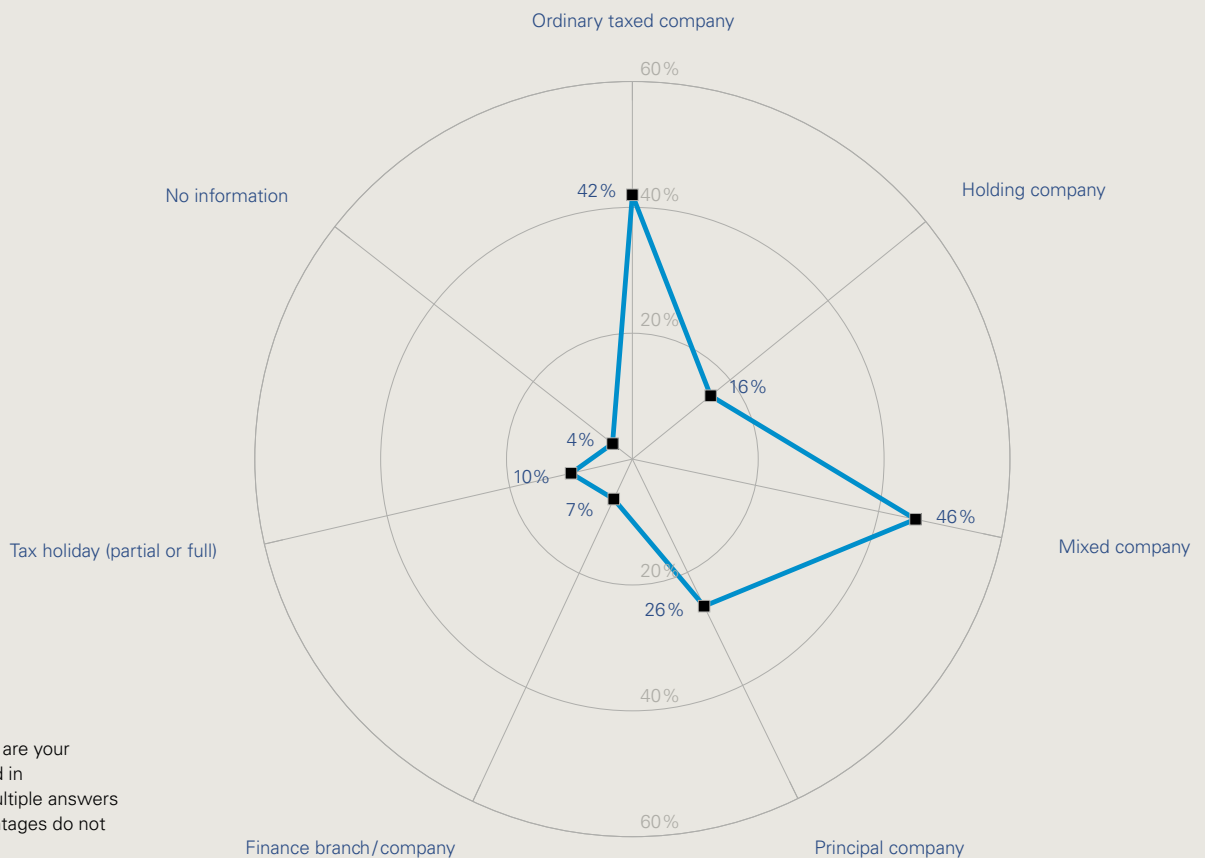
Question: What is the value added to your presence in Switzerland? Multiple answers possible.
Percentages do not add up to 100%

The fact that taxation plays such an important role in locating key functions should not overshadow the fact that Switzerland can offer much more beside that. Unlike typical European tax-driven locations such as Ireland and Luxembourg, Switzerland is a globally leading center for essentially any cutting edge industry and technology. It also has a strongly

internationally oriented domestic industry with high value added manufacturing and R&D located in the country. This provides a solid basis for peer companies from abroad to settle in Switzerland. For FDI, this mix between domestic businesses and foreign MNCs is unique.

How are they taxed?

Tax planning plays an integral role in an MNC's decision to locate key value drivers in Switzerland. A majority of companies benefit from a privileged tax status or from partial or full tax holidays. At least a part of the business of around 40 percent of companies is subject to ordinary taxation, however.



Question: How are your operations taxed in Switzerland? Multiple answers possible. Percentages do not add up to 100%

"We found the right people in Switzerland and have so far no issues with immigration – and we sincerely hope this will stay that way."

Frédéric Devienne, VP Finance EMEA, AGCO

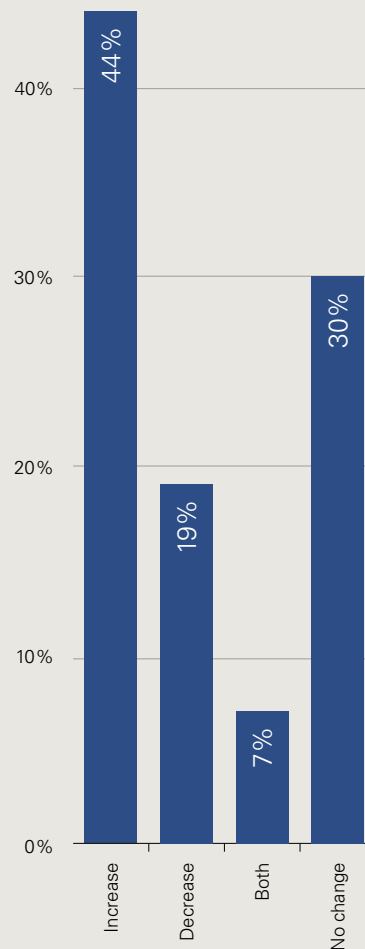
Transforming business in Switzerland

Almost all MNCs globally are in some phase of transformation, and in Europe nearly 50 percent completed at least one transformation initiative in the past 24 months. Looking closer at how MNCs in Switzerland have transformed or adjusted their business shows the following picture.

Roughly 40 percent of the companies interviewed have increased their staff in Switzerland in the past years, while 30 percent remained stable and only around 20 percent saw a decrease in staff.

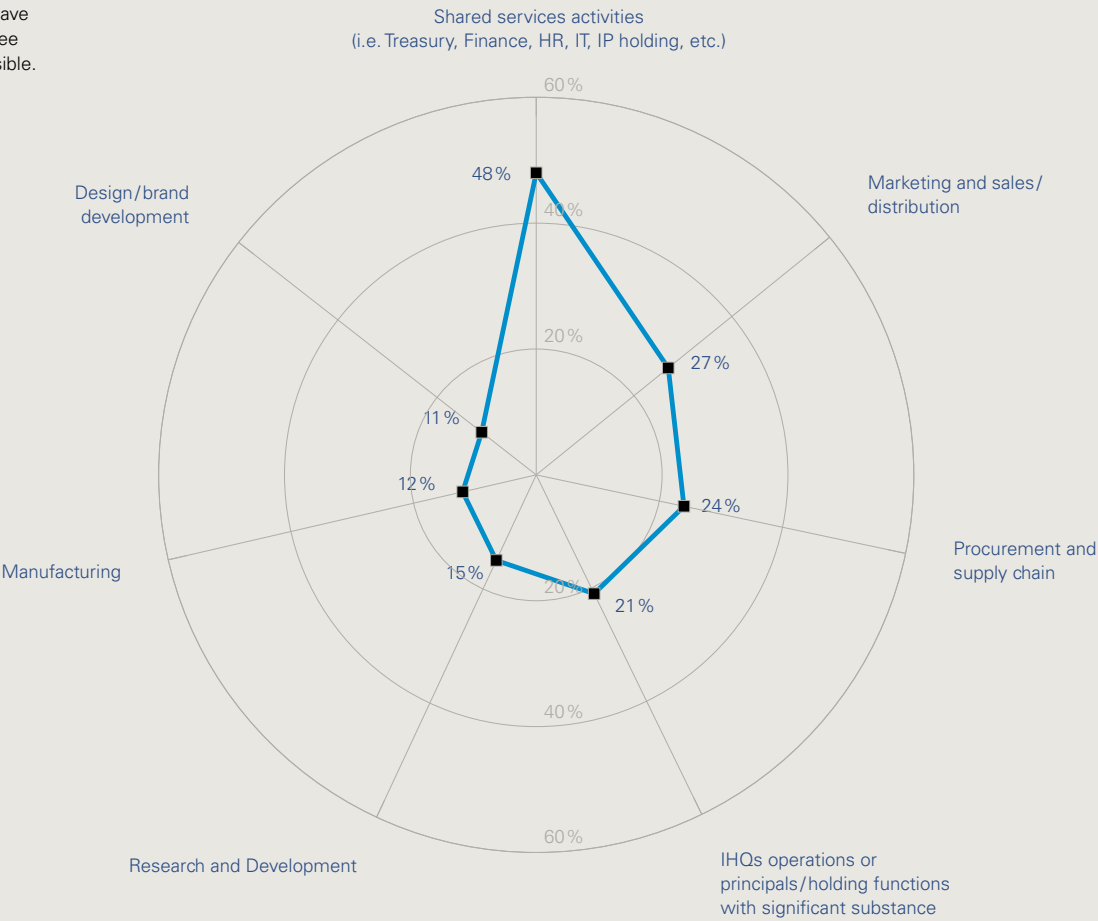
In absolute terms, however, the reduction in staff might be significantly higher than the increase in staff, as most respondents confirmed that they have significantly reduced activities in recent years. Most affected were shared services, marketing and sales, procurement and supply chain. Typical HQs operations have been reduced by 21 percent of companies. Interestingly, only 12–15 percent of companies have cut back on their manufacturing and R&D functions.

The fact that manufacturing and R&D functions have been reduced to a much lesser degree than commercial or HQ operations is a strong sign of Switzerland's quality as a top R&D and production location. It is also a reflection of the relative inelasticity of these types of capital intensive investments. Commercial and back office operations can more rapidly be moved to other locations if the conditions no longer fit. Remaining stable are the design and branding functions, reflecting the strength of the 'Swiss Made' label.



Question: Have you increased or decreased your staff in the past three years?

Question: What operations have you decreased in the past three years? Multiple answers possible. Percentages do not add up to 100%



How will Switzerland compare against other locations in the future?

Asked which locations they see as attractive for building up activities for key value drivers going forward, a majority of respondents see Switzerland continuing to be a competitive location for IHQs together with the UK, Ireland, Singapore, the US, Belgium, Luxembourg and the Netherlands. For manufacturing, Ireland and Poland lead the list. For R&D, Switzerland is still mentioned as a location with strong potential to attract future activities.

Most attractive to build up future activities

IHQs	
Switzerland	26%
UK	9%
USA	8%
Ireland	5%
Belgium	3%
Luxembourg	3%
Singapore	3%

Question: Which countries do you consider as most attractive to build up your future centralized activities for your business? Multiple answers possible. Percentages do not add up to 100%

Will Switzerland remain attractive to MNCs?

Cost is cited as one of the biggest challenges of doing business in Switzerland. Yet, companies undertaking business transformation require both flexibility to adjust their business model and stability in the legal and tax frameworks. From a business transformation perspective, therefore, it is more important to have flexibility in labor regulations, workforce availability, predictability of taxation and access to international markets.

How respondents view key flexibility and stability factors

Predictable and competitive tax system

68 percent of respondents say taxes are a relevant added value of their presence in Switzerland. But only 42 percent believe that a competitive tax system will be one of Switzerland's main advantages in the next three years. Between 36 and 50 percent anticipate the uncertainty with regard to the Corporate Tax Reform and BEPS to be a challenge for the country, but 58 percent of respondents are convinced that Switzerland will over time be compliant with international corporate taxation standards.

BEPS (at an international level) and the Swiss Corporate Tax reform III (at Swiss level) are seen as major challenges for companies and for Switzerland as a business location. Despite intensive efforts by the Swiss Government to draft corporate taxation legislation that is at the same time competitive and sustainable, belief in its successful implementation is not very strong among MNCs.

Attractiveness for qualified workforce

Two-thirds of respondents believe that a well-educated workforce will remain one of Switzerland's key advantages in the coming years. But only about half of executives anticipate Switzerland remaining as attractive to qualified workers from abroad. At the same time more than 71 percent see the Swiss educational system as ready to provide the necessary level of quality training. Between 45 and 50 percent see the limitation of immigration from the EU and from outside the EU as a challenge.

While MNCs' confidence in the Swiss educational system is reassuring, the comparatively limited belief in Switzerland as a future magnet for qualified workers from abroad should raise concerns. Most respondents have an international background and can therefore compare various locations, some of which appear equally – or more – attractive than Switzerland to the highest quality employees. Given the high dependency on foreign workers, all respondents ask for mostly unrestricted access to international labor markets and a careful implementation of the mass immigration initiative.

Flexible labor regulations

Almost every respondent believes Switzerland today has far more flexible and business-friendly labor regulations than any other country in Europe. Only 47 percent, however, believe Switzerland will maintain its competitive advantage over the next three years, while 29 percent believe working time regulations will become less flexible going forward.

While MNCs are prepared to pay a substantial salary premium in Switzerland for high quality workers in exchange for flexibility in hiring and dismissal processes and in other labor-related regulations, it is believed that this advantage may not last. Recent changes such as the new regulations regarding working time registration might have triggered this skepticism.

Government - stable political and regulatory environment

One-half of respondents believe that Switzerland will maintain a stable regulatory and legal environment in the coming years. However, 26 percent see uncertainties created by popular initiatives as an issue. 55 percent believe that Switzerland will be able to cope better than other industrialized countries with the growing pressure for more regulation but only 23 percent believe the pro-business light regulation will remain a key advantage of Switzerland in the coming years.

46 percent believe the government doesn't have the rising social costs and governmental debts under control.

The Swiss Government is seen as a fairly stable and reliable partner with a low tendency to over-regulate. However, only a minority believes Switzerland can fully resist the global trend towards regulating industries to an extent unseen to date. This is important, as a stable and lightly regulated business environment is commonly seen to be important to Switzerland's pro-business environment.

Costs

Unsurprisingly, about 60 percent of executives say that the general level of costs – and in particular salary costs – will remain a challenge looking forward. 47 percent are concerned about the impact of the Swiss franc exchange rate, which continues to strongly influence the Swiss economy. Interestingly however, no respondent would like to see a return of the Swiss franc's peg to the euro.

The question of salary costs is complex and controversial. Common economic theory connects salaries to labor productivity, which is in general seen by MNCs as superior in Switzerland, at least for senior positions, thus justifying high salaries. For Switzerland, the additional tax-saving effect of creating substance also needs to be factored into the salary discussions.

The issues seem to be more relevant to mid or low level positions, where labor productivity and labor law flexibility in the views of many MNCs apparently do not →

Costs (ff)

offset the higher labor costs. Such positions have been shifted abroad in recent years. However, such a transfer of substance might affect a company's ability to compute taxes in Switzerland for tax planning purposes.

Paradoxically, latest statistics suggest that salaries in key sectors such as finance or industrials have been stagnant or even falling in recent years in Switzerland. Along with the observation that labor productivity growth in Switzerland has been moderate, the conclusion might be that certain workforce categories do not yield the productivity that justifies their presence in Switzerland.

A forward looking labor policy should therefore look into creating and importing a workforce of the highest possible level of productivity while minimizing the influx of less productive workers, as there will be a diminishing need in highly industrialized countries for the latter.

International

Only 9 percent of respondents consider it an advantage for Switzerland not to be a member of the EU, while 14 percent believe it is a disadvantage. 26 percent see Switzerland becoming less competitive as a result of possible risks to bilateral treaties and because of new international trade arrangements such as the Transatlantic Trade and Investment Partnership (TTIP).

A majority of MNCs appears satisfied with the international positioning of Switzerland in the world. Many explicitly mention Swiss neutrality as a positive factor for both internal and external considerations. However a number of executives raise concerns about the future of the bilateral treaties that are seen as essential for doing business in Switzerland, as well as the TTIP, which might competitively disadvantage Switzerland if implemented.

Quality of life/ infrastructure and safety, location

Quality of life and top infrastructure are widely seen as a Swiss advantage. A majority perceives Switzerland to represent a low threat of terrorist incidents and a high level of safety. 42 percent also see business advantage in its geographically central location.

Given increasingly volatile economic and political situations around the world, Switzerland might once again prove to be the safe haven option for MNCs looking for a top quality location for both their businesses and executives.

Innovation

Only 44 percent of respondents believe that being in Switzerland makes their companies more innovative, and 35 percent believe that an innovative environment will distinguish Switzerland from other countries in the coming years. 30 percent believe that Switzerland as a business location will benefit from the presence of leading universities.

In spite of the strong efforts by the Swiss Government to promote the achievements of Swiss researchers and innovative businesses, foreign MNCs in Switzerland still do not perceive Switzerland to be an innovation leader. To bridge this perception gap between commercial/fiscal and innovation advantages, the introduction of efficient tax planning instruments for R&D and for IP exploitation as foreseen with the CTR III is important.

Global mega-trends

A majority of respondents see the trend among industrialized countries towards growing income imbalances and the related increase in social costs as slightly less of a challenge for Switzerland than for other countries. Data protection is an area where Switzerland also seems to stand out slightly, having a long history in this field. Switzerland is not especially seen as a leader in the digitization of services, with the country having a similar level of readiness as most other industrialized countries. The same is true for the challenges presented by automation and robotics, where Switzerland is considered to be ready or somewhat ready – but not particularly better prepared than other countries – which could mean a move towards job losses given Switzerland's strong manufacturing base.

On a positive note, Switzerland is perceived to be a more egalitarian country with fewer rifts between the wealthy and the rest of the population. This important advantage should be maintained. On the other hand, the country cannot shield itself from global trends towards digitization and automation that will clearly lead to the loss of jobs. Despite having strict data protection regulations, the country is seen as only marginally safer than other industrialized countries.

Question: What will be the main challenges of doing business in Switzerland within the next three years?

Multiple answers possible. Percentages do not add up to 100%

Answers

General level of costs	62%
Salary costs	59%
Uncertainty about the Swiss Corporate Tax Reform III	50%
Limitation of immigration from outside of Europe	50%
Uncertainty about the exchange rate of the Swiss franc	47%
Abolition of free movement of people with the EU	45%
BEPS Regulations (Base Erosion and Profit Shifting)	36%
Increasingly strict worktime regulations	29%
Uncertainty about the future of bilateral treaties (eg. Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU)	26%
Uncertainty about up-coming popular initiatives	26%
Not being part of the EU	14%

Question: What will be the main advantages of doing business in Switzerland within the next three years?

Multiple answers possible. Percentages do not add up to 100%

Answers

Well trained and multilingual workforce	67%
Quality of life	67%
Attractiveness for foreign qualified workforce	52%
Top infrastructure	52%
Stable regulatory and legal environment	50%
Flexible labor law	47%
Attractive and sustainable tax planning opportunities	42%
Central location	42%
Innovative environment	35%
Leading universities and R&D centers	30%
Low level of regulations	23%
Not being part of the EU	9%

Question: How do you evaluate Switzerland's readiness to deal with upcoming disruptions/challenges in business, tax and politics compared to other leading industrialized countries?

Multiple answers possible. Percentages do not add up to 100%

Answers	Not ready	Somewhat ready	Ready	Most ready
Safety and terrorism	7 %	31 %	33 %	29 %
Increased need for quality training and education for the next generation	2 %	26 %	49 %	23 %
Rising social costs and governmental debts	8 %	39 %	33 %	20 %
Increasing income imbalance	9 %	39 %	37 %	15 %
Data protection/cyber security	5 %	39 %	42 %	14 %
Digitization of services	3 %	43 %	43 %	11 %
Compliance with new international corporate taxation standards	3 %	38 %	51 %	8 %
Loss of jobs due to automation/robotics	10 %	46 %	38 %	6 %
Ever increasing regulations and compliance requirements for businesses	5 %	39 %	53 %	3 %

"If Switzerland can maintain its position as a tax competitive location with flexible labor law, then Rackspace will stay. Switzerland has a great quality of life and an excellent business environment."

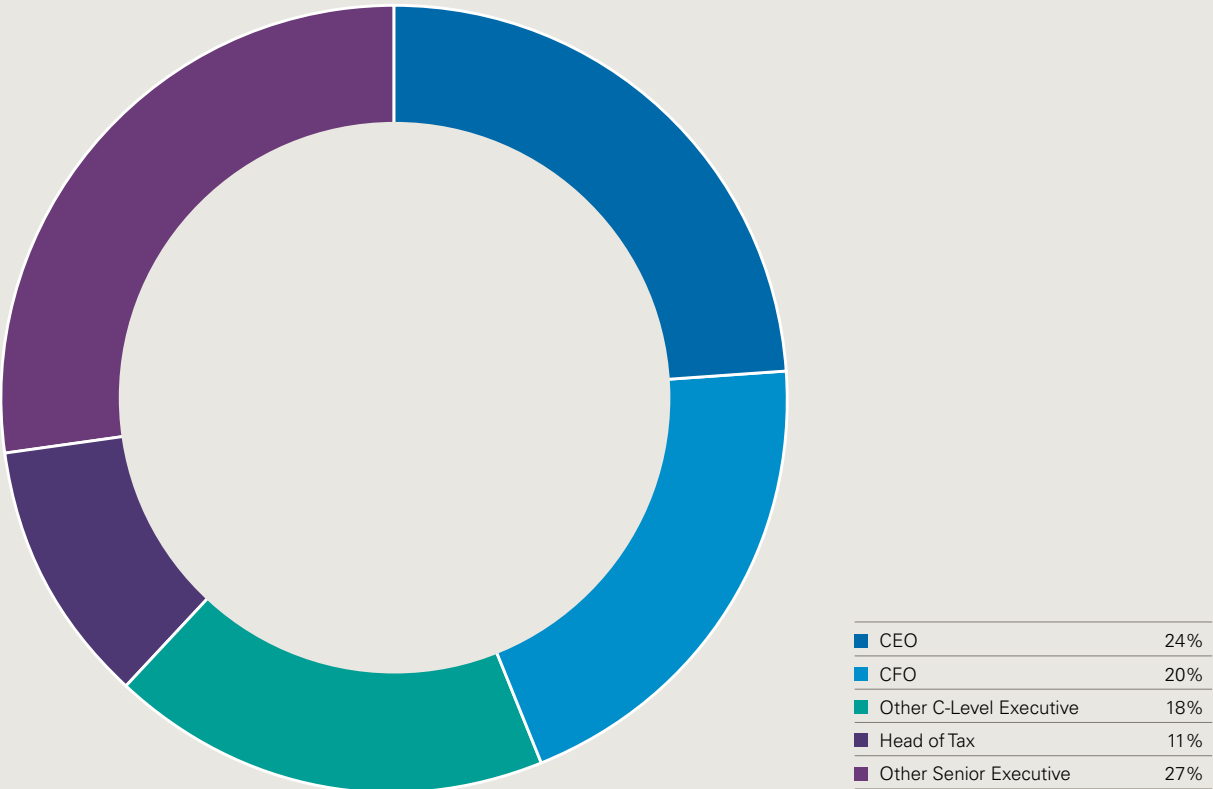
Reinhard Waldinger, CEO, Rackspace

Methodology

A total of more than 850 foreign-owned MNCs with international activities in Switzerland have been identified through KPMG with the help of Switzerland Global Enterprise and the support of Cantonal Economic Development Agencies. For the 400+ publically listed companies of this group, publically available financial data were compiled through desktop research. MNCs with only domestic operations in Switzerland, such as a sales or services center for the Swiss market, have been excluded, as have companies from the financial sector. These data were used to analyze the origin, industry segment, size and location of the investments in Switzerland.

In addition, 94 senior executives of predominantly US groups were interviewed by way of an online survey or face-to-face interviews. The respondents to these interviews are either part of the KPMG network, the Swiss Amcham membership list or the IMD alumni network. These data were used to investigate main drivers for investments in Switzerland and to assess the outlook of Switzerland as a business location.

Respondents – job position:



Partners

KPMG

KPMG is a professional services company that belongs to the “big four” audit, tax and advisory firms. KPMG Switzerland is a leader in advising MNCs in their setup, restructuring and expansion of their European operations via a presence in Switzerland. KPMG has offices in every major city in Switzerland and a global network with over 140,000 employees.

IMD World Competitiveness Center

IMD is a top-ranked business school that develops leaders through high-impact executive education.

The IMD World Competitiveness Center is producing pioneering research on how nations and enterprises compete to lay the foundations for future prosperity.

Swiss American Chamber of Commerce

The Swiss American Chamber of Commerce is the leading business association for multinational companies in Switzerland. As a not-for-profit organization it is committed to the promotion and facilitation of business relations between Switzerland and the US, and it addresses all issues of concern for multinational companies based in Switzerland. It counts almost all US MNCs among its members. The SACC is headquartered in Zurich and has Chapters in Geneva, Lugano and in several major US cities.

Switzerland Global Enterprise

Switzerland Global Enterprise is mandated by the Swiss Federal Government to assist Swiss companies in their expansion abroad and to identify and support companies in their investment projects in Switzerland. S-GE has a comprehensive network of offices around the world.

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