

The challenges of digitalization and globalization

Dr. Markus Braun
Swiss Banking Services Forum,
22 May 2019



What opportunities and risks
are presented to the Swiss economy?

Overview



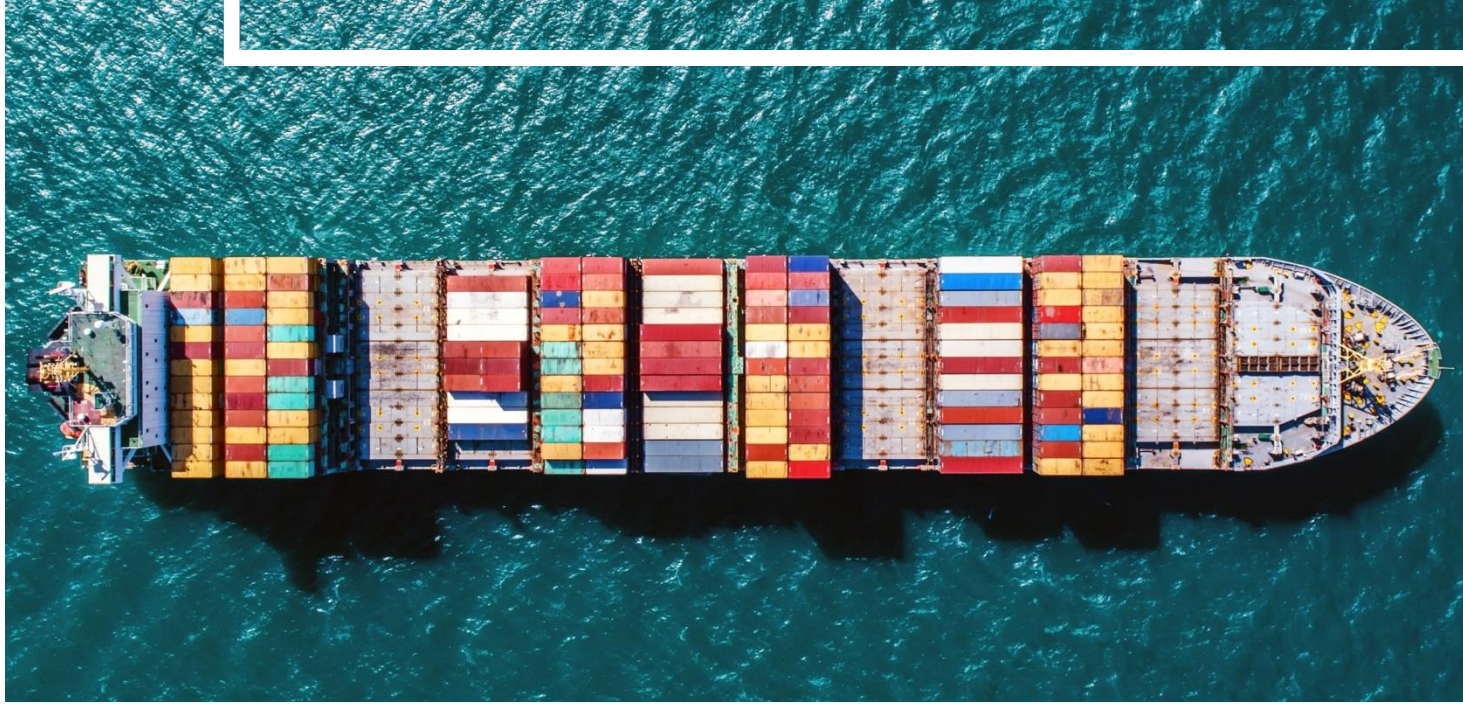
Globalization megatrends

Digitalization megatrends

Transformation matrix and
two case examples

Opportunities and risks for
the Swiss economy

Globalization megatrends



Transfer of goods and services

Increase of cross-border transfers of goods and services

Quantitative easing

10 years after the financial crisis – quantitative easing

China

China's economic rise and the bridge to Europe

Trading systems

Rule-based trading systems under the auspices of WTO and GATT are losing strength

Trading blocks

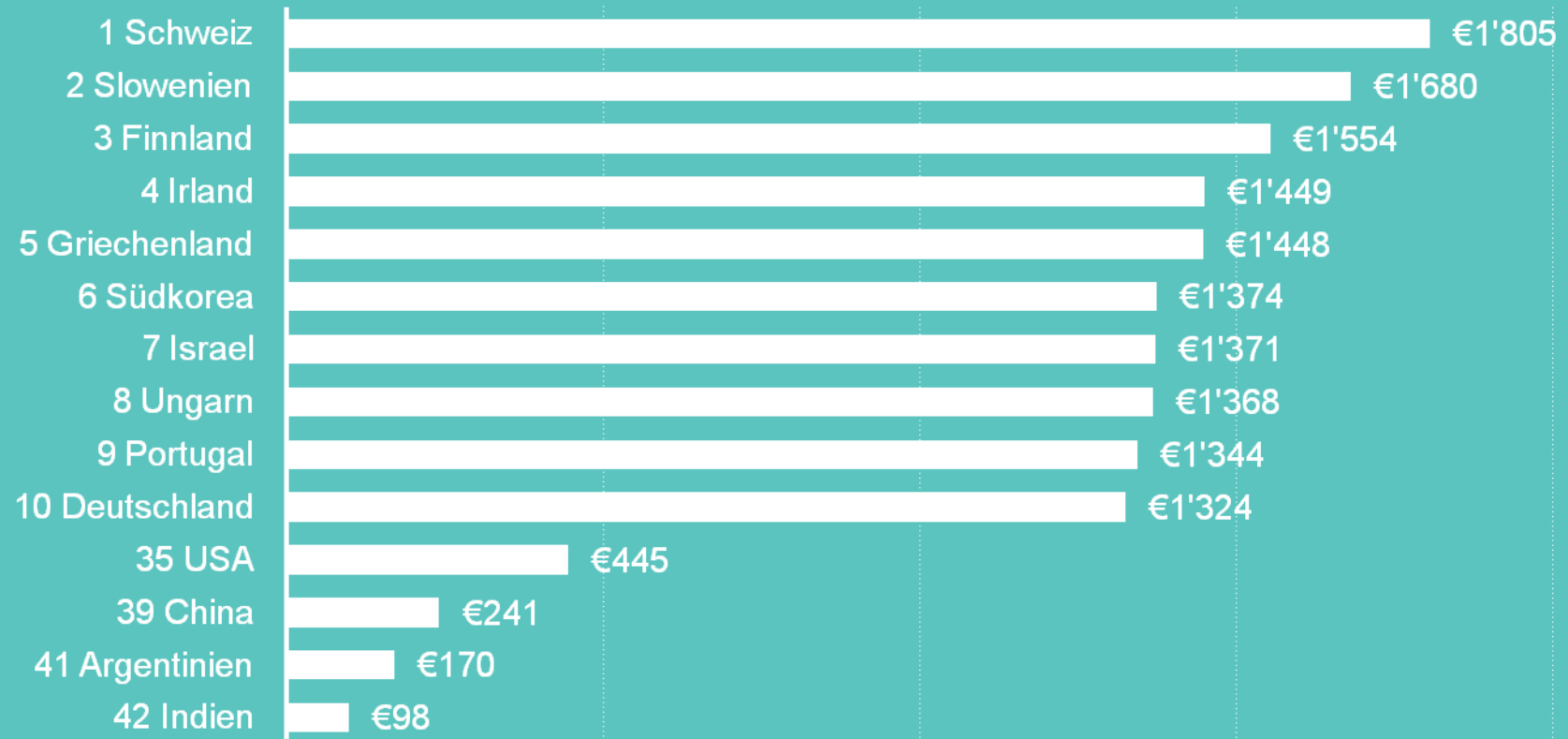
Continental trading blocks arising around large core nations/core regions USA, China, Europe

Pressure from tariffs

Geopolitical goals are being enforced with trade pressure and tariffs

National globalization winners

Gain in annual income per resident through globalization 1990 - 2016*



*in average, purchasing-power-adjusted values
Source: Bertelsmann Stiftung

Switzerland's location attractiveness

Competitiveness ranking (ranks 1-6)

The 2018 IMD World

100.00	USA
99.162	Hong Kong SAR
98.553	Singapore
97.534	Netherlands
97.143	Switzerland
96.385	Denmark

Mc Kinsey/AmCham study (April 2019)

The attractiveness of Switzerland as a location for global companies has dropped

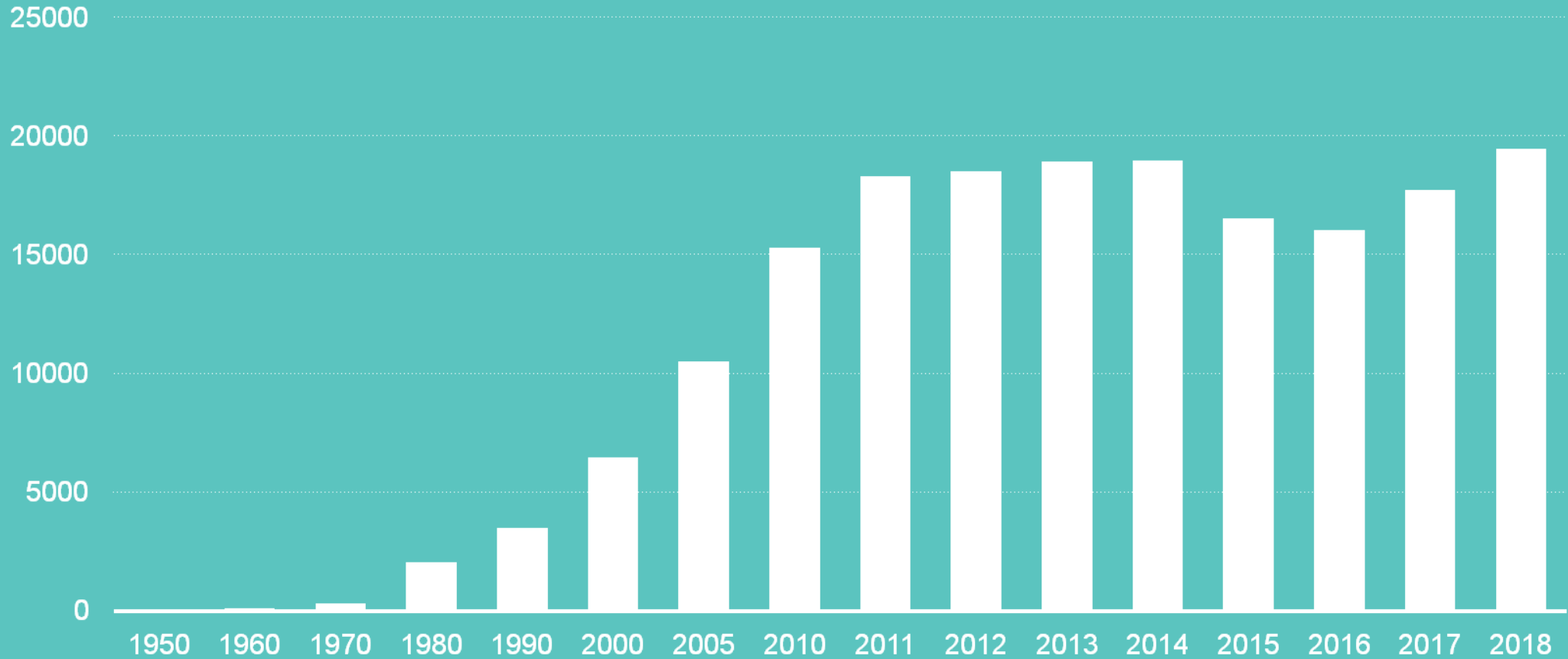
The Netherlands and Ireland are now more attractive than Switzerland for the resettlement of global companies. Switzerland was unable to profit from Brexit.

Factors:

- Unclear relationship with the EU
- Strongly regulated domestic product market with complex customs tariffs
- Small domestic market size

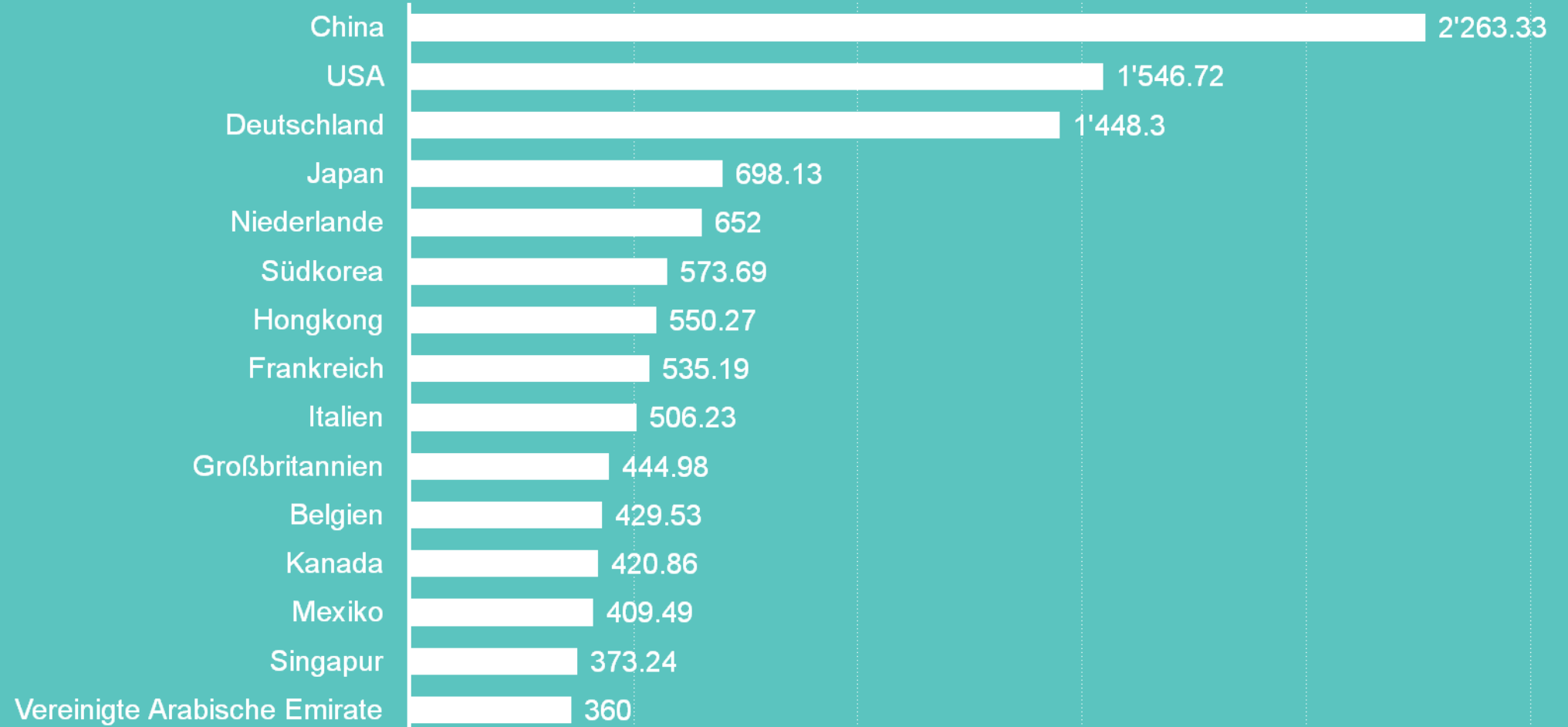
Worldwide trading volume (exports)

Development of worldwide exports in trading goods from 1950 to 2018 (in USD billions)



The largest export nations

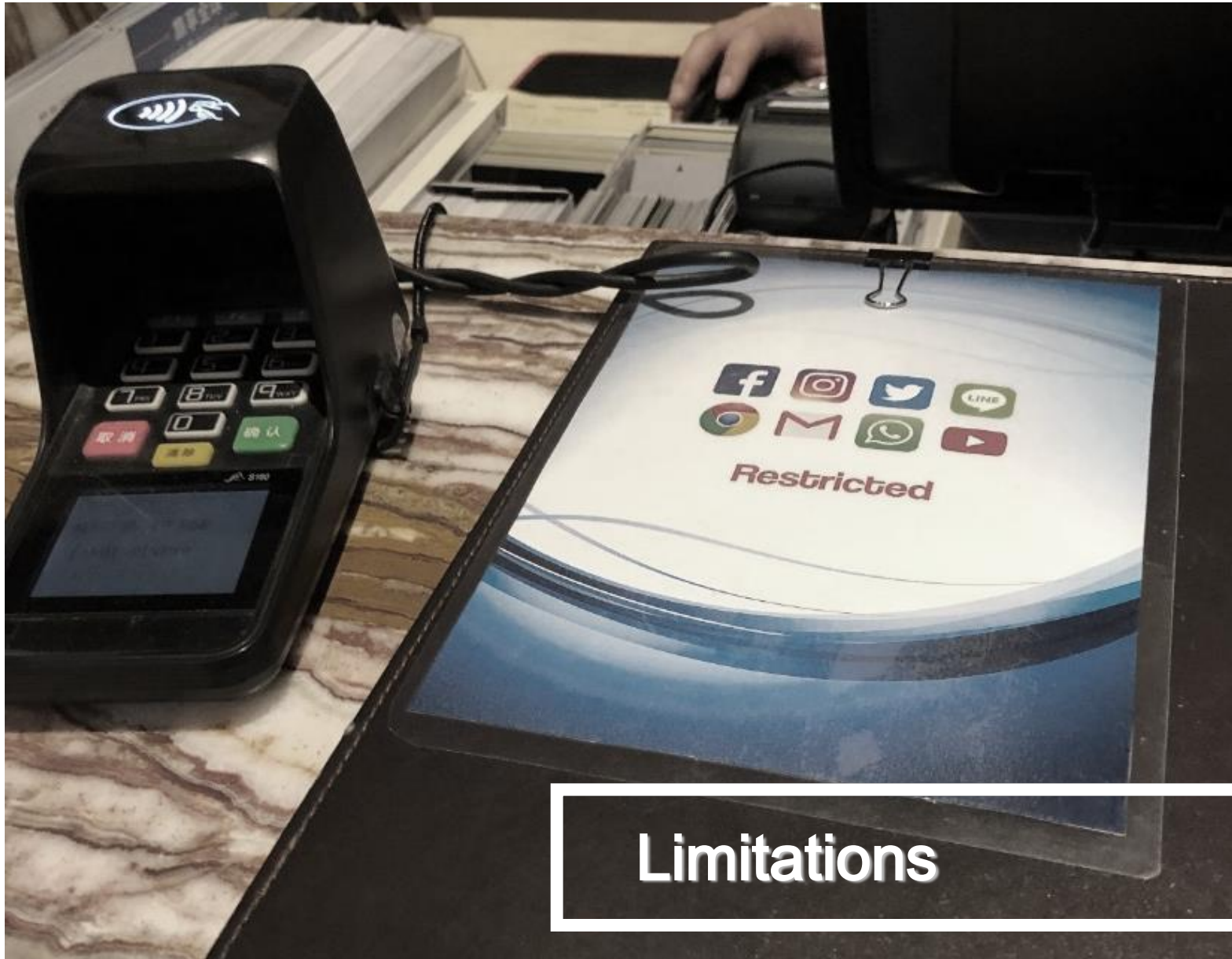
The world's 20 largest export nations in 2017
(in USD billions)



Trade war

Trade deficit
Intellectual property theft
Forced transfer of technology
Market access





Limitations

Digitalization megatrends

Millennials

Digital native millennial customers

Sharing economy

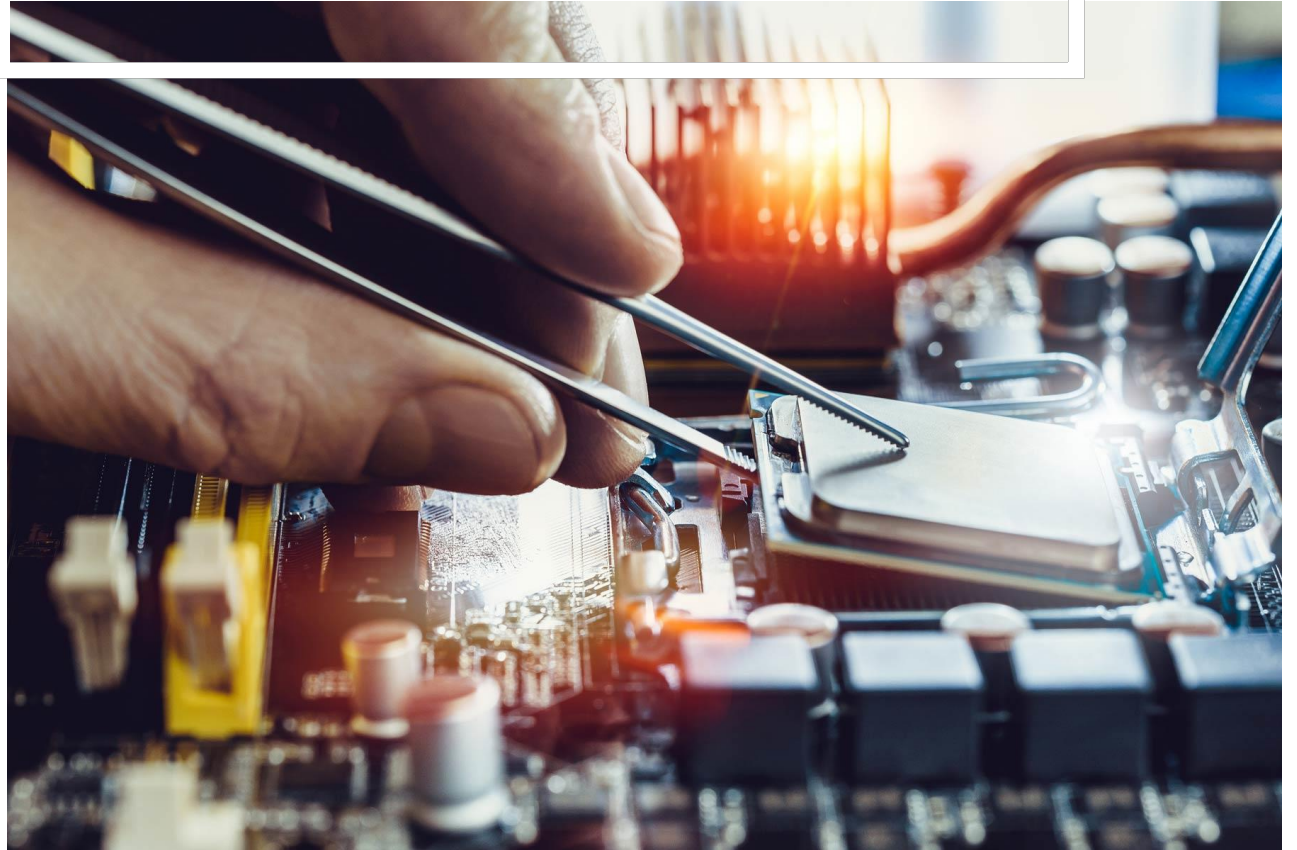
Sharing is trendy

Digital economy

Trend towards networked paperless and cashless economy

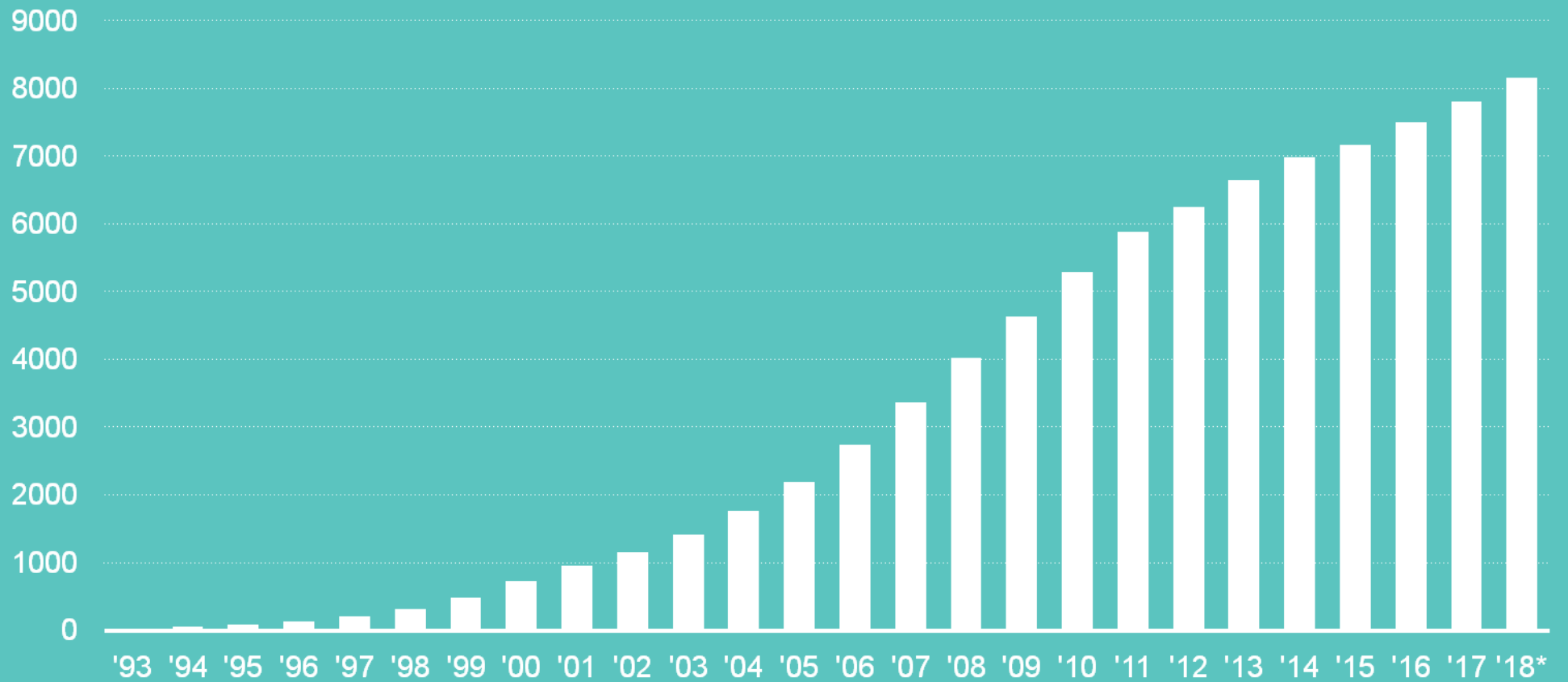
e-contact

Many companies strive for direct e-contact to customers – platforms, social media



Mobile lines

Number of mobile lines worldwide from 1993 to 2018 (in millions)



Master's thesis on millennial customers



Millennial customers based on the example of the luxury watch and jewelry industry



Masters thesis by Florian Graf, ZHAW School of Management and Law, 2018

Informed young customers

Digital information basis “online platforms - opinions of peers – influencers”

Disappearing national preferences

Information shared and multiplied transnationally through social media

Master's thesis on millennial customers



Millennial customers based on the example of the luxury watch and jewelry industry



Masters thesis by Florian Graf, ZHAW School of Management and Law, 2018

New definition of luxury

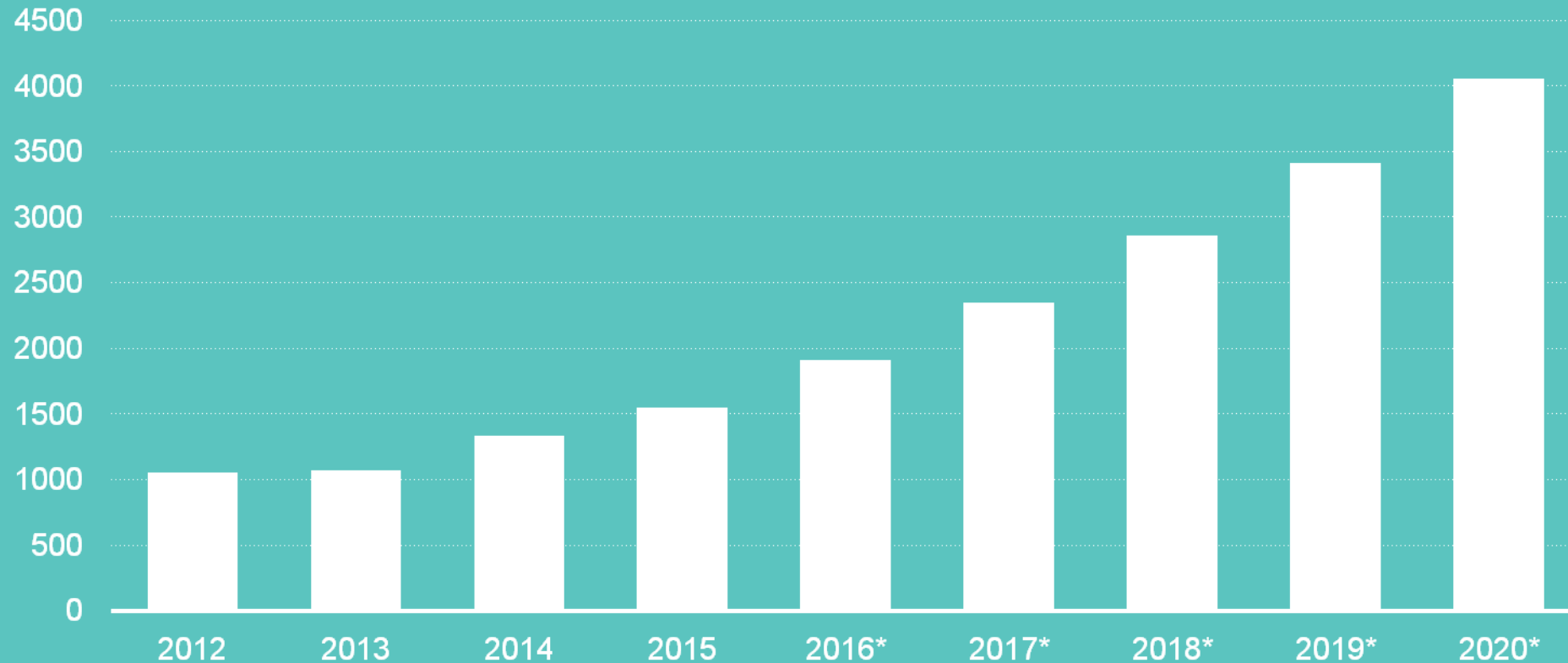
The experience counts. The watch can be rented for the right event through a platform.

Online/Offline

Stationary shopping experience as counter pole to online shopping convenience – emotions and experience – omni-channel concept.

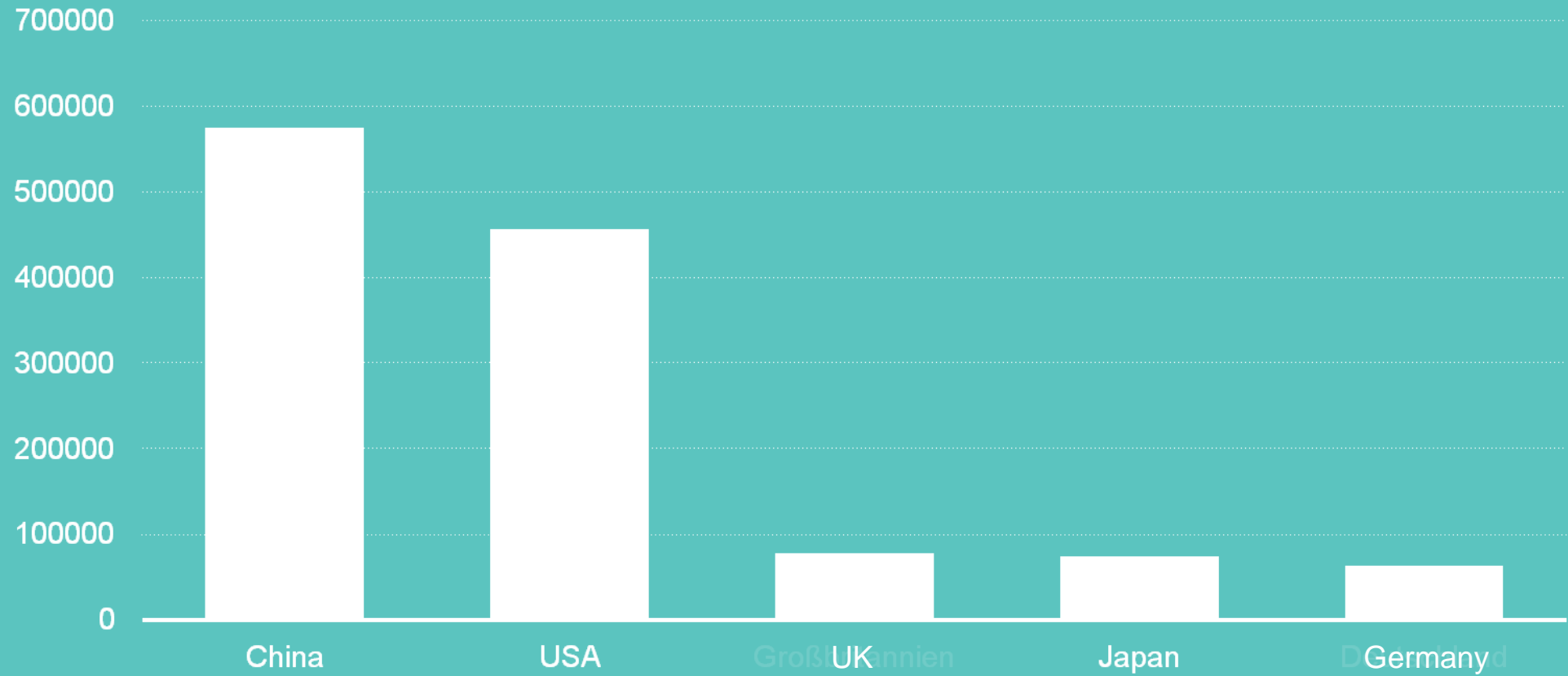
E-commerce I

E-commerce turnover in retail worldwide from 2012 to 2015, plus a prognosis through 2020
(in USD billions)



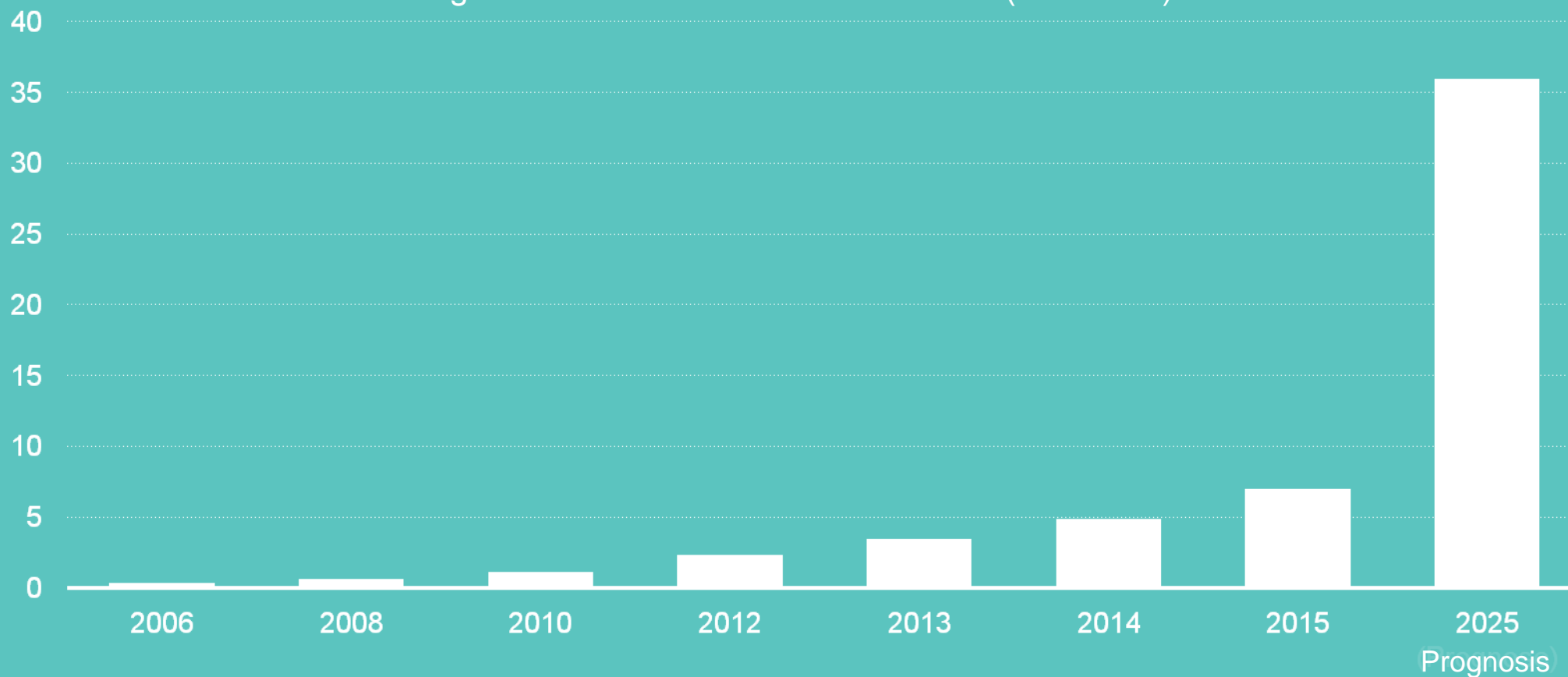
E-commerce II

Ranking of countries with the greatest turnover in e-commerce worldwide in 2018 (in EUR billions)



Car sharing

Number of car sharing users worldwide from 2006 to 2025 (in millions)



What impact will these trends have on the Swiss economy?

- + Highly competitive economy
- + Reliable institutions
- + Talent pool
- Regulated product market
- Small domestic market
- High price level



→ Increasing consolidation pressure

Consolidation in the Swiss beer market



530 breweries in Switzerland

10 breweries form the "Swiss beer cartel"

2 global leaders arise in Switzerland

~400 local small breweries

First global merger in the industry

600 local small breweries

<1900

1935 - 1991

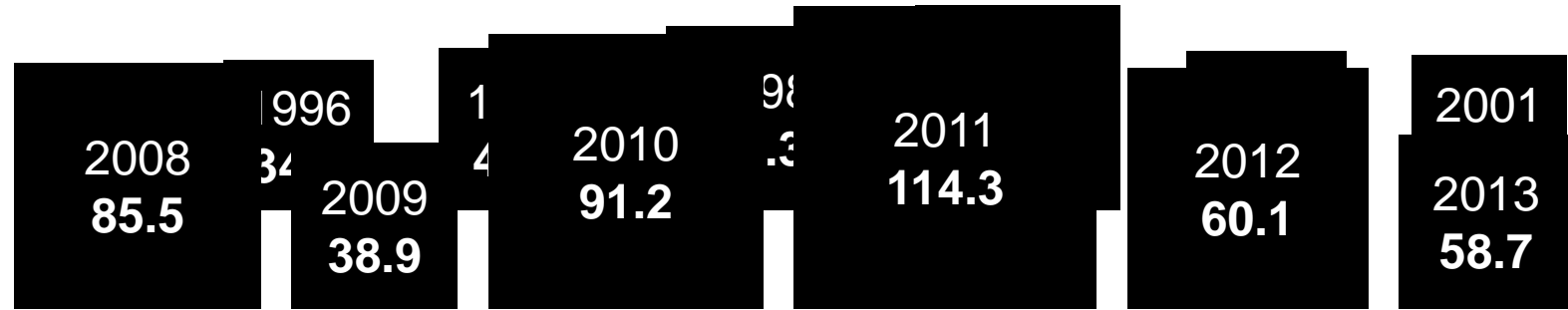
1985 - 2000

2000 - 2014

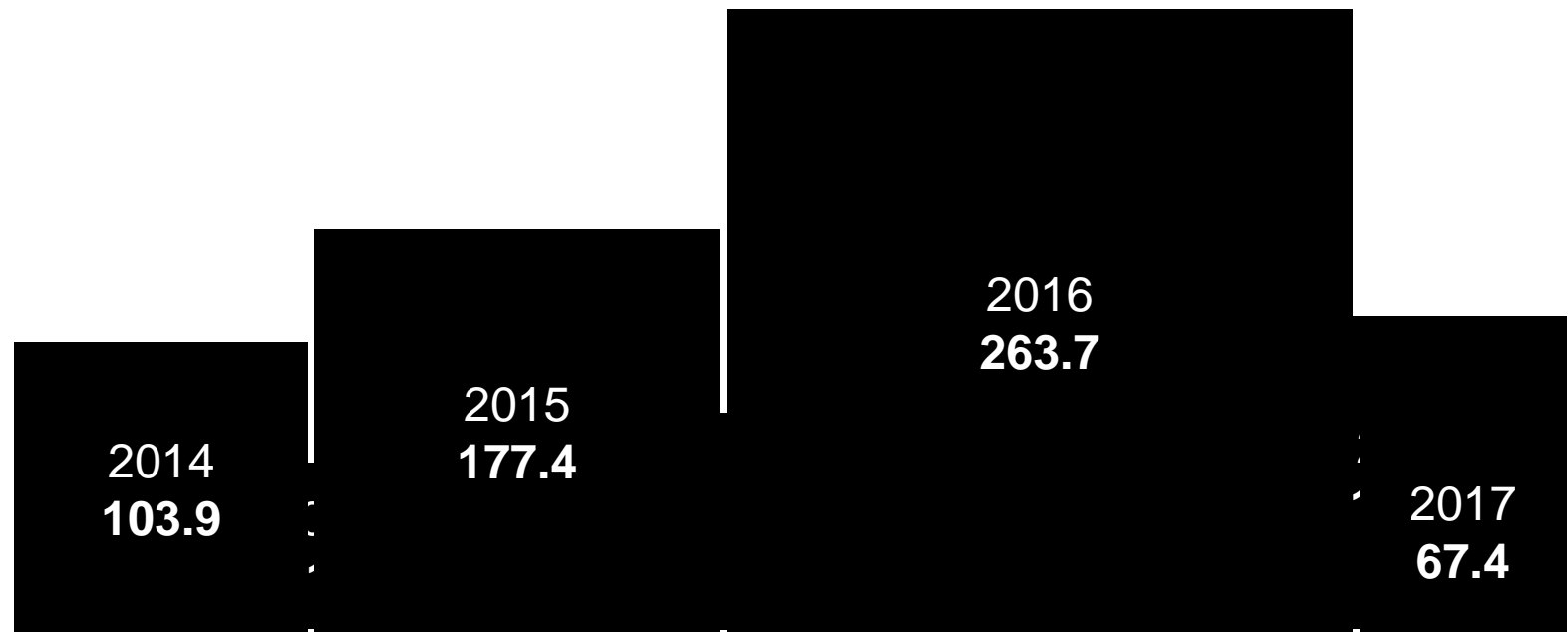
In 2016

In 2019

Consolidation of the global chemical industry



Rapid increase in consolidation in
recent years (in USD billions)





MONSANTO



2017: Bayer takes over Monsanto (USD 63 billion)

CHEMCHINA

中国化工集团公司
China National Chemical Corporation

syngenta

2016: State-owned ChemChina takes over Syngenta
(USD 43 billion)



2017: DowDuPont Inc. after merger
(company value: USD 130 billion)

Consolidation of the global
agrochemical industry

M&A transactions

Globally-focused M&A transactions with Swiss participation



Agrochemical industry:

- ChemChina - Syngenta



Robotics:

- ABB – Hitachi (sale of network division)



Cement industry:

- LafargeHolcim



Rail industry:

- Alstom – Siemens (unsuccessful)
- IPO Stadler Rail



Pharmaceutical industry:

- Novartis – IPO Alcon



Asset management:

- UBS – Deutsche Bank (unconfirmed)

What is driving global mergers?



Cost synergies



Access to markets



Digitalization

0 European players

2 large Chinese players: :



5 large US players :

Microsoft

Alphabet





Tech Unicorns

4 China / 4 USA / 1 Singapore / 1 Sweden

Company	Equity value April 2019, \$bn	2018 sales \$bn	Business type	Global users m
Uber* (US)	100.0	11.3	Ride-hailing	91
WeWork* (US)	47.0	1.8	Office space	0.2
Meituan Dianping (China)	39.3	9.9	E-commerce	400
Tencent Music (China)	29.9	2.9	Music	644
Spotify (Sweden)	26.2	6.2	Music	207
Pinduoduo (China)	25.2	2.0	E-commerce	272
iQIYI (China)	17.2	3.8	Entertainment	87
Lyft (US)	17.1	2.2	Ride-hailing	19
Snap (US)	15.8	1.2	Social media	186
Pinterest* (US)	11.3	0.8	Social media	265
Sea (Singapore)	10.5	0.8	Games, e-commerce	135
Dropbox (US)	9.5	1.4	File storage	13

Sources: Company reports; Bloomberg; *The Economist*

*Privately held

E-payment in Switzerland

Digital powers have a complex footprint



Payment services

E-banking / e-payment – the global/digital positioning of five banks

Bachelor's thesis Michael Stähli, ZHAW School of Management and Law, 2018

	UBS	Nordea	BBVA	N26	WeBank
Bank type	Large bank	Large bank	Large bank	Digital newcomer	BigTech (Tencent)
Payment app	TWINT	Swish	BBVA Virtual Card BBVA Wallet	N-26 payment app	WeChat-Pay
Core footprint	Switzerland	Sweden/ Scandinavia	Spain/ Turkey/ USA/Chile/ Argentina/ Venezuela	EU/USA	China via acquirer Wirecard in Europe SIX brings WeChat Pay to Switzerland

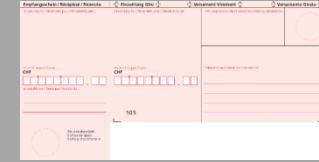
E-payment in Switzerland

Traditional

Cash



Payment slip



E-payments

E-banking/LSV



Cards



Credit



New



TWINT



SAMSUNG
pay

Payment applications in Switzerland

	Cooperations between banks	Cooperations credit cards/prepaid cards	Technology the point of sale
TWINT	UBS, Credit Suisse, PostFinance, ZKB,additional 66 Swiss banks	No	QR code Bluetooth
Apple Pay	Cornèr Bank Credit Suisse	Yes	NFC
Samsung Pay	-	Yes	NFC
Google Pay	Revolut, Neon	Yes	NFC

Summary I

Globalization / Digitalization trends



Globalization through digitalization

Digitization drives focused, sector-specific globalization.



Blitz scaling

Rapid global growth has become easier thanks to smartphones, social media and cloud computing.



Large economic areas

Digital first movers in large economic areas have advantages of scale.



Volume and margins

Online competitors at first concentrate on volume and suppress the margin.
e.g. Amazon, Zalando, Airbnb, ZurRose



Platform solutions

A digital transformation often leads through a platform solution.
Can a platform operator (merchant) be a provider of their own products at the same time?

Summary II



Opportunities and risks for the Swiss economy

- Future business models defined by millennial customers: Digital experience, sharing, socializing. The digital millennial consumer is setting the trend for the future business model: digital experience, sharing, socializing.
- The winner takes it all.
- In or out, small or large – but not in the middle.
- It is difficult for Swiss digital solutions, which must be scaled internationally from the small national ecosystem.
- Due to the small domestic market, a Swiss company should consider a “make or join” strategy.

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