The challenges of digitalization and globalization

What opportunities and risks are presented to the Swiss economy?

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

Globalization megatrends

Digitalization megatrends

Transformation matrix and two case examples

Opportunities and risks for the Swiss economy
Globalization megatrends

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

Transfer of goods and services
Increase of cross-border transfers of goods and services

Quantitative easing
10 years after the financial crisis – quantitative easing
National globalization winners

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

1 Schweiz  C1'805
2 Slowenien  €1'680
3 Finnland  €1'554
4 Irland  €1'449
5 Griechenland  €1'448
6 Südkorea  €1'374
7 Israel  €1'371
8 Ungarn  €1'368
9 Portugal  €1'344
10 Deutschland  €1'324
35 USA  €445
39 China  €241
41 Argentinien  C170
42 Indien  €98

*in average, purchasing-power-adjusted values

Source: Bertelsmann Stiftung
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Value (USD billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,263.33</td>
</tr>
<tr>
<td>USA</td>
<td>1,546.72</td>
</tr>
<tr>
<td>Deutschland</td>
<td>1,448.3</td>
</tr>
<tr>
<td>Japan</td>
<td>698.13</td>
</tr>
<tr>
<td>Niederlande</td>
<td>652</td>
</tr>
<tr>
<td>Südkorea</td>
<td>573.69</td>
</tr>
<tr>
<td>Hongkong</td>
<td>550.27</td>
</tr>
<tr>
<td>Frankreich</td>
<td>535.19</td>
</tr>
<tr>
<td>Italien</td>
<td>506.23</td>
</tr>
<tr>
<td>Großbritannien</td>
<td>444.98</td>
</tr>
<tr>
<td>Belgien</td>
<td>429.53</td>
</tr>
<tr>
<td>Kanada</td>
<td>420.86</td>
</tr>
<tr>
<td>Mexiko</td>
<td>409.49</td>
</tr>
<tr>
<td>Singapur</td>
<td>373.24</td>
</tr>
<tr>
<td>Vereinigte Arabische Emirate</td>
<td>360</td>
</tr>
</tbody>
</table>
Trade war

Trade deficit
Intellectual property theft
Forced transfer of technology
Market access
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
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 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)

- China
- USA
- Germany
- Japan
- UK (Great Britain)
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

In 2016, first global merger in the industry

In 2019, 600 local small breweries
Consolidation of the global chemical industry

Rapid increase in consolidation in recent years (in USD billions)
Consolidation of the global agrochemical industry

2017: Bayer takes over Monsanto (USD 63 billion)

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

2017: DowDuPont Inc. after merger (company value: USD 130 billion)
Globally-focused M&A transactions with Swiss participation

**Agrochemical industry:**
- ChemChina - Syngenta

**Cement industry:**
- LafargeHolcim

**Pharmaceutical industry:**
- Novartis – IPO Alcon

**Robotics:**
- ABB – Hitachi (sale of network division)

**Rail industry:**
- Alstom – Siemens (unsuccessful)
- IPO Stadler Rail

**Asset management:**
- UBS – Deutsche Bank (unconfirmed)
What is driving global mergers?

- Cost synergies
- Access to markets
- Digitalization

0 European players
2 large Chinese players: Alibaba Group, Tencent
5 large US players: Microsoft, Alphabet, Apple, Amazon, Facebook
# Tech Unicorns

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

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

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

Traditional
- Cash
- Payment slip

E-payments
- E-banking/LSV
- Cards
- Credit

New
- TWINT
- Apple Pay
- Samsung Pay
## Payment applications in Switzerland

<table>
<thead>
<tr>
<th></th>
<th>Cooperations between banks</th>
<th>Cooperations credit cards/prepaid cards</th>
<th>Technology the point of sale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TWINT</strong></td>
<td>UBS, Credit Suisse, PostFinance, ZKB, … ...additional 66 Swiss banks</td>
<td>No</td>
<td>QR code Bluetooth</td>
</tr>
<tr>
<td><strong>Apple Pay</strong></td>
<td>Cornèr Bank, Credit Suisse</td>
<td>Yes</td>
<td>NFC</td>
</tr>
<tr>
<td><strong>Samsung Pay</strong></td>
<td>-</td>
<td>Yes</td>
<td>NFC</td>
</tr>
<tr>
<td><strong>Google Pay</strong></td>
<td>Revolut, Neon</td>
<td>Yes</td>
<td>NFC</td>
</tr>
</tbody>
</table>
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?
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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