Here and There

The current economic situation is forcing many companies to reevaluate their current cost structure and functional set-up. One area that is being examined is location. For the life sciences, Switzerland is particularly attractive.

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In order to remain competitive today, multinational companies (MNCs) have several options, including choosing the most advantageous location economically for their various operations. The strategic decision regarding where to locate the headquarters is one of the key issues. One important – but not the only – reason to move headquarters and other core operations are changes in the tax system. Lately, many governments have been discussing or even implementing more stringent tax laws, which is another incentive for companies to take a careful look at their current location. One company that did just that is Informa, a leading international provider of specialist information and services for academic and commercial business communities. Informa recently announced plans to relocate its headquarters from the UK to Switzerland, a move in response to UK plans to introduce "double taxation" of profits earned overseas.

Home on the range

Switzerland is not only the home of several MNCs of Swiss origin like Nestlé, ABB, Adecco and Swiss Re. It has also attracted the headquarters, manufacturing and R&D of numerous foreign MNCs, mostly from the US. One of the first foreign MNCs to have full-fledged operations in Switzerland was Du Pont, which set up production facilities and its European headquarters in 1959 in Switzerland, followed by an R&D center. In most cases – as an overview on selected MNCs shows – foreign companies tend to set up their EMEA or international headquarters in Switzerland. Manufacturing and R&D, for their part, seem to play a minor part. However, the exceptions are noteworthy: IBM established an international R&D base in Switzerland as early as in the late fifties, others joined more recently, like Google in 2007. When it comes to manufacturing, foreign MNCs choose Switzerland for the production of high-technology, complex products with high value-added items like medical devices (e.g. the German B. Braun). Switzerland does not have the right skill-cost set for the mass production of low-tech goods as the case of Lego showed in 2004 when they moved production to the Czech Republic.

Selected foreign MNCs and establishment of operations in Switzerland

LEVEL / FUNCTION	Marketing & Sales/ Shared Services	Manufacturing	R&D
European	Dow (1952) DuPont (1959) Cadbury Schweppes (2008) Convatec (2009)	Du Pont (1959)	Dow (1970) Du Pont (1987)
EMEA/ International	Hewlett-Packard (1959) Caterpillar (1960) Medtronic (1997) Procter & Gamble (1999) eBay (2003) Amgen (2005) Yahoo! (2008) Nissan (2008)	Shell (1949) B.Braun (1973)	IBM (1956) Google (2007)
Global	Kühne & Nagel (1969) Tetra Laval (1981) Liebherr (1983) Siemens Building Technologies (1998) Merck Serono (2007) Alliance Boots (2008)	Liebherr (1978) Medtronic (1996) Zimmer (2003)	

Fertile fields for life sciences

One sector that fulfills the criteria of high-technology, complex products with high value added is the life sciences. Switzerland has an impressive number of indigenous world-class life science companies, like Roche, Novartis, Sonova (former Phonak; hearing aids) and Straumann (dental implants). All of them are among the global leaders in their respective pharmaceutical or medical devices markets. But Switzerland is also a good breeding ground for biotechnology companies: one example is Actelion, which focuses on the development and marketing of low molecular drugs for human healthcare. Actelion was founded in 1997 and grew rapidly. It was listed on the Swiss Stock Exchange in 2000 and passing the CHF 1 billion mark in sales within less than ten years of its foundation.

It is this breeding ground that makes Switzerland an attractive location for investments of foreign life science companies. MNCs like DePuy/J&J, B.Braun and Stryker, have important operations in Switzerland. For the life sciences – as well as other industries like consumer goods/retail (Procter & Gamble in Geneva, Metro Group in Zug), or electronics (HP in Meyrin/Geneva) – Switzerland is interesting as a headquarters location. But it also earns high marks as a manufacturing place. Two main strategies dominate:

The "black-field" strategy involves the acquisition of smaller Swiss life science companies with their own production facilities. In most cases, this strategy has led to a clear win-win situation: the foreign MNC gains immediate access to specialist know-how, whereas the local community benefits from an increasing number of highly skilled jobs due to the enlargement of operations at the Swiss site. At a later stage – if the location has proven to have favorable economic conditions – headquarter operations might be added. An example of this strategy is Zimmer (see box).

The "green-field" strategy involves first establishing (European) headquarters in Switzerland, and then taking the next step to open a production site. This strategy reduces the risks by establishing a first foothold with the headquarters before investing larger amounts to build an own production site. This might take up more time than the "black-field" strategy, but it has the advantage of being customizable to the exact needs of the MNC. An example of this strategy is Medtronic (see box).

A recent relocation to Switzerland is Alliance Boots, a leading international pharmacy, health and beauty group, whose retail shops can be found in almost any main street in the UK. The group's expansion plans led to a re-evaluation of its location structure. Not satisfied with the business conditions and politics of the UK, Stefano Pessina, the group's executive chairman, decided that the company should move its global headquarters to a country where there was "good corporate governance" and a "serious approach to business." Perhaps the true reason for the relocation has to do more with the tax differences between Switzerland and the UK. But further analysis shows that the real tax benefits for Alliance Boots are insignificant, because the entity that ultimately owns the company will remain in Gibraltar.

Unique factors

In recent decades many countries have started developing strategies in order to attract and retain MNCs. The aim is to increase investment inflows to create additional jobs and value added. The first countries to adopt such strategies were the United States and European countries like Switzerland, Ireland and the United Kingdom. Today almost every European country – including Eastern European countries – has a strategy on how to attract MNCs, including a list of reasons why their country is the most favorable location for an investment. Asian and Middle-Eastern countries are also spending huge sums on developing the infrastructure and business parks to attract MNCs. As a result, the differences between countries at that level are becoming smaller.

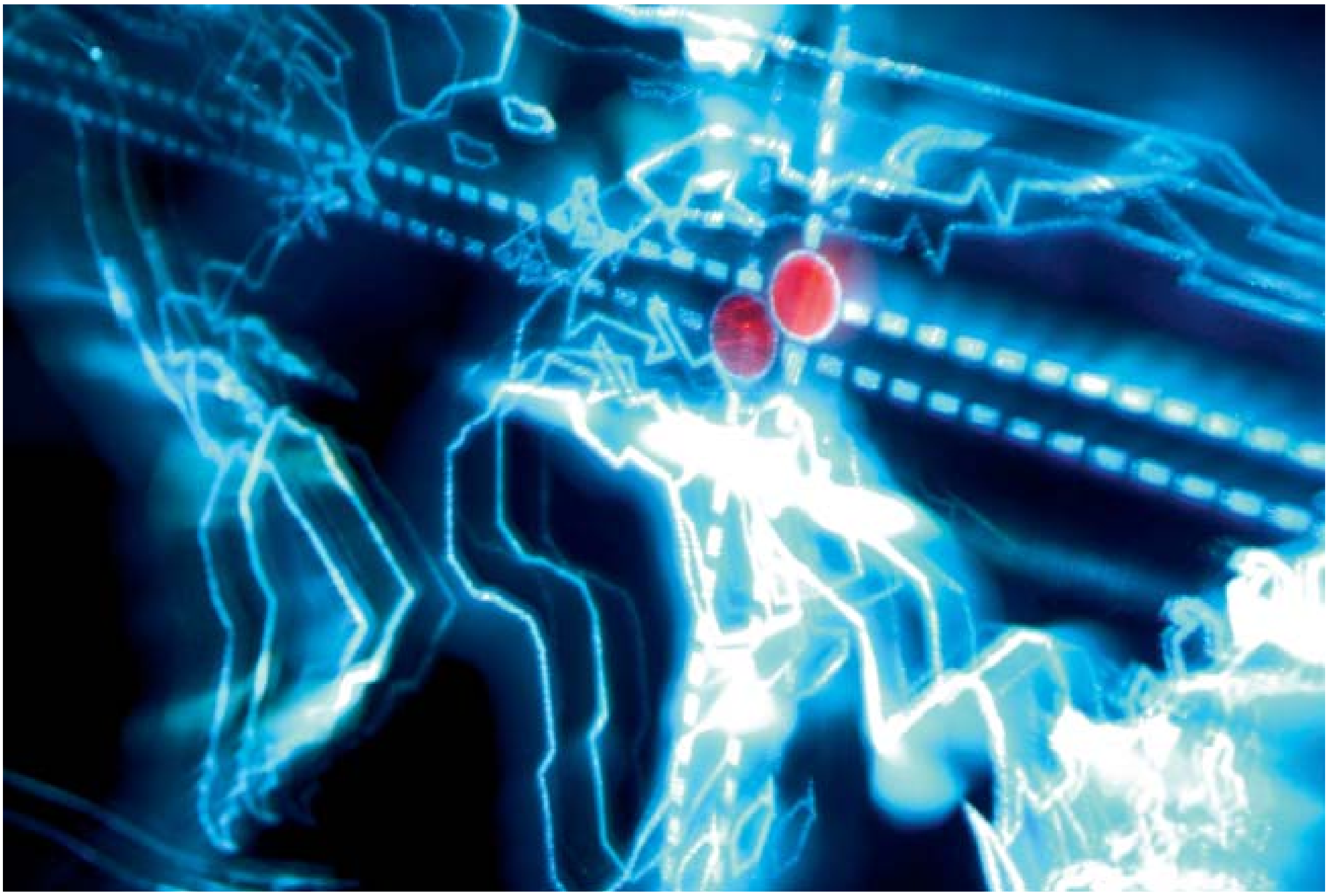
This applies mainly to the location factors that are easy to copy and measures that can be implemented quickly, such as the lowering of corporate taxes. But worldwide top

Black-field strategy: Zimmer

Zimmer is a leading US-manufacturer of joint replacement and spine care solutions, as well as trauma, dental implant and orthopedic surgical products. The company has 8,500 employees in 28 countries that generated in 2008 net revenues of CHF 4,463 million. In 2003, Zimmer acquired the Swiss-based orthopedic and leading European reconstructive company Centerpulse. In the years following, production in Switzerland was expanded to manufacture hip, knee, elbow, shoulder, spine, and trauma products. Additionally, the Swiss city of Winterthur became Zimmer's new headquarters for Europe, Australia and Asia.

Green-field strategy: Medtronic

Medtronic is a US-company manufacturing medical devices primarily for cardiac, neurological and urological disorders and spinal trauma. Its net revenues in 2008 stood at CHF 14,638 million. The company had 38,000 employees and a distribution network covering a total of 120 countries. While its headquarters are located in the US, Medtronic currently has three locations in Switzerland: one in Münchenbuchsee for Swiss marketing and sales, one manufacturing site in Neuchâtel (since 2007), and one site in Tolochenaz. The latter facility was built in 1996 as the European and Central Asia headquarters and today is also home to Medtronic's most modern manufacturing facility for implantable devices as well as the home of the European training center.



locations excel in factors that needed a long time to be developed, like a skilled and entrepreneurial workforce. Or they excel in aspects that are unique, like a beautiful landscape. So Switzerland offers several additional reasons why it is the location of choice for so many multinational life science companies. These include the existence of life science clusters and the country's traditionally high quality of life. When considering the indigenous world-class life science companies and the large foreign MNCs' investments, Switzerland does number among the top European centers and worldwide hot spots for life sciences.

Relocation details

To recapitulate: One way for a company to come to grips with the current global challenges is to take a good look at its global structure and check for possibilities of change. Relocating whole headquarters or manufacturing is no longer standard practice. Today, relocation is done on a function-by-function basis. Matching the right function with the optimal geographical location can lead to an improved and more economic business structure. Shell, for instance, concentrated its international brand management in Switzerland; Starbucks has its head office for the worldwide coffee trading operations in Switzerland, whereas other headquarters functions remain in London or Seattle. This relocation of individual functions is supported by the broader and increasingly accepted use of web conference tools, which ensure the collaboration between the different functions. Current cost reduction measures like travel restrictions will further boost the use and acceptance of these online tools in many companies.

Whereas the functional fragmentation of MNCs is likely to increase, the centralization of specific functions is rising. Many MNCs are establishing functional shared service centers on a corporate or group level. According to a recent study from Roland Berger Strategy Consultants the top five functions are IT, human resources, accounting, procurement and communications. The main reasons for centralization are to cut costs and to standardize, simplify and speed up processes. Whatever the strategy chosen, however, one thing is sure: The current crisis is going to compel many international corporations to change their structure with regards to location.

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