SWISS SMES RELY ON INNOVATIVE BUSINESS MODELS

The strong Swiss franc and growing competition are placing a strain on Swiss SMEs: 85 percent are already feeling greater competitive pressure compared to five to ten years ago. They are increasingly realizing that a well-thought-out business model is quite important to successful internationalization: 70 percent of SMEs are now taking on the topic of business model innovation.

WHY BUSINESS MODEL INNOVATION?
Companies with innovative business models like AirBnB and Uber have been making headlines lately: They have shaken up their respective industries internationally, using smart ideas based on new, data-supported technologies. These changes are the result of global megatrends ranging from digitization or demographic change, to a new understanding of mobility. Sooner or later, all economic sectors will be affected by these changes. The effects on the various export markets of Swiss SMEs vary greatly. What can SMEs do to remain internationally competitive?

Exporters still face considerable margin pressure and the strong franc remains a problem. Because the potential to increase efficiency is practically exhausted in many places, the margins are often insufficient for product innovations. So, where do Swiss SMEs have scope to develop?

In order to answer this question, it will be necessary to think beyond individual products and processes and focus on the entire business model, challenge it, revise it or even turn it completely upside down. What benefit do we generate for the customer with our products or our service, what added value and earnings model are behind it? This will allow an intelligent concept to be developed in order to meet the rapidly changing customer requirements, to stand out from the competition and to open up additional sources of income. This creates international competitive advantages, while sustainably optimizing the margin situation. This requires above all creativity and cross-thinking. This study examines how this kind of business model innovation might look and how SMEs can tackle such a project.
A recent survey by Switzerland Global Enterprise (S-GE) revealed that the strong Swiss franc and constantly improving competitors are putting pressure on SMEs in all relevant target markets. 85 percent now feel stronger competitive pressure today than they did five to ten years ago. The situation is most distinct in Europe’s developed markets, the US and China. As SMEs are usually most active in Europe, this presents them with further difficulties.

Would you agree with the following statements?
“A well-thought-out business model is the prerequisite for international growth”

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<thead>
<tr>
<th>1</th>
<th>Completely</th>
<th>56%</th>
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<tbody>
<tr>
<td>2</td>
<td>Yes</td>
<td>29%</td>
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<td>3</td>
<td>More or less</td>
<td>14%</td>
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<td>4</td>
<td>No</td>
<td>3%</td>
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<td>5</td>
<td>Not at all</td>
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Would you agree with the following statements?
“For each target market, it is necessary to thoroughly assess whether the business model is applicable or whether it needs to be adapted”

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<th>1</th>
<th>Completely</th>
<th>56%</th>
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<tr>
<td>2</td>
<td>Yes</td>
<td>37%</td>
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<td>3</td>
<td>More or less</td>
<td>7%</td>
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<td>4</td>
<td>No</td>
<td>4%</td>
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<tr>
<td>5</td>
<td>Not at all</td>
<td>1%</td>
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What are the causes?

<table>
<thead>
<tr>
<th>1</th>
<th>The strong franc</th>
<th>67%</th>
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<tbody>
<tr>
<td>2</td>
<td>The competitors have developed</td>
<td>54%</td>
</tr>
<tr>
<td>3</td>
<td>New competitors on the market</td>
<td>42%</td>
</tr>
<tr>
<td>4</td>
<td>Technological changes</td>
<td>23%</td>
</tr>
<tr>
<td>5</td>
<td>New customer requirements</td>
<td>21%</td>
</tr>
<tr>
<td>6</td>
<td>Other</td>
<td>13%</td>
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The potential to work on new business models even more consciously and methodically and seek inspiration in examples outside one’s own industry has not been fully exploited. In this context, the majority of respondents wish to create innovations through the exchange with customers and suppliers. Around half of the companies are currently collaborating with institutions, but so far only about one-third have been working with competitors or companies from other sectors to date. However, this collaboration across industries is an important source of inspiration, as for example the stories of Elite Beds SA and Berlinger AG show.

What are you doing to keep your company competitive in your most important sales markets?

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<tr>
<th>1</th>
<th>Product or service innovation</th>
<th>78%</th>
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<tbody>
<tr>
<td>2</td>
<td>Development of new business models or further development of the existing business model</td>
<td>70%</td>
</tr>
<tr>
<td>3</td>
<td>Increasing efficiency, cutting costs</td>
<td>59%</td>
</tr>
<tr>
<td>4</td>
<td>No specific measures</td>
<td>1%</td>
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According to the survey, it is now widely accepted that a well-thought-out business model is vitally important for successful internationalization. The need to change existing models and adapt them to the respective markets is equally undisputed. 80 percent of the respondents felt that their existing business model would no longer function in five to ten years. 70 percent are working on enhancing the existing model or are developing an entirely new business model.
NEITHER “TOO BIG” NOR “TOO SMALL”
Why Swiss SMEs are very well positioned to innovate their business models

I first came to Switzerland in 2003, and since then, I have seen tremendous changes occur in the Swiss innovation ecosystem, including with small and medium sized enterprises (SMEs). Swiss SMEs exhibit a strong appreciation for innovation—business, customer, technology, and system—while exhibiting a level of ingenuity that is exceptional across the globe. I enjoy sharing examples of Swiss business innovation with other non-Swiss companies and even back to my colleagues at Silicon Valley, such as:

- Several years ago, Swiss wine distributor Bataillard adopted advanced factory automation that transformed a traditional logistics model. This mixture of systems and technology adoption into a 100+ year old business allowed them to stay ahead of competitors and bring new value to their customers.
- Swiss legend Reto Gurtner, founder and chair of Weisse Arena Group, created the Greenstyle vision to describe and inspire the radical innovations needed to make the mountain lifestyle sustainable year-round at the Laax resort. His team has translated this vision into customer-centered development, distribution and promotion, which is now being packaged and delivered to other mountain markets around the world.
- Flyability, a spin-off from EPFL and a poster child of the Swiss innovation ecosystem, has become a global phenomenon and serious competitor in industrial drones. It is amazing to see the speedy conversion of Flyability from a university research project into a fundable company with a professional management team and unique value proposition.

Innovation is ultimately about creating new value for a customer. Today, Swiss SMEs are superbly positioned to deliver ingenious and high-quality innovations into a global market that was often considered too costly or complex in prior years. Swiss SMEs have the advantage of size and ingenuity in being innovative. Neither “too big” nor “too small”, a Swiss SME can rapidly attack the four basic innovation challenges: (1) talk with customers, (2) discover an unmet customer need, (3) define a profitable business which quickly attack the four basic innovation challenges: (1) talk with customers, (2) discover an unmet customer need, (3) define a profitable business which the company can use to satisfy that need, and then (4) align the team around that new business vision.

As established businesses, SMEs have existing customers whom they know well. As a trusted supplier, the Swiss SME can explore unmet needs in earnest collaboration with their customers. While startups typically struggle to raise investor interest or mobilize resources, a SME can draw from its existing staff and resources to build (and rebuild) more advanced prototypes to share with customers, which in turn, helps to refine and test a promising business model. And unlike big companies, a SME can more quickly communicate across its management team and business units, bringing different groups together as needed to pursue and ultimately deliver on a new innovation solution.

I am glad to see groups like Switzerland Global Enterprise share more success stories about Swiss SME ingenuity. Based on the changes I have seen happen this last decade, I am excited to see what Swiss SMEs will do in the next decade.

TAMARA CARLETON
Ph.D., CEO & founder, Innovation Leadership Board LLC

ELITE SA: MATTRESS LEASING
The mattress manufacturer Elite SA from Aubonne employs around 130 staff, and has been operating in the bed-linen business since 1895. The Vaud-based enterprise has developed into a luxury mattress manufacturer over the past 10 years, thanks to a lot of innovative products.

Internationalization only started in 2011. Thanks to the participation on international trade fairs and new boutiques in Paris, Milano, Moscow and Rome, Elite Beds are getting more and more common in European bedrooms. The innovative company also has caused quite a stir on the B2B market in the hotel industry. To do so, they allowed themselves to be inspired by an idea from the automotive industry: instead of selling their mattresses to the hoteliers, they simply lease them. Sensors in the mattresses measure the use and hoteliers pay a corresponding fee. “Smart Lease”, as the new business is called, helped gaining market shares in the Middle East and South Africa.

This model benefits both sides: While the hoteliers no longer have to make large upfront investments in mattresses in times of a strong franc, Elite SA learns a lot about the usage behavior of their potential end customers. At the same time, the company is forming close ties with the hoteliers. In 2016, products of a value of 2.5 million francs were exported, the company is aiming for 5 million francs in three years.

BERLINGER GROUP: EVERYTHING FROM A SINGLE SOURCE
When the Berlinger family founded its textile business in the Sankt Gallen town of Ganterschwil some 150 years ago, no one could have imagined that it would become a high-tech company for tamper-proof sample bottles for doping and drug testing as well as for temperature control instruments.

However, in the case of the Toggenburg company, the basic structural change began with a disaster: In 1902, the weaving mill burned down to the ground, thus destroying the livelihood of the Berlinger family from one day to the next. Inventive spirit, the willingness to constantly develop and the confidence in one’s own abilities have defined the corporate culture of the family business ever since. The loss of the weaving mill prompted the Berlingers to seek and find their entrepreneurial fortune in other markets.

With its 100 employees, the family business, which is in its sixth generation, is meanwhile active virtually worldwide. The Berlinger Group became famous above all for its doping test products. However, the second business area is particularly interesting: instruments for temperature monitoring. The final step – for the time being – took place in 2014 with the acquisition of a software company. The Berlinger Group aims to raise the digitized, automated control of temperature and other parameters to a new level, and to offer all software and hardware across the entire value chain from a single source.
BERHALTER AG: INSPIRATION AND TECHNOLOGY
When it comes to punching technology, there’s no way round Berhalter AG based in the peaceful town of Widnau: Founded in 1960, the family business is the world market leader in the industry. With around 85 employees and an export share of 97%, the company is specialized in high performance die-cutting machines that can be used to produce yogurt lids, lids for pet food or in-mould-labels, for example.

The classic MEM SME from the Rhine valley invests heavily in development and is very active in the area of industry 4.0. The “tec-spiration” business model was launched in 2014. The company is breaking new ground with this model, because it is no longer simply a question of selling high-quality machines, but rather the company’s own expertise. According to Berhalter AG, “tec-spiration” stands for “simply know how”, which the company wants to use to combine ideas and people. The basis for this is the company’s strong technical expertise as well as the desire to enter into partnerships. The Rhine Valley SME is relying on inspiration to successfully integrate its own expertise into products and intelligently-designed processes. Technical challenges are not regarded as a problem, but as an incentive.

After a record growth of the number of new Swiss clients Berhalter AG has taken the first steps towards an expansion to Germany with the new business model – and they seem already promising. “tec-spiration” has the potential to serve the struggling MEM industry as a future model.

IFOLOR AG. FULLY DIGITAL
Ifolor AG from Kreuzlingen has completely revamped its business. The family firm has been fully committed to digital photography since the year 2000. And the change resulted in the company becoming an international success. The Kreuzlingen-based SME now employs around 280 staff in total, 180 of them in Switzerland. Ifolor operates its own plant Finland.

The switch from analog to digital photography has fundamentally changed the family business founded in 1961. While Ifolor used to develop films, it now mainly develops software. Marketing and development activities were intensified. Today, more than 10% of Ifolor’s personnel work in IT, and even more work in marketing.

The online shop digital business model allows the SME to realize significantly more economies of scale than with physical products. The fact that change was inevitable was already clear to the Kreuzlingen-based SME early on. Even today, the company’s manager is convinced that everything that can become digital will eventually become digital. At the same time, the belief in the haptic product remains unbroken – people like to “feel” their memories. It is impossible to predict whether this will be different in five or ten years. Beyond iPhone and iMac, it therefore remains to be seen where the future of the Kreuzlingen SME will lie.

LEARNINGS FROM THE CASES: ADVICE FOR BUSINESS MODEL INNOVATION AND INTERNATIONALIZATION
1. Focus your business model on customer benefit, on existing needs. New technologies can help to recognize those and increase benefits. They can open up new solutions. However, new technologies are not an end in themselves.

2. To renew business models, you do not have to reinvent the wheel: what you need might already be used in other sectors or a different context. Be inspired and collaborate with partners that grant you access – even those outside your industry.

3. Invest in your talents and in the corporate culture, rethink your structures. You need well-trained, motivated people who are passionate about the new business model. You need room so that new ideas are not crushed by old ways of thinking and to enable your employees to experiment. Develop innovation step-by-step.

4. Business model innovation and internationalization fuel and mutually influence one another. Digital business models are often only worthwhile once they reach a certain size, which means that you may have to tap into new markets sooner or later. The more internationally active a company is, the more it will be exposed to growing global competition. This in turn increases the pressure on you to rethink your own business model.

5. Do not underestimate how different your target markets are and adapt your business model accordingly.

6. Business model innovation is a crucial optimization measure that will enable you to sustainably create new margins and expand internationally to compensate future currency and growth fluctuations in your target markets.

About the publication
The present data is based on a survey of 155 participants among all members of S-GE, survey period: February – March 2017. 131 of the companies came from German-speaking Switzerland, 17 were from French-speaking Switzerland, and 7 were from Ticino.

About Switzerland Global Enterprise
Switzerland Global Enterprise (S-GE) guides its clients on the path to new markets. On behalf of the Swiss Confederation (State Secretariat for Economic Affairs SECO) and the Swiss cantons, S-GE promotes exports and investments by helping its clients to realize new potential for their international businesses and thus to strengthen Switzerland as an economic hub. As the driver of a global network of experts and as a trusted and strong partner to clients, cantons and the Swiss government, S-GE is the first point of contact in Switzerland for all questions relating to internationalization. www.s-ge.com