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Changes in the cost structure

THE last decade has confronted Swiss companies with dramatic changes in their economic environment.

The appreciation of the Swiss franc made the international competition even tougher at a time when the newly industrialising countries (NICs) – and Japan – were mounting heavy export offensives.

In addition, demand for Swiss products from the developing countries, as well as the OPEC members and the states of the East Bloc, has clearly been on the decline since the beginning of the '80s.

This downturn in orders from the typical growth markets of the '70s was accompanied by an investment slump in the industrial economies, which was aggravated by protectionist tendencies in key foreign markets.

These changes, international in scope, led to far-reaching structural shifts within the Swiss economy.

While more than 260,000 jobs vanished in manufacturing and construction between 1972 and 1982, some 150,000 more people were employed in the service sector at the end of the 10-year period.

The altered environment also produced changes in the macroeconomic structure of production costs.

Switzerland's total production in 1982 amounted to around Sfr. 370bn, of which Sfr. 174bn represented material and energy costs.

The remaining Sfr. 196bn constitutes the value added by the Swiss economy over the year and is defined as gross domestic product.

Between 1972 and 1982, the share of energy and materials in the value of gross production dropped from 49.0 per cent to 46.8 per cent.

The breakdown between energy and materials shows that energy costs rose from 3.2 per cent of total production value in 1972 to 4.6 per cent in 1982.

This comparatively rapid increase reflects the divergent development of energy and materials prices in the Swiss economy, which was only partially compensated by factor substitution.

In the period under review energy costs, including customs duties and other state levies went up by 77 per cent for the economy as a whole, while the cost index for materials rose only 40 per cent.

The value added after subtracting the energy and materials components consists of the compensation paid for the labour and capital used in production.

The costs of these two production factors behaved quite differently over our 10-year period.

While the average hourly rate climbed 97 per cent, capital costs increased by just 15 per cent.

The differential encouraged the substitution of labour by capital.

While the nation's capital stock in real terms expanded by nearly 30 per cent in the 10-year period, the total number of manhours worked declined by about 8 per cent.

Notwithstanding this substitution effect, overall wage costs as a percentage of GDP rose from 65.2 per cent in 1972 to 69.8 per cent in 1982. Unit wage costs climbed 68.8 per cent between 1972 and 1982, while the price index for gross production by the economy as a whole rose less, by 50 per cent.

It is evident that companies found themselves unable to pass through the higher wage costs fully in the form of increased selling prices.

Although this wage cost pressure was partly offset by the below average rise in unit material costs, the profit margin in the economy as a whole – measured as the percentage of the total value of production available for the remuneration of capital – sank from 17.7 per cent to 16.1 per cent between 1972 and 1982.

This decline in the macroeconomic return on capital, however, resulted from widely disparate earnings trends shown by individual companies and industries.

These divergences have probably been playing a significant role in the restructuring of the Swiss economy alluded to at the beginning of this article.

Swiss Bank Corporation

Power planning

IN the year 2,000, according to estimates published by the Federal Council, the part played by petroleum products in the total consumption of energy in Switzerland will still be as high as 57 per cent.

If this estimate is correct, the search for substitute sources of energy will nevertheless already have achieved positive results since, in 1981, the part played by petroleum amounted to 69 per cent and in 1970 to 78 per cent.

The Federal council expects electricity to cover 22.7 per cent of the total consumption of energy by the end of the century; in 1981, this source of energy represented 19.2 per cent, in 1970, 15.2 per cent.

The part played by natural gas is also expected to increase, rising to 10.2 per cent compared with 5.5 per cent in 1981 and only 1.3 per cent in 1970.

The supply of heat from distant sources should cover 3 per cent of the country's energy requirements in the year 2,000 as opposed to 1.2 per cent in 1981, while the substitute energies, which hardly play any role at all today, should account for 3.2 per cent of the energy consumption.

The relative importance of coal is expected to drop (2.2 per cent in the year 2,000 compared with 3 per cent in 1981), whereas there should be no appreciable change as regards wood used as fuel.

In spite of big energy-saving steps, a considerable increase in energy consumption is to be expected.

SSB rapped

A REPORT on Swiss Federal Railways (SBB) has criticised the composition of its board and reprimanded the Swiss Parliament's transport committee for interference and neglect.

The criticisms were made in a report by Zurich management consultant Professor Ernst Rühli.

Turn to Page 22

From Page 21

Professor Rühli was commissioned to prepare the report in advance of a major reorganisation of Switzerland's railways.

The report said the SBB board should contain more businessmen and fewer politicians.

It went as far as to say that, as presently composed, the board was incapable of its most important functions of making business initiatives and laying down basic guidelines.

Professor Rühli added that most board members were party or regional representatives, chosen without regard for their experience or ability.

The report recommended that two thirds of the SBB board should be experts from the business world.

The document accused Switzerland's Parliament and transport committee of "interfering in innumerable detailed SBB decisions" and of neglecting fundamental problems.

Transport minister Leon Schlumpf said first decisions on the future top level set-up of SBB could be expected this year.

Laser aid for travel

A MILLION-FRANC marketing aid in the form of laser video disc and videotex information systems has been developed by Swiss tour operator Esco for use in 320 travel agencies.

"This is a giant step forward which puts us up to two years ahead of the rest of the Swiss travel trade", claimed Esco managing director Peter Bloch.

He was introducing ELVIS (Esco Laser Vision and Videotex Information System). Esco has produced four 30-centimetre laser video discs featuring 90 per cent of all destinations and hotels in its programme.

The discs are based on film that took 50 weeks to shoot. The desired sequence can be summoned on to a visual display terminal in seconds by remote control.

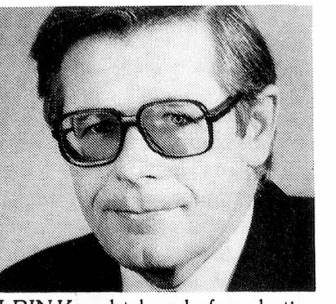
The discs are the first of their kind to be produced in Switzerland.

The videotex system will be linked to Esco's own computer in Basle. Travel agents will be able to call up hundreds of pages of information, including 14 that can be stored by their apparatus for recall at any time.

Later, agencies will also be able to use the system to make reservations.

Video disc and videotex systems both use the same display unit, and can be operated in combination to give customers information in the form of text and film.

All the aparatus is loaned free to the selected agencies.



ALBIN Knecht, head of marketing with the Ilford Group since 1978, took over from John S. Fraser as head of the Group and as chief executive of Ilford on January 1.

Mr Fraser is to assume new senior management responsibilities within the Ciba-Geigy UK Group later in the year.

Peter S. Dawson, who until recently was managing director of the Swiss Nigerian Chemical Company, a Ciba-Geigy associate, will succeed Mr Knecht as head of marketing, Ilford Group.