

The Swiss National Bank's unpegging of the franc against the euro shocked the markets and made its exports substantially more expensive. How will this affect the outdoor sector?

Swiss firms brace for impact

Switzerland's chocolate-box landscape with rolling hills and snow-covered mountains has been seen as a haven of tranquillity, well known for its innovation and high-quality products, and as a magnet for investors, ploughing money into its somewhat secretive banking system. Perhaps that system was the reason no one predicted that Swiss National Bank (SNB) would unpegg the Swiss franc (CHF) from the euro in mid-January. The markets stuttered as its value soared 30% against the euro in a few hours and then settled at around 15% higher by the end of the day, but the ramifications are only just sinking in. In simple terms, it means buying goods from Switzerland will now be more expensive – and they were not that cheap to begin with. For a country whose exports make up around 75% of GDP, this could be a "tsunami", not only for exports and tourism, but for the entire country, according to Nick Hayek, CEO of Swiss watch group Swatch.

For luxury goods-makers, chemicals and pharmaceuticals groups, the move could wipe millions off revenues. But the country is also home to a large number of outdoor brands and suppliers to the industry, keen to base close to

National banks' actions affect global businesses, depending on the currency they operate in.
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For Switzerland-based textile maker Schoeller, the unpegging will have a 'significant impact'.
HeiQ

some of Europe's most popular ski resorts and in perfect hiking country.

Performance textile maker Schoeller is one of the biggest, supplying to major brands including Under Armour, the North Face and Mammut, and producing technologies such as NanoSphere, coldblack and c_change. While it believes it is "too early to give precise information", the move presents "an extremely difficult challenge".

"For Schoeller, the development of the currency situation has had a significant impact, as the majority of our R&D, marketing and especially production is done here in Switzerland," explains marketing manager Dagmar Signer. "Innovative solutions are required, and this is our key point as Schoeller is well known for innovation; however we need to face this issue in close collaboration with our customers, suppliers and partners."

Record exports

Switzerland's exports hit a record in 2014, rising 2% to CHF 15.8 billion or $17 billion, according to its Customs Office, with over 40% of exports heading to eurozone countries. When the franc was initially pegged to the euro in 2011, it meant a reassurance to businesses that there would be no sudden currency movement. However, in those times of financial turmoil, investors saw the franc as a 'safe haven' and bought into it, but the increased investment meant the SNB had to balance this by buying more euros, which was criticised in some quarters. The January move could have been in part due to the weakening of the euro, which has been falling for some time, but could also have been prompted by rumours that the European Central Bank was about to launch a quantitative easing programme that would weaken it further.

Winterthur-based textile machinery maker Reiter expressed surprise at the SNB's decision and said it is monitoring the situation. In recent years the group has invested in the Indian and Chinese markets, and has expanded production in the Czech Republic, which has enabled it to improve flexibility and reduce its exposure to the Swiss franc.

In 2011, Rieter invoiced 53% of sales in Swiss francs, while in fiscal 2014, 40% of sales were in Swiss francs, 37% in euros and 23% in US dollars and local currencies. Costs denominated in Swiss francs were reduced to 34% of sales in 2014 compared with 43% in 2011. "As we have invested in the last three years in expansion in China and India, we are better prepared than we were in 2011," says Cornelia Schreier, Reiter's head of corporate communications. However, she conceded the group does now expect increasing pressure on sales in Swiss francs in the 2015 financial year.

At HeiQ, a textile finishing specialist based in Bad Zurzach, the switch will have a "major influence". "Having a large part of the cost base in Swiss francs but all sales in dollars, euro and renminbi, the cost contribution of our sales has proportionally diminished due to the new currency situation," its CEO, Carlo Centonze, tells us. He added that the company's commitment to innovation has resulted in a 'productivity-increase programme' and increasing automation so as to prevent job cuts. "The medium-term objective of these efficiency measures is to increase the productivity of Switzerland-based personnel in order to manage HeiQ's strong forecasted growth with a constant staff level."

Turmoil elsewhere

More generally, we have seen a year of volatility in the



German brand Völkl uses HeiQ, a company which says it will be affected by the currency changes but remains committed to innovation.
Völkl

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Odlo hopes its hedging will provide a barrier against the fallout.

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currency markets. The Russian rouble has declined substantially (40% against the dollar in 2014) due to conflict with the Ukraine, sanctions and the falling oil price; Australian and Canadian dollars have hit six-year lows against the US dollar, the yen has slumped and the euro has been weakening since last spring. In a global marketplace, this has had substantial effects.

"With many suppliers working in US dollars, a weak euro can have a considerable impact on costs for brands," says Mathias Basedow, communications manager for the European Outdoor Group. "There are mechanisms in place to handle small fluctuations, but there is obviously a limit on that, and many brands are concerned about the recent developments, particularly on the apparel side."

In the first nine months of 2014, adidas lost €550 million in revenues due to negative translation effects; in Russia it took a €100 million hit. While sales there increased 19%, negative effects from the rouble and weakening consumer sentiment significantly impacted margins. "While we firmly believe in the long-term potential of the market, due to the rapid depreciation of the Russian rouble, which hit a record low, and the considerable risk of further deterioration in consumer spending, the short-term fundamentals of the business have changed materially," adidas CEO Herbert Hainer warned. "This warrants an even heightened level of capital and risk management as we plan for 2015."

Both adidas and Puma have cited negative effects following the devaluation of currencies such as the Argentine peso and Brazilian real. Puma said revenues last year also fell due to currency weakness in Turkey, South Africa, India and Japan. All companies' financial teams are keenly monitoring the situation so as not to overcommit. "We need to balance making critical investments with managing risks, whether they be currency headwinds, commodity cost fluctuations, or an evolving political landscape," warned Nike's CEO, Mark Parker.

Hedge your bets

What's the solution for Swiss companies? For Hünenberg-based outdoor brand Odlo, the answer is hedging: paying suppliers in euros instead of Swiss francs. It conducts most of its sales (80%) in euro with just 20% in francs. The spilt on the cost side is around 60% in euro and the rest between US dollars and Swiss francs. "This means that we have a large natural hedge – with income and costs in the same currency – regarding most of the euro share," explains Odlo's chief financial officer, Thomas Rast. "The decision from the Swiss National Bank has an impact on Odlo but due to the fact that we buy a lot of products and services in euro, we will take a smaller hit than other companies in the industry."

The Swiss purchasing managers' index for January indicated a contraction in the manufacturing sector with 85% of companies polled saying they had taken measures such as freezing investment and seeking price discounts from suppliers. Swiss businesses, although unprepared for the SNB's actions, must now look to limit any fallout. "We have an extremely difficult challenge to manage," admits Schoeller's Signer, "but we are sure we will find cooperative solutions."

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