ceo*

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Business in Russia. New leaders and a new seriousness. Revitalising the economy.
Kuoni. How to gather strength in times of crisis. A look at the ship's log.
Christian Eschler AG. Competition is the mother of invention.
Grand Hotel Victoria-Jungfrau. Well-being can be quantified. Success too.

PRICEWATERHOUSECOOPERS

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The effects of regulation affect both our clients and our industry. We should therefore be working together to ensure that regulation does not pose an obstacle to economic growth in Switzerland.

Markus R. Neuhaus,
CEO PricewaterhouseCoopers, Switzerland

This is the first issue of ceo magazine in its new look. We have reworked the concept in line with the changing needs of our readers: in future the content will be geared more closely not only to CEOs themselves, but also to those who work directly with them – primarily non-executive directors and senior management. A new section, "Forum", will feature comment on current issues from well-known and respected personalities. In this edition, we look at the interplay of creativity and control.
With the regulatory environment changing so rapidly, control is an increasingly important issue for our industry too. The effects of regulation affect both our clients and our industry. We believe that the business world and auditing and advisory firms in Switzerland share a common interest in having properly functioning financial markets. We should therefore be working together to ensure that regulation creates a reliable framework without posing an obstacle to economic growth in this country.
I'd like to open the dialogue by putting forward the views of PricewaterhouseCoopers on the regulation of business in Switzerland.

Growth is the number one priority

Any additional regulation in the economy must help build trust in the sales and supply markets. Regulation for its own sake or as a sanction is damaging.

No growth without trust in the financial markets

If they are to grow, companies are dependent on the financial markets in a broad sense. This applies equally to large companies and SMEs. Since investors and other key business partners cannot generally form a direct picture of how prudently their capital is being used or how seriously the business relationship is being treated, trust plays a very important role. Companies earn trust if their management performs well. Rules and regulations also play a supporting role in building trust, and compliance with these rules is monitored and documented. Another link in the chain of trust-building factors is the work of the auditor. In the last three years we have seen trust in the corporate world eroded, necessitating further measures to build trust. Shareholders and other stakeholders now expect companies to do more to substantiate the credibility of the information they report.

Commitment to transparency builds trust

The Swiss economy depends to a large extent on internationalism. This means that the rules and regulations Switzerland makes must bear international comparison. But even detailed rules and regulations are of no use if the behaviour of some players is marked by a lack of integrity. Visible integrity, a greater willingness to be transparent and comprehensible, and a greater commitment to accountability vis-à-vis the financial markets are an investment against future costs.

Auditors bear a great deal of responsibility

If the regulations delegate additional tasks to auditors, auditors will inevitably have to work more hours. Burgeoning regulation in the United States means considerable extra costs for us as well.
As number one in our industry, we are actively lobbying for simplified audits for small and medium-sized enterprises. This will help boost growth in the Swiss economy. Our ambition is to also be industry leader in terms of the development and use of smart technology and methodologies, and thus achieve continuous improvements in efficiency. Our services should deliver maximum utility to our clients.

Markus R. Neuhaus

pwc expertise

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Thomas Held, Director of Avenir Suisse: Crises that trigger greater productivity and growth in business do not necessarily lead to liberal political reforms.

Thomas Held (58) has headed Avenir Suisse, a think tank for economic and social development, since 1 January 2001.

Less than a generation ago, a large part of the western world was laid low, diagnosed with stagflation. The sickest European was not Germany, but the UK. There Margaret Thatcher, mother of all political reformers, led the turnaround to increased free-market competition and ushered in one of the longest periods of growth in modern history. This era was recently echoed in comments in the Frankfurter Allgemeine Zeitung with the evocative title “Angela Thatcher”.
Almost in the teeth of experience, many people are pinning their hopes on “policy angels” to lead us out of the logjam of reforms and find cures for an ailing welfare state – cures that are adequate to the challenges of demographic change and globalisation. Since 10 December 2003, even the usually sober Swiss have been hoping for this breed of “new politician”.
Economist Thomas Straubhaar, together with Avenir Suisse, recently described what is required of new politicians hoping to break through the “corset of consensus” that exists at the beginning of reform processes. They should a) create a framework facilitating the breakthrough that gives individuals more room for manoeuvre and responsibility, b) seek political gain in innovation rather than the preservation of structures (this innovation should in turn stimulate economic growth), and c) create credibility by putting their own position on the line to push through these reforms. And finally, to ensure the message gets through, they shouldn’t be afraid to resort to healthy populism where necessary.
Entrepreneurial politicians in this mould – Straubhaar calls them “Schumpeter” politicians after the great champion of entrepreneurship – were always thin on the ground. The Swiss system of concordance and balance is not exactly conducive to this type of creative élan. Even so, the comparison between creative processes in politics and business only goes so far. A process of “creative destruction” is at play in the world of business, throwing up new companies while other market players go under, often as the result of hostile takeovers. Wealth and jobs are lost. But it’s only through this deadly serious game that new, more sustainable wealth and jobs can be created. Business creativity achieves something that state controls and protection, intervention and subsidies can never manage. While the winners enjoy immense opportunities, the losers face catastrophe. But even failure is only temporary – the next day everything is different again.
The state, by contrast, cannot afford to let this creative destruction take hold, because the state cannot and may not fail. At worst it can slide into crisis or, as Mancur Olson puts it, ossify in a kind of sclerosis. But even when this happens the obstacles to reform still look incredibly high, with the selfish interests of rent seekers triumphing over the need for competition for the greater economic good. And the state itself has no interest in paring itself back or giving itself the chop. The result is that public services and public spending mount steadily and – with growth stagnating – the fiscus swallows up an increasing share of GDP.
Crisis, the kind of external shock that in business leads to creative destruction, quantum leaps in productivity and higher growth, does not necessarily prompt politicians to come up with liberal reforms. Despite historical examples from countries like the UK, New Zealand, Finland and Denmark that success is possible by other means, the recent response in the core European nations, and Switzerland especially, seems to be to tighten the controls (often dressing them up as “the primacy of politics” or “public service”). The most dangerous form these controls take is protectionism, something that is fondly embraced by that most internationally intertwined of countries, Switzerland – and not just when it comes to agriculture. But protectionism’s little brother, intervention, should not be underestimated either. Wherever a “problem” is identified, even if it’s merely a whim of the mass media, the cry goes up for government intervention, preferably in the form of new legislation. The illusion that greater regulation brings greater security is incompatible with the basic business principle of creative destruction. The crazy desire of always being in control not only leads to unacceptable costs, but is increasingly choking social and political creativity.
Current world events point more to control than to creativity. There’s little we can do about this. But this is precisely why we must ensure that wherever policy – particularly economic policy – can be influenced, we curb the wild urge to regulation and self-regulation to prevent putting what little creativity remains in any further jeopardy.

Photo: Mathias Braschler

Peter Wüst, CEO of Valora: Creativity without control never works. And control without creativity is the death of any firm. The CEO's job is to create structures allowing creative processes to take place, and ensure that ideas are channelled systematically.

Peter Wüst (51) took over responsibility for sourcing and marketing as a member of Valora's executive management in 2003, and in the same year was appointed CEO of the trading group. Berne-based Valora employs 12,220 people in 14 countries, serves 1.5 million customers a day, and in 2003 generated sales of more than CHF 3 billion.

Creativity always pays off, although you have to examine every idea to see if it's feasible and can be used to the benefit of the company. After all, the ultimate aim of innovation should be to boost sales. It is immensely important for the long-term success of a company to initiate and adapt processes in all areas of the business, and manage these processes creatively.

I myself really enjoy trying out new things and examining everything from different angles. In the course of my professional life I have had a great deal of positive experience with workshops, so-called incubators, designed to help the company hatch and nurture new ideas. We invite specialists, lateral thinkers, suppliers and members of the public to come and spend a few days thinking about questions like: What do we not yet have? How can we improve what is there already? What do customers really want?

In our kiosk business, for example, we had completely underestimated the potential of electronic services, and urgent action was needed to develop innovations delivering substantial customer benefit.

We approached the issue from various angles, and invited groups composed of different people from inside and outside the company (including a group of 14-year-olds) to come up with ideas on the subject. Some very usable ideas emerged, and in future we will be able to extend our range of goods and services by offering an increasing number of e-services via our own distribution network.

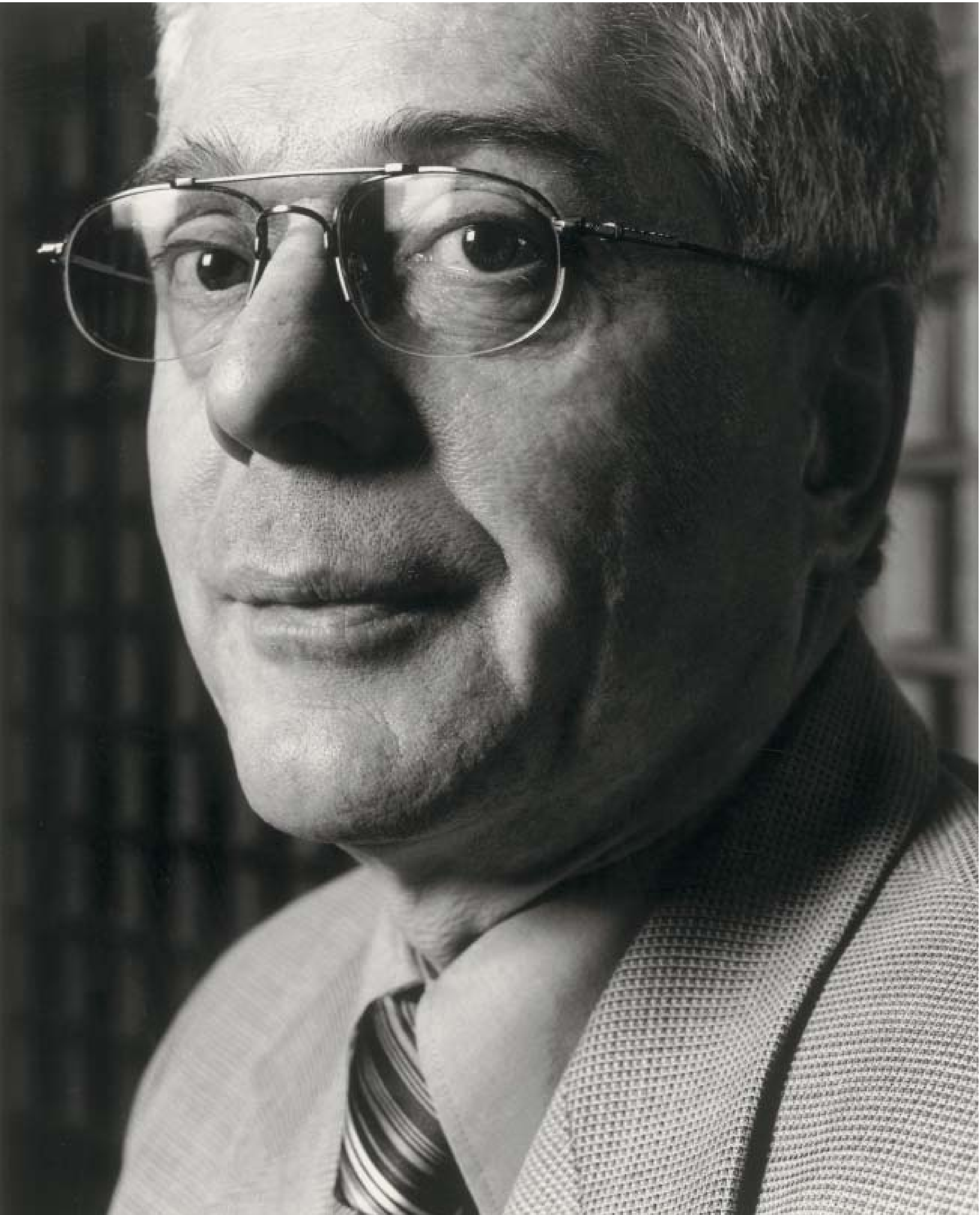
This year we are also approaching our business plan from two different angles: conventional and creative. So we have a conventional team drawing up a business plan according to the usual rules. But parallel to this we have invited ten young employees to develop their vision of our company's future within the framework of a working group. Subsequently we will compare the classic business plan with the ideas of our young talent and take the best from both sides. By doing this we are hoping to discover new ways of doing things and, ideally, come up with some real innovations.

Of course we also have to analyse the feasibility of the ideas generated in this way, as well as the costs they entail. As a rule, for every five usable proposals, two can actually be put into practice. Sometimes it's amazing just how easy it is. For example, we found out that very few people understand the instructions for their digital camera. Having realised this, we now offer very successful courses where people can learn how to use their digital camera. In Finland we developed a concept whereby people can give their correspondence a personal touch by making their own stamps electronically. These stamps are recognised by the state and are often used by companies, for example as an integral element of their corporate design. Sounds crazy, but the fact that it can be done proves just how much is possible!

I'm convinced that creativity can emerge any time, any place – not just in workshops, but in any department in an organisation. Many staff – people who know their job and have a good eye for what's going on – have outstanding ideas in the area in which they work. It's important to let them know how important it is to bring forward these ideas. In day-to-day business it's sometimes difficult to get people sufficiently motivated. To do this managers must take time, be good listeners and not prejudge. Sometimes good ideas get lost because a direct superior sees him or herself as the guardian of tradition. That's a big danger for companies, because an organisation that creates nothing new will find it hard to keep existing customers, never mind win new ones.

This means that one of the most important tasks of management is to create a climate in which a culture of active creativity can flourish.

Photo: Mathias Braschler



Franziska Tschudi, CEO of Wicor Holding AG: Managers who come up with a new idea every day put undue strain on their team. On the other hand if you see your job merely as controlling, you'll demotivate your people and lead your business into stagnation.

Franziska Tschudi (45) heads Wicor (Weidmann Group), a fourth-generation family firm with around 3,700 employees and sales of CHF 450 million. Rapperswil-based Wicor has subsidiaries all over the world, and is a leading provider of high-voltage insulation used to make transformers. Plastics technology is the second pillar of the company's business.

The ultimate yardstick for any new idea has got to be market success. Once you have an innovation, that's when the real hard work starts. I think the English word "controlling", which means managing rather than just monitoring, sums it up better.
You need both in equal measure: new ideas, and controlling them.
I myself am not very creative. What interests me is people and the way they interact. I'm good at negotiating and am very open to new things. I'm not scared of making decisions, I like developing things further, and I feel more comfortable initiating and driving the process than simply going along for the ride.
My job is to facilitate and promote creativity. We work with international teams of specialists where people of different nationalities and temperaments have to learn to work together. It's like a team sport: if you're the coach, you can't score all the goals as well. A successful manager has to mould playmakers into team players, and make sure they play in the right position.
In terms of our business, success means being quicker than the others and having tighter control of the costs. It's crucial to choose the right moment to ask whether an innovation will pay off. If I put the question too early, I nip good ideas in the bud. But if I wait too long, it gets expensive. This constant balancing act is my responsibility.
Another danger for a company employing so many technical specialists is that communication, and in particular knowledge transfer, can often be neglected. To prevent this we have a combination of institutionalised working group meetings and informal corners where people can talk and exchange their views and experience. The fact that our organisation has flat hierarchies makes many things a lot easier. Our Swiss location has no such thing as rewards for suggestions: making an active contribution is part and parcel of the job. It all starts with hiring the right people.
Innovations are not just high-tech, and certainly not restricted to the R&D department. We also have to keep moving forward in quality assurance and finance. Our firm wouldn't have survived for so many decades if we hadn't been developing constantly.
As a supplier we must be able to provide new plastic components or insulation systems where our customers need them – and our processes must be optimised as well. All this requires creativity. We are currently building two new facilities in Germany and the US to supply plastics technology to the motor industry. Large customers want us close by.
All this has to happen under great time pressure. Mistakes happen – there's nothing you can do about that. I accept mistakes. I believe this tolerance is important, because mistakes are often precisely the spur you need to move forward. It's all a matter of how quickly you recognise your mistakes and make the necessary corrections to keep going forward.
At the same time we have to be economical with our human and financial resources. This is why we also cooperate with competitors – it enables us to pool our resources. Joining forces often yields better results because it motivates and stretches you. For example, by collaborating with a partner and competitor in the field of medical technology, we're in with a chance of becoming system supplier to a large drug company.
We can't hope to implement all the innovations that our people come up with. As long as this is so I won't be worried about our company. It's only when the ideas run out that the problems start.

Photo: Christian Schnur

trend. Mission accomplished. What next?

Faster cars, more powerful computers, more and more TV channels: we're almost running out of superlatives to describe these times of spiralling progress. But how are we supposed to cope with all this? Professor Gerhard Schulze[1] recommends taking a

deep breath.

Interview: Belinda Grace Gardner

The German sociologist and best-selling author Gerhard Schulze (born 1944) has observed a need among individuals for intense personal experiences. Increasingly, the emphasis is on the quality of unique encounters rather than the sheer quantity of sensory experience. We talked to the Bamberg professor about the imminent process of social change and its implications.

ceo: Professor Schulze, in your best-seller The Experience Society you described how it felt to live in the world just before the end of the old millennium. What does this era look like in retrospect?

Gerhard Schulze: The experience society of the 1990s gave rise to a pattern that you might call a "rationalisation of experience". People believed they could increase the intensity of subjective experience in much the same way as you can increase the functionality of a machine or the yield of agricultural land. This rationale has its roots in the modern era. Television is a good example of this mechanism, with ever-shorter sequences and rapid-fire changes in camera angles designed to give the audience the maximum of experience in as short a time as possible.

What do you think are the implications of this addiction to speed?

It's now becoming increasingly clear that people's inner lives do not function in the same way as technology, where you can be sure that by using certain means you'll achieve a certain end. The fact that we're on a learning curve is indicated by our travel behaviour: more and more people are realising that you don't necessarily have to travel halfway across the world to an extreme destination to get a more intense experience. You can also have an intense experience by looking out from your balcony. It's a matter of the way we look at things rather than what we look at. This is part of a gradual shift in the way people think, although of course the old way of thinking also still exists side by side with the new perspective.

Do you see parallels to the way the economy is stagnating in so many countries?

In highly developed industrial nations there is a general slowing in so-called growth – if this were not the case it would lead to some quite absurd situations. We're already seeing the consequences of unfettered diversification in industries like cosmetics, where one firm now even offers hair tonic for different age groups. And of course it's even worse in the computer and telecoms business, where software is laden with functions that people never use. There are mobile phones on the market that are so tiny you can hardly use them to phone with. Nowadays there's often a huge gulf between the apparent increase in choice and the actual utility for users.

Do you think the growth spiral has slowed?

What distinguishes western industrial societies from other less highly developed societies is that in the former, many industries have been growing and developing for a long time. This makes it increasingly difficult to maintain growth at the level you've already reached, because so many things have been developed to a very high degree, and in some cases as far as they can go.

So what do you expect to happen now?

As our society gradually becomes less interested in progress and improvement as its primary goals, we have to ask whether we're

[1] Gerhard Schulze studied in Munich and Nuremberg, and is now a professor at Bamberg University. He also acts as a consultant to large companies, political parties and other organisations. In his book "Die beste aller Welten" (The Best of All Worlds, published by Carl Hanser Verlag), the sociologist deals with the question of where 21st-century society is headed. In "Die Erlebnisgesellschaft" (The Experience Society, published in German by Campus Verlag and in English by Sage Publications) he analyses the zeitgeist of the 1980s and 1990s.

"We're now moving into an era where we're increasingly recognising that people think, act and set their goals in two quite different dimensions. You might call these two dimensions 'performance' – this is the goal of material progress and the constant striving to create new ways of doing things – and 'being', where the aim is to lead a meaningful and worthwhile existence within the sphere of possibilities you have created."

going to concentrate exclusively on these things from now on or whether there's another set of objectives that are also important to us. I think we're now moving into an era where we're increasingly recognising that people think, act and set their goals in two quite different dimensions. You might call these two dimensions "performance" – this is the goal of material progress and the constant striving to create new ways of doing things – and "being", where the aim is to lead a meaningful and worthwhile existence within the sphere of possibilities you have created.

What does this mean in concrete terms?

This process is manifesting itself in different forms in different areas of our lives. For example, picture the development of the auto industry over the course of the 20th century. At first the product was a sensation but had many shortcomings. There was room for improvement, for example in the materials used. Nowadays you get a thirty-year guarantee against rust, and cars are capable of speeds much too fast for drivers or the roads to cope with. There's still room for improvement, particularly in terms of energy efficiency, but here too the limit will be reached at some point. As we are currently seeing very clearly in changes in the industry, the focus now is on the experience of actually being in the vehicle, the driving experience, the car's aesthetics, and the way people express their identity through their car. The way people are now using cars has less to do with external features and performance, and much more to do with the way the car can be experienced by the individual. As the experience of being in the car gradually becomes more important than what the car can do, manufacturers are naturally forced to take a different approach to the people they sell their products to.

Does this mean that objects themselves are taking on a new dimension?

This is definitely the case as far as customer perception is concerned. Customers are no longer interested in the objective merits of a car, which are now taken more or less for granted, but are looking to see whether it triggers a subjective response, whether they feel good in the car. What people are obviously seeking deep down is a form of aesthetics best summed up by the word "encounter". In other words, what is important is the meeting of an individual creation and an individual observer, a moment of encounter in which the aesthetic experience arises. You can also apply this way of thinking to consumer goods – the more manufacturers succeed in giving mass products a special individual touch, the better.

What are the implications for the future?

You have to imagine a kind of graph with two axes. Everything people do, the goals they set for themselves, and the kind of life they strive for, can be mapped closer to either the "performance" or the "being" axis of this graph. One of the key challenges in our time is to recognise the two-dimensional nature of performance and being. This applies equally to companies that manufacture products and the customers they market them to. Manufacturers must on the one hand understand their customers as people who want a product to deliver specific, objective utility. But they must also see their customer as a subjective being. For consumer goods manufacturers this means that in future their product will also be competing in the arena of encounter.

Are "performance" and "being" mutually dependent?

People are equipped for both creating opportunities and enjoying the fruits of these opportunities. So it would be ridiculous to claim that the era of performance is behind us and that we can now simply give the soul free rein. Performance without being is absurd, and being without performance is simply impossible.

Weaving a tale of success

Or: Competition is the mother of invention

With production costs of 70 Swiss centimes an hour in Southeast Asia, a whole industry is emigrating. But what can you do if you'd rather stay in Switzerland? Textiles manufacturer Christian Eschler AG in Appenzell has the answer.

Brothers Peter (left) and Alex Eschler have headed Christian Eschler AG since 1996, the third generation of the family to do so.

The state-of-the-art knitting and weaving works in Münchwilen. Despite high-tech machinery, the company has managed to create new jobs.

Text: Bernhard Raos
Photos: Roth & Schmid

It's so thin and soft to the skin you hardly notice you're wearing it. Peter Eschler is extremely proud: "In recent years these embroidery bases have been our textile equivalent of the New Economy," explains the co-owner and head of marketing of Bühler-based Christian Eschler AG as he lets a tube of finest-woven fabric slide between his fingers.

Fashionable lingerie labels like Chantelle, La Perla and Triumph use embroidery fabrics made by Eschler as the basis for exclusive tangas, g-strings, bras and bodies. For exclusive read expensive: meaning that the fabric manufacturer also gets a fair slice of this profitable cake.

But how on earth can a mass-produced article like this still be manufactured in high-cost Switzerland, where textile manufacturers have been dropping like flies (see box on page 18)? Peter Eschler's answer: "You've got to be innovative and produce in sufficient volumes in a global niche to make it pay off." When it comes to embroidery bases, innovation equals production technology. While knitting machines spin ever faster, subjecting fabrics to even greater strain, the world of fashion cries out for ever thinner, lighter materials. In other words, it wants the sheerest of fabrics that are still robust. Eschler's technicians have managed this balancing act, and are one of three manufacturers who dominate the market for embroidery bases worldwide. Until now, that is. The competition has also sniffed out this lucrative honey pot, and now companies like the Italian Intimissimi chain and German mail-order firm Tchibo are selling embroidered lingerie at rock-bottom prices. This in turn puts pressure on Eschler's margins.

Be where the market needs you

One element of the company's response has been a joint venture based in Petchburi in Thailand, which has been producing embroidery bases for the last two years – round the clock, seven days a week, at hourly wages less than a tenth of those earned by workers in Switzerland. However, the decision to outsource part of its production – Eschler continues to manufacture embroidery bases in Switzerland as well – was prompted not just by the promise of lower wages. "If we don't want to lose our grip on the market, we have to stay close to our customers," says Peter Eschler. In recent years almost all major embroidery firms have shifted their production to the Far East. And the facility in Thailand also helps safeguard employment in Switzerland: Eschler has managed to create around thirty new jobs in its Bühler and Münchwilen locations in the last two years.

One competitive advantage for Eschler is a great degree of flexibility and vertical integration. The company produces the smallest quantities to extremely tight deadlines, not only knitting and weaving fabrics, but dyeing and finishing them too. This way Eschler manages to supply fabric for sample collections and initial series presented by major lingerie houses like US company Victoria's Secret. Since the mix of materials then generally remains unchanged, the Appenzell textile supplier is in with a good chance of getting the follow-up business. Eschler acts as a combination of trendsetter and "pharmacist" to the industry, jokes Peter Eschler, referring to the tiny, almost homeopathic doses of fabric

“Without vision we would certainly have disappeared long ago.”

they often have to supply. The reason is simple: “You’ve got to be in the right place to respond to the needs of the market.”

Having a sense of what’s needed

Embroidery bases remain an important pillar of Eschler’s business, accounting for around 40 per cent of total sales of CHF 46 million in 2003. However, in terms of volume and image, the sportswear segment is just as crucial. Every spring when mountainbike fever breaks out and fitness fanatics take to the hills, in most cases the sweaty pad of fabric between biker and saddle will have been made by Eschler.
Peter Eschler’s company has created a whole range of padded inserts under the Swisspad brand to show as samples to cycling clothing manufacturers Descente, Gonso and Nike. Features include longitudinal ribs on the surface of the insert, four-channel ventilation, and special shock absorption: “A padded insert for bike shorts must be comfortable to wear, tough, and breathable. And it has to let perspiration evaporate effectively.”
This requires expertise in a number of different disciplines, including medical know-how. After all, men riding racing bikes and mountainbikes subject their most sensitive parts to all sorts of rough treatment: not only bumps and vibrations, but heat as well. Temperatures above a certain level damage sperm and can lead to temporary infertility. The answer is Coolpad, an insert for cycling shorts with built-in microcapsules containing paraffins that liquefy at high temperatures, absorbing heat and thus having a cooling effect. The fact that this is much more than a clever marketing gag is confirmed by a medical study conducted by the University of Bayreuth’s Institute of Sports Sciences.

Go-faster fabric

Cycling hero Lance Armstrong and star athletes like Marion Jones and Cathy Freeman have already worn full-body suits made from Eschler fabrics on their way to world records and race victories. But what made the Appenzell weavers world-famous was the “go-faster” fabric used to make the race gear worn by the Swiss national ski team for almost the last thirty years. These skin-tight outfits are tailored from hightex fabrics by Descente in Japan. And when Austria’s skiing stars also slip into Eschler skinsuits next season, the Swiss company will effectively have the monopoly.
At the moment around 10,000 race suits are tailored from Eschler fabrics every year. They are made of multi-layer laminates. Fine-tuning efforts focus on the fabric’s aerodynamic properties. For example, tests in the wind tunnel have shown that suits with a structured surface are faster at speeds of up to 70 km/h, while smooth fabrics allow greater speed above 70 km/h. But being the leader in a highly sensitive segment like performance sports is no free ride. When the Swiss ski team mostly failed to match the competition last season, reasons had to be found. The Swiss team, led by Didier Cuche, started to take a critical look at the new race suits – with the result that some skiers decided they preferred to stick to the previous year’s outfit. But it didn’t make the Swiss men’s team any faster. Now Peter Eschler can take a rather more detached view of the suit crisis: “The problem was in the mind,” he believes, “because the composition of the

“We’re in with a chance as long as we’re one of the leading suppliers.”

old suits means they could not possibly be any quicker than the new ones.” A neutral test under race conditions is designed to prove this – and hopefully trigger a change in the skiers’ minds.
Around two-thirds of Eschler’s sportswear sales come from winter sports, including ski fashion for brands like Bogner, Belfe and Prada. This pillar of the business actually originated in a painful episode suffered by the then boss Kurt Eschler in the early 1980s. He had a renal colic while out cross-country skiing, blaming it on his sopping wet clothing. This led to the trademarked Eschler-Ergonomic-Clothing-System (EEC), an “onion-skin” or layering system of sportswear consisting of carefully matched breathable layers. An inner base layer of functional underwear absorbs perspiration, wicking excess moisture away from the skin and transporting it to the next layer. The middle layer, in most cases synthetic fleece, provides warmth and insulation, while the outer shell layer offers protection against the elements and other outside factors.
Eschler’s vertical production chain also pays off when it comes to sportswear. According to their requirements, customers either choose all the available layers or opt for only one, for example the fleece fabric. However, most major brands produce their sportswear themselves, usually in low-wage countries. Peter Eschler’s position is clear: “We’re in with a chance as long as we’re one of the leading suppliers in a particular area. Otherwise we’re better off giving up.”

Good ideas multiply

For Peter Eschler, innovation also means expanding the sportswear niche to include corporate wear. Accounting for only around five per cent of sales, this segment is still in its infancy. One of its target groups is hospital staff. Fluff from cotton clothing blocks the air-conditioning in operating theatres, prompting some hospitals to insist that their surgeons wear throwaway underwear. This is not exactly the most comfortable or environmentally friendly solution. But feedback from a cantonal hospital in eastern Switzerland has given Peter Eschler grounds for optimism: since the hospital has been giving out underwear made from Eschler fabrics, they’ve had to repeatedly reorder it because doctors are also wearing it outside the operating theatre.
The way a good idea multiplies is demonstrated by an Eschler research project done in conjunction with the Swiss army and the Swiss Federal Materials Testing Institute (EMPA): from 2002, successful tests were conducted on a four-layer clothing system with the catchy name “Sweatmanagement” at the mountain combat school in Andermatt. This earned Eschler the “approved by armasuisse” seal. Now the people at Bühler and Münchwilen are hoping that the procurement contract will not fall victim to cost-cutting and will be awarded to a supplier who uses Eschler fabrics.
At the same time the company is convinced the idea has potential with civilian customers too. This winter, Sweatmanagement was offered to ski schools and the Air Zermatt helicopter and mountain rescue service. Eschler is now keeping its fingers crossed for positive responses that can be used in its advertising.
Forty-five-year-old Peter Eschler is not short of ideas: “Innovation is the motor that drives our business, and without visions we would certainly have disappeared long ago.” He

Bloodletting in the Swiss textiles industry

The Swiss textiles industry is in crisis. The workforce has more than halved in just over a decade, with only 18,100 people employed in textiles and apparel at the end of 2003 compared with 40,700 in 1992. And the bloodletting continues. At the beginning of 2004, two spinning mills with over a hundred years of tradition – Streiff in Aathal and the spinning mill on the Uznaberg – announced they were closing, with another 300 jobs lost. Only embroidery firms have been able to more or less maintain their output, while spinning mills have seen their production slump by four-fifths in the last twenty years. Globalisation is driving the whole industry to the Far East. In China it is now possible to produce at hourly wages equivalent to 70 Swiss centimes, thirty times cheaper than in this country. The only survivors in Switzerland are innovators that manage to find profitable niches.

Eschler specialises in materials to meet the highest requirements, from go-faster race suits to the finest embroidered lingerie.

describes shirts with extracts of aloe vera, technical textiles for buildings, and dust-busting cleaning cloths. He also cites a series of tests done by the EMPA supposed to prove the positive effect of clothing on the cutaneous (skin) senses. Feel-good fabrics promise to generate decent margins – in line with the company motto, "There's no discount on emotions."

While Peter Eschler is more of a visionary whose lively curiosity and enthusiasm are evident as soon as you start talking to him, his younger brother Alex, responsible for controlling and operations in Switzerland, is a more patient type with his hands firmly on the wheel. They don't always agree, and decisions are hard-fought. But both stress that their different temperaments and management styles complement each other well. There must be something in this, as the sibling duo has shared operational responsibility for the last eight years.

They both live in Teufen and have strong Appenzell roots. Neither can imagine managing a company in Asia. So two years ago, when the village stream flooded the Bühler premises and caused damage of CHF 15 million, there was no hesitation: they and their staff rolled up their sleeves and used the insurance money, plus substantial investments of their own, to completely renew the facility.

The company will continue to plough ten per cent of sales back into the company. "Our business is doing well," says Peter Eschler. However, he does have a problem with enormous price pressure that "leaves our hands tied and means we have less and less entrepreneurial freedom."

Where will Eschler be in five years? The Eschler brothers are unanimous in their response: their main facilities will remain in Switzerland, with the option of additional production facilities at strategically important locations. At the same time they want to step up the service side of their business and achieve even greater verticalisation. And maybe Eschler will have launched its own brand on the market by then...

Innovation is a family tradition going back 77 years

Since 1996 the two brothers Peter (45) and Alex (42) Eschler have led Christian Eschler AG, the third generation at the helm of the family firm. Peter is CEO, while Alex heads operations at the two Swiss facilities in Bühler, Canton Appenzell Ausserrhoden (whose functions include dyeing, finishing and control of end products), and Münchwilen, Canton Thurgau (knitting and weaving). Cousin Matthias heads the Eschler factory in Balingen, Germany, which manufactures technical textiles. Since 2002, part of the company's fabric output has been manufactured in a joint venture in Thailand. There too a member of the family is in charge: the facility is headed by a Malaysian brother-in-law. The company employs a total of 230 people at its four locations. Succession issues have already been planned so that the company will not be split up.

The second generation no longer has operational responsibilities, but is still represented on the board of directors in the persons of Christian and Kurt Eschler. Three further directors with no family ties ensure that corporate governance works properly.

The company was founded in 1927 by Christian Estler, a buttonhole sewer from southern Germany who was only 23 years old at the time. He later found out that his ancestors had emigrated from the Simmental valley in Canton Berne, where they had been called Eschler. He liked the name, and the Estlers were once again known as Eschler.

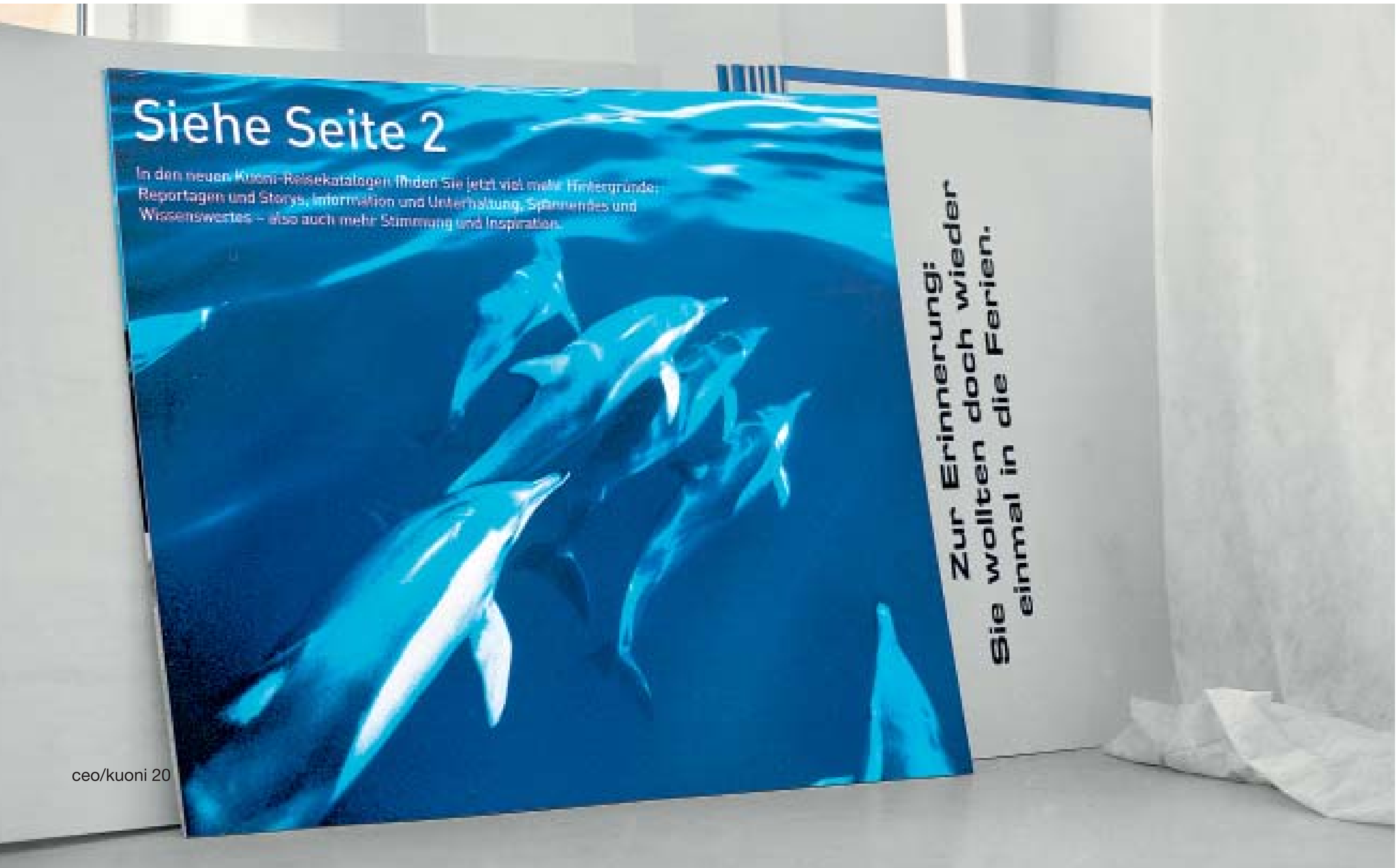
Leaf through the history of the 77-year-old firm and you'll find more than one textile innovation. They include matt-finished artificial silk, nylon for shirts, stretch cotton jersey for fitted sheets, fabric for breathable layered sportswear and the first one-piece race suit for Swiss downhill heroes like Russi and Colombin.

Sustainable production in line with the Bluesign standard

In terms of sustainable production, Christian Eschler AG and its latest collection of fabrics are second to none in the industry. Its lingerie material and a large part of its sportswear collection conform to the independent industry standard Bluesign. This means the textiles specialist undertakes to reduce harmful substances to a minimum, and to use raw materials that can eventually be recycled by biological or technological processes. Even critical environmental organisations such as Greenpeace and WWF acknowledge Bluesign as a step in the right direction.

Navigating stormy seas, riding the doldrums

On 11 September 2001, Kuoni shares went through the floor. The travel industry has not been the same since, shaken by a stormy combination of terrorism, war, groundings and epidemics. How does the Swiss industry leader hold its course in such turbulent times? We take a look at the captain's log.



Kept his head through crisis and prepared the company for the upswing: CEO Hans Lerch.

Text: Corinne Amacher
Photos: Hans Schürmann

Fear struck again on the evening of 11 March 2004 with the news that Madrid railway station had been bombed. The full violence of Islamic terrorism had burst into western Europe. In the days that followed, it was a somewhat edgier Kuoni chief Hans Lerch who turned on his computer in his classic glass and leather CEO's office. Every morning he would read details of the previous day's bookings, broken down by product and destination. For Lerch, daily sales of five million francs are a "great figure" for Switzerland, while three million is "satisfactory". If days or even weeks go by with figures below this threshold, the CEO's stomach slowly starts to tighten. Luckily this was not the case following the Madrid bombing. The system reported bookings of CHF 4.1 million for 15 March.

The year is too young for elation. But Lerch's hope that pent-up demand would finally burst into a flood of bookings seems to be coming true. With sales up 25 per cent in the first two months, 2004 has kicked off substantially better than the previous two years. Wanderlust slowly seems to be outweighing the fear of terrorism. "People can get used to a lot," believes Lerch, "and they're realising that there's no such thing as absolute security."

Catastrophes on a monthly basis

After all those anni horribiles in which Kuoni Switzerland's sales fell below the magic billion franc mark, Lerch has prepared the largest Swiss tour operator for the upswing. They are back with lower prices, attractive catalogues and an extensive advertising campaign for all three brands: Kuoni, Helvetic Tours and Reisen Netto.

Practically every month since 11 September 2001 there has been some event jeopardising Lerch's business. Swissair imploded (Kuoni was its main customer), then there were the attacks in Djerba and Bali. Shortly after that the sabre-rattling against Iraq began, and was soon followed by war. Then the SARS respiratory epidemic broke out. And now that terrorism has spread to western Europe it covers the whole planet. Despite Lerch's faith in people's resilience, it is inevitable that each new report of bombings and epidemics also rapidly leads to fresh concern about the business at Kuoni's Neue Hard headquarters at Zurich.

Take the day two aircraft careered into the World Trade Center, killing thousands of people: on 11 September, Lerch was only a few miles from Ground Zero, about to embark on a road show from New York with chief financial officer Max Katz. When he switched on the hotel TV after his post-jog shower, the first reports on the attack were running. Lerch checked the latest Kuoni share price by mobile – and couldn't believe his ears. Like all tourism stocks, Kuoni had plummeted. "That's when I realised that something earth-shattering was happening," says Lerch. Phone calls to Zurich confirmed his fears: bookings had come to a standstill, and cancellations were raining in from all sides.

Lean periods and dark clouds

Back in Zurich he called a crisis meeting of his managers. It was clear what had to be done. To stem the outflow of cash, the first thing to do was cut costs – primarily in the United States, where business had completely ground to a halt. The company halved its US staff. It also reduced the workforce at subsidiaries in other countries (including France, Italy and Scandinavia), shedding several hundred jobs worldwide. "Anyone who is unmoved by having to fire people must be either a sadist or a masochist," says Lerch, not a man usually given to sentiment. Kuoni's group headcount has declined from 8,301 to 7,931 in the last three years.

To prepare for the likelihood of a protracted lean period, Lerch also needed a new credit line. High-ranking representatives of Kuoni's banks were called to urgent boardroom meetings. But to no avail: the terrorist attacks had prompted the banks to rapidly adjust their risk assessment of companies in the tourist industry. The gist of the negotiations was that they'd almost rather try their luck at the roulette table than pump money into tourism.

The more weeks passed by without any sign of a recovery in demand, the more worried Lerch became. While Kuoni had a solid balance sheet, the company was fast running out of cash. Towards the end of November 2001 he could no longer bear to look at the bookings breakdown: "It made no sense to look at the figures, because you knew there would be practically no bookings anyway." At this point even the hard-baked Kuoni boss was getting nervous. "Max, if things don't get any better, in May we'll have to deposit the balance sheet with the courts," Lerch remembers warning CFO Katz. At that point the group was costing CHF 80 million a month, and had only another CHF 400 million in cash on hand.

It was a pointed example of how quickly a seemingly comfortable financial cushion can shrink. For Lerch, the threat of pecuniary straits was something new, since Kuoni had always had plenty of cash in reserve. And it still does: at the end of 2003 the group had liquid assets of CHF 617 million. Lerch always has his eye out for suitable takeover candidates, but most of the ones he looks at do not come up to standard.

As if he hadn't had enough to deal with in the wake of 9/11, towards the end of 2001 the Kuoni CEO also had to pay dearly for an acquisition. Tour operator Apollo and charter specialist Novair, two companies that Lerch had acquired in Scandinavia, turned out to be financial basket cases. Nordic expansion and losses at subsidiaries in other countries led to substantial restructuring costs. Lerch set about a major clean-up, and posted a loss of CHF 282 million for the 2001 financial year. This gave him a new basis from which to launch into 2002.

For Lerch, the threat of pecuniary straits was something new, since Kuoni had always had plenty of cash in reserve. And it still does.

Internet bookings on the increase

Kuoni pursues a multi-channel distribution strategy. Alongside its classic travel agent business, the company also sells holidays by phone and on the Internet. Online sales are slowly gaining in importance for the Kuoni group, with Internet bookings accounting for three per cent of sales in Switzerland and four per cent worldwide. Kuoni strategists have come up with their own answer to the question of how an old-school tour operator can best sell its package tours online. Rather than simply publishing digital catalogues on the World Wide Web, they break their offering down into separate components before posting it online. The typical Internet customer books simple flight tickets, hotel rooms or rental cars. The online outlet is interesting for Kuoni in financial terms because it does away with the usual commissions paid to travel agents.

Even so, customers seeking more complex travel arrangements are likely to continue going to travel agents. Kuoni expects the share of online sales to reach 15 or 20 per cent at most in the long term. “I’ve never met anyone who booked their honeymoon on the Internet,” says Thomas Stirnimann, CEO of Kuoni Switzerland.

Able to buy at attractive terms:
Kuoni Switzerland CEO Thomas Stirnimann.

Delighted with the successful campaign:
head of marketing Gianni Moccetti.

The new Kuoni catalogues are elegant magazines with beautifully written texts, generous layouts and a clear visual language. The Kuoni beach holiday catalogue alone has been printed in a run of 190,000.

Turning crisis into opportunity

Then, just as hopes were mounting following the temporary end of the Iraq war, SARS broke out. Nobody wanted to get into a plane any more. Holidaymakers preferred to take the car to Adelboden, while managers were opting to discuss the business plan via videoconference rather than flying to meet their boss at the other side of the world. Kuoni's Hong Kong offices were disinfected four times a day, and staff were turning up to work in masks. Lerch wondered if he'd have to let more people go, even though he'd already pared the headcount back to the minimum. "We were trying to keep things in perspective," he explains, "and felt that the rest of the world was overreacting." He ended up by taking what he describes as a gut decision "driven by hope". Hong Kong was not closed. On the contrary, the location was upgraded, with Lerch seizing the opportunity to raise Kuoni's interest in local tour operator P&O Travel to 100 per cent – "at a very good price".

This was not the only place Kuoni learned that a crisis could be turned into opportunities. It was also its experience when buying hotel rooms and seats on flights. Responsible for this sensitive business is Thomas Stirnimann, CEO of Kuoni Switzerland and confidant of Hans Lerch. "Hoteliers in the eastern Mediterranean and Egypt have been hit very hard in the last couple of years," explains Stirnimann. As he and his buyers and production team were putting together the summer 2004 offering in spring 2003, they found the whole process to be something resembling a Turkish bazaar. "We were able to buy at very attractive terms," says Stirnimann. Catalogue prices fell ten per cent on average. Stirnimann wants to use a price offensive to win back lost market share. He also hopes that it will enable the company to sell more holidays earlier in the season at regular prices rather than at a last-minute discount. But it's not just customers who benefit from lower prices: an increase in Kuoni's gross margin to a record 28.3 per cent last year is due mainly to the better terms negotiated by its buyers.

Energy for new offensives

Kuoni had to start work on its catalogues for the 2004 summer season in spring 2003, right in the middle of the Iraq war when the industry was at its low point. "During such a tough time it was hard to develop a vision," says Stirnimann. But somehow they managed. At the beginning of 2004 when the catalogues first appeared at travel agents, the competition was suitably irritated, and customers were pleasantly surprised. Gone were the aesthetic superfluity, the tiny pictures and clichéd descriptions. The new Kuoni catalogues were elegant magazines with beautifully written texts, generous layouts and a clear visual language. The Kuoni beach holiday catalogue alone, a hefty tome of 368 pages, was printed in a run of 190,000. Catalogues have already been spotted in dentists' waiting rooms and hairdressing salons. Kuoni spends around CHF 9 million a year on its most important marketing instrument, and in future plans to recoup some of this money by selling advertising space in its catalogues.

For the first time in three years, CEO Hans Lerch has also approved larger budgets for classic advertising. Head of marketing Gianni Moccetti is delighted to have "an amount in the low millions" at his disposal to produce posters and advertisements publicising the multinational travel company – and for the first time this will again apply to all three brands, Kuoni, Helvetic Tours and Reisen Netto: "For a long time we kept our advertising on the back burner. This year we'd again like to be perceived as number one in our advertising as well."

The storm warning hasn't yet been lifted. But now that it has managed to reduce costs and overhaul its visual identity, Kuoni has a good chance of gathering speed rapidly once there is a sustained pick-up in demand. Before he exchanges the CEO's mantle for a non-executive role on the board of directors in May 2005, Lerch hopes that he will have stopped having to play the eternal optimist and will be delivering hard facts. The Kuoni skipper is a seasoned warrior who has been leading the same crew for many years. At the end of the 1980s, when Lerch was head of production, he gathered round him a group of half a dozen men who shared his vigorous temperament – most notably the current Swiss CEO Thomas Stirnimann. To bond the team together, Lerch repeatedly subjected it to new trials. For example, in 1993 the long-distance running fanatic took almost the entire crew to run the New York Marathon. He is convinced that this kind of exercise toughens the crew up and cements it together. So much so that he is very positive about the experience of the last three years, the toughest in his 34-year tour of duty for Kuoni: "It was an ideal team-building exercise," he says. "I'm motivated when times are tough, because I'm not needed when times are good."

Focus on holiday travel

With sales of CHF 3.3 billion, 0.9 billion of which are generated in Switzerland, Kuoni is by far the biggest tour operator in the country. Following a heavy loss in 2001, the company's results have been back on the upturn since 2002. In 2003 Kuoni posted group profits of CHF 65 million. In Switzerland the tour operator covers all areas of the business with its Kuoni, Helvetic Tours and Reisen Netto brands. The Kuoni brand stands for exclusive individual travel, Helvetic Tours specialises in cheaper packages (especially beach holidays) for families, and Reisen Netto sells holidays direct at rock-bottom prices. Kuoni wants to concentrate on its holiday operations, and intends to gradually divest businesses that do not fit in with this core competency. In December 2003, for example, it sold its business travel unit.

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Succession planning:
Treading the fine line between emotion and calculation

Planning early to ensure that your life's work ends up in good hands is a real challenge. Finding the right solution requires a combination of hard and soft skills: not only expertise in tax, human resources, finance and legal affairs, but a high degree of emotional competence as well.

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Surely the last great challenge for most entrepreneurs is ensuring that their succession is planned effectively and in good time. It's only natural that if you've invested all that blood, sweat and tears in building up something special, you'll want to make sure it remains in good hands. But many bosses find it very hard to let go. Nobody likes facing up to the fact that they're replaceable and getting old, or dealing with issues like having to hand over responsibility, realistically assessing the suitability of their successors, or investigating alternative solutions to the succession problem. People tend to postpone dealing with such uncomfortable issues, preferring to get on with business as usual. The result is that the really important issues are often neglected in favour of those that appear to be more urgent.

Emotional barriers

Succession planning is often associated with very negative emotions: giving up power and control, losing your status as a businessman and head of the family, or fear of the "black hole" that comes afterwards. So succession planning can only work if these emotional obstacles are faced up to and the entrepreneur learns to take a positive attitude to the whole process. This is most likely to happen once they have sorted out their own personal future, and can either look forward to well-earned retirement or have found something else useful to do, either inside or outside the firm.

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Markus Langenegger is Manager, SME Ambition, Zurich.

Rational aspects

Alongside the emotional barriers that have to be overcome, there are many organisational, business, financial, legal and tax issues to be analysed. The secret is to work out a plan that encompasses the entrepreneur's private life as well. Regardless of the solution chosen, you have to start tackling these different issues early on, and take a careful look at the various options and their tax and legal implications.

Example 1

Ulrich Jüstrich Holding AG: From stalemate to friendly split

Hansueli Jüstrich, Chairman of the Board of Directors of Ulrich Jüstrich Holding AG, stresses that it's never too early to start succession planning, but very easy to start too late. In this light he planned his succession at the youthful age of forty-two. First of all, though, he had get to grips with structures that had grown up over the course of the company's history. His grandfather Ulrich Jüstrich had laid the foundation of the family firm, which specialises in natural body care and household products, back in 1930. The founder solved the succession problem by dividing up the company's shares equally among his three children. Following the death of Ulrich Jüstrich's daughter, the two sons, Ernst and Hansruedi, inherited her interest. Soon after that, Ernst Jüstrich passed on his shares to his two sons, Hansueli and Marcel. Now both the second and third generations held an interest in the company, and some members were actively involved in running it as well.
Not long afterwards, both branches of the family realised that although they basically shared the same goal, they favoured different ways of getting there. These conflicting strategies ended in stalemate. The owners therefore decided to reorganise the company (introducing a more professional board of directors and an outside CEO) and examine different solutions in an attempt to resolve the stalemate. Variants they seriously considered included conducting an IPO (initial public offering), selling the business, or splitting the company. After weighing up the facts very carefully, laying all their interests on the table, and analysing the situation thoroughly, both branches finally opted for a split. But this in turn raised new issues: tax implications, financing issues and the question of the new structure.

At this point they realised that it was time to call in experts in various different fields:

- Valuation
- Tax
- Finance

The parties began discussions in January 1999, and finally completed the process of succession in June 2002. This time frame once again underscores the importance of starting the planning process in good time. Sound decisions require thorough analysis and thus take a lot of time. But the story of the family enterprise Ulrich Jüstrich Holding AG shows that it's not always the best idea to choose the most straightforward-looking solution. Hansueli Jüstrich emphasises how important it is that the person handing over the reins has the courage to choose his successor or successors on the basis of individual skills and capabilities; he is convinced that the company should be held by heirs who are also actively involved in running it.

Example 2

Kilchenmann AG: A roundabout way to the optimum solution

Klaus Kilchenmann, Vice-Chairman of the Board of Directors of Kilchenmann AG (a specialist in communications technology, telematics and electronic media based in Berne-Kehrsatz), originally had his sons lined up to take over the company that he himself had inherited from his father. But a period of radical change in the industry in the 1990s and the new paths his sons were taking forced him to reappraise his strategy and look for a new succession solution for the family firm. After long, intensive discussions with Herbert Wenger, who had worked for the company for many years, Kilchenmann was soon considering an MBO (management buyout). In 1998 the decision was made to sell the company to the top management. It was during this phase that Herbert Wenger first became aware that he had a completely new relationship with the company: the employee was now buying the business. This was a key realisation for the man who is now managing director.

When carrying out the MBO, Herbert Wenger focused on three areas:

- The business plan
- Financing
- The team

Herbert Wenger believes it is very important to draw up a thorough business plan, particularly for an MBO, to enable the risks and opportunities to be assessed objectively. But it's also extremely important to appraise whether the move is even feasible for the MBO team. At Kilchenmann they had to analyse whether the deal could be financed, and take a good look at the available financing options. This phase of the process absorbs management capacity and demands a great deal of commitment from the whole management team, who face tough challenges in both personal and business terms. At the same time it is vital to ensure that customer focus and attention to staff do not suffer. You also have to make sure that business and specialist know-how are available, including expertise in finance and cost management – and if not, you have to be prepared to buy it in from outside.
To make sure all these requirements were met, the MBO team organised communications and customer focus training, plus additional training focused on leadership, teamwork and selling for all staff. In addition to this, the MBO team called in an outside consultant to act as a coach to the team, contribute specialist expertise and help in the construction of the "new" Kilchenmann AG. Only then was it possible to find a tax-optimum solution that could also be financed. Herbert Wenger expects the actual MBO process, including repayment of the loan, to be complete in 2007.

Example 3

4B Holding AG: Promising future under new ownership

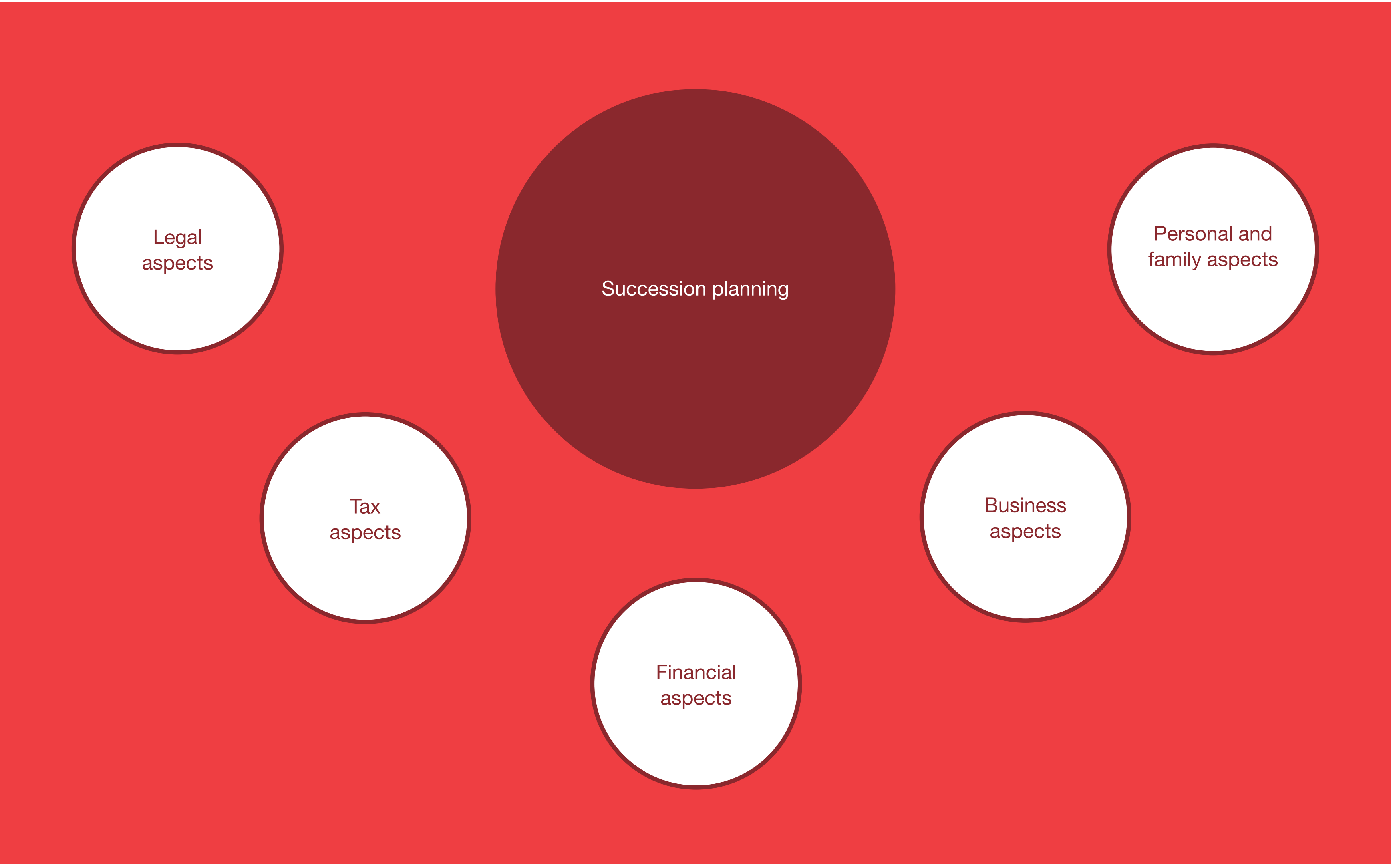
Hans-Ruedi Kronenberger led a healthy, successful fourth-generation family firm: Kronenberger AG, a specialist facade engineering company based in Ebikon. It was not possible to find a successor in his family. But in the interests of his customers and staff, Kronenberger wanted to avoid selling his company to just any investor with unknown intentions.

Three points were especially important to Hans-Ruedi Kronenberger:

- The handover had to make sense in strategic terms.
- The new owner must have a track record and management capability.
- The new corporate culture had to be right.

On the other side of the equation was 4B Holding AG in Hochdorf, a company on the path of expansion that had carefully analysed the market and taken the strategic decision to enter the facades business.
Just at the right moment, Hans-Ruedi Kronenberger crossed paths with the two Bachmann brothers at the helm of 4B Holding AG, CEO Mark and Chairman Ivo. They soon recognised that they had a lot in common: successful family businesses with a long tradition and a similar corporate philosophy and culture, high-end providers in their market, and two companies of reasonable, manageable size. These common features quickly prompted both sides to take up negotiations.
This involved presenting each company to the other's shareholders, appointing people to lead the negotiations, having valuations done, and making Kronenberger AG an initial, non-binding bid. Succession planning thus fell into three broad phases: negotiation, due diligence and closure.
Due diligence in particular was something demanded by 4B from the outset, and

Succession planning:
Points to watch



gave a very good, complete insight into the takeover candidate's business. This led to the final takeover offer and the signing of the contract.
Mark and Ivo Bachmann never intended to "swallow up" Kronenberger AG. This is evidenced among other things by the fact that Kronenberger AG continues to do business as an independent subsidiary, even though certain units were merged in accordance with the business plan.
Throughout the whole process they realised that this type of takeover, and by extension their strategic move into a new business, could only work if the key people were defined and involved in the process, and if their further employment was laid down contractually. So far all this has been done successfully. However, Mark and Ivo Bachmann do not see the process as complete, and reckon it will take another two years before the companies are fully integrated.

Planning, competencies and organisation key to success

We have outlined three very different but successful examples to illustrate the extent to which successful succession planning hinges on three key areas: time planning, competencies and project organisation.
As a rule, you can expect proper succession planning to take between two and five years. But if you first have to prepare a successor or consider other options, it can easily go beyond five years. Since succession is something that has an impact on many different areas of the business, it requires adequate tax, human resources, financial and legal expertise.
But soft skills – in other words emotional competence – are also vital: both the person handing over and his or her successor must be able to take a step back and thoroughly investigate all the options. And it's important to remember that the best solution is not always the simplest or most apparent, either for the company, the person handing over, the family or the successor. Not only our selected examples, but also the experience of any company owner who has had to deal with this issue, confirm that it takes a lot of time to carefully examine all the options. So it inevitably follows that the process has to be very well organised. However, the greatest challenge is to tread the line between the heart and the mind – in other words to find a balance between emotion and calculation.

You will find more information on this topic in the PwC brochure "Nachfolgeplanung im Unternehmen" (Corporate succession planning; German only). To order a copy, please e-mail sonja.jau@ch.pwc.com.

Taxation of structured financial products: Avoiding taxation despite a loss

Investors in capital-protected products also want to earn good returns after tax. This means that asset managers and investment advisors, as well as the people who issue and invest in structured investment products, must have a firm grasp of the way derivative financial instruments are taxed – a complex undertaking.

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Investment income is subject to tax, capital gains are not. While this truism is straightforward enough on the face of it, it's very easy to lose track of its precise implications in the dense jungle of Swiss taxation practice. When changes in the stock market trigger the creation of new investment instruments, it's a good time to brush up on the rules of taxation.

Capital-guaranteed products

Many structured investment products available on the financial markets guarantee a minimum repayment. This type of instrument links a low-risk interest-bearing component with a risk component. The key question in terms of taxation – and thus a key issue for investors aiming to earn money at the end of the day – is whether these two components can be traded separately or separated analytically. If so, the product is taxed as a "transparent" instrument. If not, it will be taxed as an "intransparent" instrument.

Essentially, the entire appreciation in the value of so-called intransparent products – including the capital-gains component – is treated as investment income and is thus subject to income tax.

This tax treatment is so unattractive for investors that unless issuers want to put them off completely, they must strive to create products that are taxed as "transparent" instruments.

If both components can be traded separately or separated analytically, any increase in the value of the risk component is treated as a tax-free capital gain. However, income from the interest-bearing component, which is generally paid back when the instrument matures, is subject to tax. Since a change of ownership of a predominantly single-interest-payment investment instrument also triggers income tax, the interest accruing on the interest-bearing component up to the moment it is sold must be calculated. To do this, issuers must cooperate with Telekurs to ensure that the value of the interest-bearing component is calculated on every trading day so that the bank making the settlement can issue a correct voucher. The flip side of the bargain – the shadow side, as it were, of the tax-free treatment of capital gains on "transparently" structured financial products – is that investors have to pay income tax on the interest-bearing component even if the risk component posts a loss. Let us take the example of an investor who holds a financial instrument guaranteeing repayment of 90 per cent of the principal. If the investment develops so unfavourably that the investor really does get back only 90 per cent of the principal, he must still pay tax on the interest-bearing component. Many investors are not sufficiently aware of this double risk when they buy what they assume is a safe investment. In times of declining market volatility, the price of hedging high-risk investments falls as well. This is why structured products with capital protection are also currently gaining in popularity. If investors want to earn good after-tax returns on capital-protected investments, it is vital that they make the right choice of instrument and have a good knowledge of taxation practice.

Instruments involving the delivery of money or securities

The Swiss Federal Tax Administration continues to treat option premiums accruing to private assets as free of income tax. This judgement is particularly relevant for so-called reverse convertible or discount products such as REVEXUS, BLOC, GOAL and TORO. When these products mature, the investor receives a security if the price of the underlying share is below the threshold. If it is higher than the threshold, the investor receives payment of a fixed sum of money. In economic terms, from the investor's point of view this constitutes a combination of an investment and a put obligation, or a combination of the purchase and sale of different call options. You could say that the investor is selling the volatility; this means that in times of heightened uncertainty he can profit from price fluctuations that are anticipated but might not occur, and either earn a higher return or acquire the underlying security at a discount.

The Federal Tax Administration's practice differentiates between maturities up to and including one year and reverse convertible instruments with maturities of more than one year. Gains on short-term reverse convertibles are treated as capital gains, an approach that obviously gives priority to the economic view of the combined purchase and sale of different call options. Long-term reverse convertibles are treated as bonds, which is actually astonishing given that the investor is not sure of receiving repayment of a fixed amount. In the case of long-term products like REVEXUS, the issuer must divide annual payments during the term of the instrument into two components: interest and option premiums. Only the former is subject to income tax.

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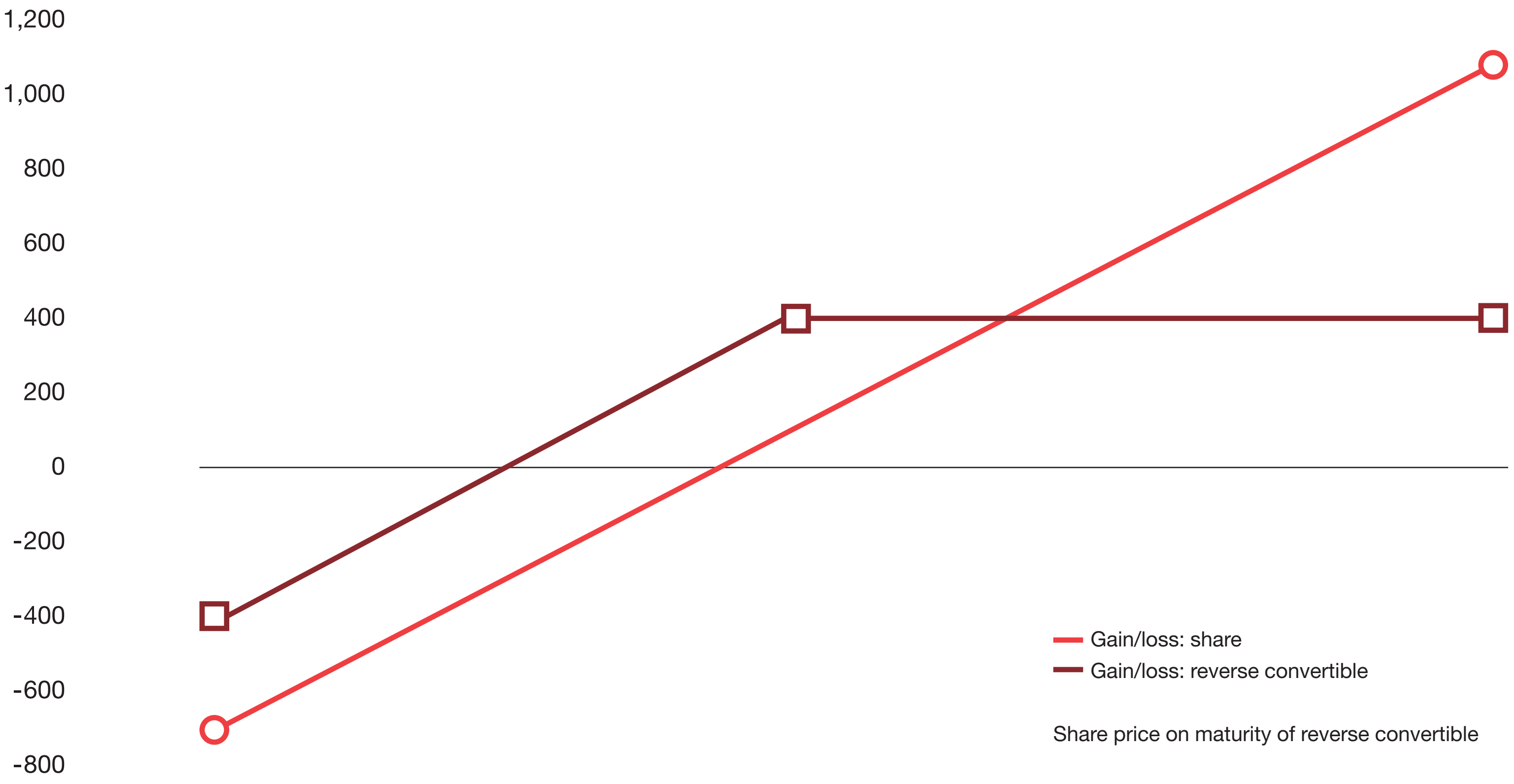
Gains and losses on equities and reverse convertibles



Index and basket certificates

In economic terms, index and basket certificates based on equities are equivalent to an investment in stock markets (index certificates), baskets of equities (basket certificates), or, more recently, in other underlying instruments such as precious metals. From a tax point of view, gains earned by private investors on the sale of "classic" certificates are treated as tax-free capital gains. However, for the private investor, equalisation payments (including issue discounts and repayment premiums) are treated as investment income. Since issuers of classic basket and index certificates do not guarantee to repay a fixed amount, these instruments do not constitute bonds.

Unlike classic certificates based on equity baskets or indices, in the case of dynamic certificates the issuer actually manages the instrument. Even if there are changes in the composition of the index or basket during the term of the investment, it is still treated as a "classic" certificate for tax purposes if all the following conditions are fulfilled cumulatively:

- The equities, commodities, precious metals, etc., held in the index or basket must be selected and managed in accordance with precisely defined criteria.
- These criteria must be laid down in the specifications, and may not be changed during the term of the instrument.
- The indices or baskets set up for the purpose of issuing certificates must have an indefinite term and be registered as a trademark with the competent patent authority.

Dynamic certificates which do not fulfil these conditions are treated essentially as investment-fund-like assets, with corresponding implications in terms of tax and, possibly, supervisory legislation.

Certificates without a fixed term are explicitly treated as classic or dynamic certificates as per the above criteria as long as the investor has an annual right of termination.

It pays to be cautious when dealing with basket certificates based on bonds and investment funds. Since holders of bond certificates have the same opportunities and risks as normal bond holders, bond certificates themselves are treated as bonds and thus, by analogy, are subject to the rules governing the taxation of bonds. In the case of certificates based on investment funds, it is the taxation of the underlying instrument that counts. In other words, the certificate is treated as an investment fund unit for tax purposes.

It pays to be aware

Asset managers and investment advisors, as well as people who issue and invest in structured investment products, must have a firm grasp of the way derivative financial instruments are taxed – an extremely complex undertaking.

The risk of suffering a loss but still having to pay tax is ever-present. You can only earn optimum after-tax returns on structured financial products if you know your way around the jungle of tax regulations.

Paying taxes in Switzerland:
How can high-net-worth individuals reduce their tax bill?

Is this country still an attractive tax domicile for wealthy people and high earners? When is it worth consulting a tax expert? Matthias Schweighauser[1] provides some answers.

Is this country still an attractive tax domicile for Swiss people who are high earners or have above-average assets? Or are they at a disadvantage compared with wealthy people from outside the country who are granted special deals?

With certain reservations, I would say that Switzerland is still an attractive tax domicile for wealthy Swiss people. However, it's crucial to choose your place of residence carefully.
I don't think you can say that Swiss citizens are at a disadvantage versus wealthy foreigners. While it's true that certain high-net-worth individuals from abroad pay tax at a much lower rate than Swiss people, this is due to the application of expenditure-based ("lump-sum") taxation, which is governed by law. This involves using a special basis for calculating taxes rather than any kind of special deal. But this system can only be applied under very particular circumstances, and would therefore not be applicable to many Swiss citizens in any case. Not only this, but even taxpayers assessed under the expenditure-based system still pay very high taxes in absolute terms. Many people don't realise this.

When is it worth seeking expert advice?

It's worth seeking professional advice if you have a complex income or asset structure, intercantonal or international tax issues, or in general if you have a heavy marginal tax burden. But it's also advisable to seek advice prior to major changes in your personal circumstances, for example if your marital status changes, or if you are about to hand over the reins of your business, retire or move abroad. This enables you to not only to take advantage of any available opportunities for reducing the tax you pay, but also ensures that you meet all your tax obligations as an investor fully and in time.

What can high-net-worth individuals expect from their tax advisor?

The main thing they can expect is the flexible, long-term optimisation of their tax burden, with any tax risks reduced to a minimum. Your tax advisor should help you draw up a comprehensive financial plan taking account of your individual circumstances and medium to long-term goals, and make sure any steps designed to reduce your tax burden are matched with this plan.

The Swiss tax authorities are endeavouring to close all the loopholes. This means that there are fewer and fewer legal ways of saving taxes. What options remain open to tax advisors in these circumstances?

A tax optimisation strategy geared to the long term cannot merely rely on exploiting so-called loopholes in the short term. Careful, forward-looking planning can help clients pay less tax, even without loopholes.

How far can a tax advisor go? What are the limits?

Tax legislation, which in Switzerland often allows for very differentiated interpretations, automatically lays down limits. Solutions that could potentially lead to tax evasion are taboo. This means that tax advisors must inform their clients about any tax risks that a particular solution might entail. So clients should be aware if there is a chance that the taxman's view of a particular set of circumstances or solution will differ from that of the taxpayer or his advisor.

Does this mean that the overall tax burden in Switzerland is likely to grow further in the next few years?

This will depend to a large extent on the way the economy develops. The rapidly growing tax burden should clearly also be seen in relation to the increase in government spending and public services over the last ten years. This means that any turnaround in the trend will depend to a large extent on the political will of those making the decisions. But the current constellation gives me grounds for guarded optimism, and I hope that those responsible will strive for moderate taxation so that Switzerland remains an attractive location for companies, business people and private taxpayers.

[1]Matthias Schweighauser is Partner, Private Clients, Tax and Legal Services, Basel, matthias.schweighauser@ch.pwc.com.

The 5-minute expert: No-nonsense definitions of business terms

Leveraged buyout (LBO):

The credit-financed purchase of a company by a group of investors involving little or no use of their own capital. For example, instead of investing their own capital, the investors may issue junk bonds up to the amount of the purchase price, with the aim of selling off parts of the acquired company to pay back the interest and principal of the bond. Leveraged buyouts are generally designed to earn a profit as quickly as possible by selling off particularly profitable units of the company. By contrast, a credit-financed takeover by a company's management (a management buyout or MBO) is designed to assure the survival of a company in the long term.

White collar crime/ economic crime:

In the last two years, 37 per cent of organisations worldwide have experienced a serious fraud, at an average loss of over USD 2 million per company. Heading the rankings of white collar crime are Africa, where 51 per cent of companies were affected, and North America with 41 per cent. In Switzerland, 24 per cent of organisations were victim of white collar crime. Most companies expect economic crime to become more frequent in the next five years. Companies currently view asset misappropriation as the biggest threat, with 35 per cent of organisations worldwide, and 35 per cent in Switzerland, worried about this type of fraud.

PCAOB:

The Public Company Accounting Oversight Board (PCAOB) is a government body created by the US Sarbanes-Oxley Act (SOA). The PCAOB's brief is to enforce stringent requirements in terms of the quality of auditing and auditor independence. Every firm auditing a company listed on a US stock exchange must be registered with the PCAOB, and is thus subject to its quality checks.

Basel II:

Common term for the revised 1992 Basel Capital Accord (Basel I) being prepared by the Swiss-based Basel Committee on Banking Supervision. The committee comprises representatives of the central banks and banking supervisory authorities of Belgium, Germany, France, the UK, Italy, Japan, Canada, the Netherlands, Sweden, Switzerland, the US and Luxembourg. The goal of the accord (also known as the capital adequacy framework) is to improve the way the economic risks of lending are monitored and managed, for example by introducing a new procedure for checking and rating the creditworthiness of companies and organisations. Added to this, Basel II aims to introduce extended disclosure requirements in certain areas of the banking industry. Work on drafting Basel II commenced in 1999, and is due to be completed with the entry into force of the new accord at the end of 2006. Basel II has important implications for small and medium-sized enterprises that are heavily dependent on loans, particularly in terms of lending practice and credit terms.

Fairness opinion:

A report assessing the fairness, in financial terms, of a price or exchange ratio offered for shares in a company. The report concludes by rating the price or ratio bid as either fair or unfair. The fairness opinion is usually addressed to the board of directors, who then make the report available to shareholders. The opinion is drawn up, generally in connection with strategic decisions such as mergers and acquisitions, by independent experts. While absolute valuations are decisive in the case of acquisitions and sales, when assessing mergers it is equitability – and thus relative valuations – that are crucial. For management, the fairness opinion serves as the basis for making decisions, while for people outside the company it makes the decisionmaking process transparent. Thorough valuation work is necessary before a fairness opinion can be given.

The integrated approach to M&A transactions

Strategy	Valuation
Assessing strategic importance of transaction	Due diligence
Identifying acquisition candidates	Quantifying achievable synergies
Quantifying costs and synergies	Valuation model
Letter of intent	

A recipe for M&A success: Keep a close eye on the critical points throughout the process

A well-structured and documented M&A process is not only a key component of good corporate governance, but also an important factor in the success of an acquisition.

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In recent months and years, a number of companies in Switzerland and abroad have made the headlines with spectacular collapses or serious financial problems. In most cases these difficulties were triggered by acquisition strategies that went wrong or were inadequate in the first place, and a lack of proper corporate governance in the way a transaction was managed. This is probably why we have also recently been seeing a much more thorough and professional approach to the analysis of anticipated deals.

Transactions have become increasingly difficult, complex and competitive. In a situation where we have strategic buyers bidding against private equity houses with plenty of hands-on M&A experience, there is a latent risk that the successful bidder will be paying a high premium, or even too high a premium, for an acquisition. With the international capital markets characterised by growing transparency, this is likely to come under scrutiny not just by the authorities, but increasingly by the company's own shareholders as well. This means that decisions on corporate mergers, acquisitions, alliances and sales are among the most important steps a company can take. So it's especially important that such decisions be taken only after a thorough analysis has been made – within a framework of effective controls – of the possible impact of the planned transaction on the company's current and future business. Given the financial risks of such deals, having a sound basis on which to make decisions, and managing the process effectively, are of fundamental importance.

[1] Philipp Hofstetter (Corporate Finance), Amity Forrest (Transaction Services) and Barbara Brauchli (Tax M&A) are Partners at PricewaterhouseCoopers, Zurich.

Closure	Integration	Monitoring
Negotiations (on the basis of due diligence findings)	Implementing integration strategy	Monitoring and evaluating success of deal
Defining walk-away conditions	Consolidating added value	Ex-post assessment (procedure, costs and synergies)
Insurance via guarantee clauses	Setting and monitoring milestones	

The five phases of an M&A transaction
To ensure a structured and replicable procedure, essentially any M&A transaction can be divided into five phases:

1. Strategy

The objective in this phase is to determine what goals should be aimed for and how they can be achieved. If this process (here presented in a very simplified form) results in the decision to go for growth by means of strategic acquisitions, the next step is to identify suitable target companies to be investigated more thoroughly at a subsequent stage of the process. A main task in this phase is to clarify the strategic importance of the transaction in terms of implementing company strategy and the future development of the business. This entails drawing up a white paper which formally documents the strategic objectives underlying the deal and a list of clear financial data serving as the basic yardstick for the transaction. You also have to quantify the costs and potential synergies. If you foresee any deal breakers at this early stage of the process, you should terminate this particular transaction scenario. Doing so enables you to come up with alternatives early on.

Until you can explain the strategy clearly to the investment committee and give them an initial assessment of the deal's chances of success, it's too early to embark on the next stage of the deal, the detailed valuation. Even so, at this point a rough valuation should be done to find out whether your organisation can afford the target company in the first place. If the answer to this question is yes, you should start negotiating a non-binding letter of intent (LOI) documenting the broad terms of the deal prior to conducting a formal due diligence check.

2. Valuation

The valuation phase involves conducting a standardised, uninfluenceable and replicable due diligence check. Due diligence is an opportunity to understand the business and its value drivers, verify the quality of historical information and the extent to which synergies can be realised, and pinpoint opportunities, risks and deal breakers well before the deal has been closed and implemented.

You know an M&A process is badly organised if:

- Decisionmaking powers within the company are not clearly laid down, and the teams and individuals working on the various phases of the deal lack sufficient know-how or experience to carry the deal through professionally.
- CEOs and CFOs fall for a sub-optimum transaction and push it through to closure owing to a lack of corporate governance (e.g. supervision by the board of directors).
- The way the deal is evaluated (due diligence and valuation) demonstrates a lack of professionalism and expertise.

In this phase a project manager (preferably full time) should be appointed. This person is responsible for the operational management of the transaction, including due diligence, and for achieving the goals defined in phase 1.
A transparent valuation model helps you set and negotiate a favourable purchase or selling price. The valuation model generally consists at the very minimum of a basic scenario and a so-called synergy scenario, and takes account of the integration costs involved.
The findings of due diligence and the problem areas it helps identify must be quantified and fed into the valuation model. This is the only way of ensuring that your company pays a fair price for the transaction.

3. Closure

After the valuation phase comes closure. The focus here is to implement the findings of due diligence, negotiate a favourable deal with acceptable risk parameters, and define walk-away conditions. Under no circumstances should you wait until the closure phase before resolving issues identified during the valuation. You should therefore adjust the valuation model accordingly, formulate a negotiation position on the issue that has emerged, or make sure the problems you have identified are covered as far as possible by means of guarantee clauses in the purchase agreement.
It is not a good idea to announce the deal in public too early on in the negotiation process – doing so can leave you much less room for manoeuvre in negotiations. It only makes sense to publicise the deal early if doing so brings clear advantages.

4. Integration

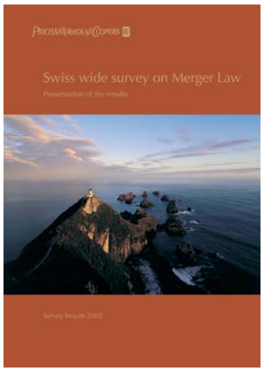
To ensure the integration strategy is implemented successfully and the anticipated synergies are realised within the prescribed time frame, clear responsibilities and milestones should be laid down. Delays in integration can ultimately lead to the failure of the acquisition or substantially reduce the value it adds.

5. Monitoring

Finally, the actual success of the deal should be monitored and evaluated by critically comparing the outcome with your original expectations and the yardsticks defined at the beginning of the process. This should be done by observing and evaluating the core business in isolation, and assessing the verifiable impact the deal has had. The aim is to identify any necessary adjustments and make sure they are implemented.

Conclusion

A formalised, replicable M&A process helps save time, costs, worry and frustration. It enables your company to make better and more transparent decisions. And if you follow the right procedure, even after a long-drawn-out deal you will be able to prove that all parties involved met their obligations to stakeholders – particularly important in the current environment where greater responsibility is expected.



PwC Swiss-wide survey on merger law: M&A managers welcome new merger legislation.

The new Swiss merger law will allow more flexibility in conducting reorganisations and M&A transactions: this is the opinion of 88 per cent of all M&A managers polled for the PwC Swiss-wide survey on merger law. The study was drawn up by PricewaterhouseCoopers following a survey of officers responsible for mergers and acquisitions at larger Swiss companies. Its findings reveal the belief that the new merger law will constitute a formal simplification of transactions between affiliated group companies (the transfer of assets within a group) and of the legal provisions governing acquisitions in kind in the wake of corpo-rate transactions. The study also shows that decisions are more likely to be motivated
by business considerations than by tax-related factors. This applies even in the case of quasi-mergers involving the exchange of interests, where it is now possible to exchange interests of below 20 per cent tax-free. Of the M&A officers polled, 54 per cent welcomed the new relief on securities transfer tax. The study also reveals that 87 per cent of respondents put together ad hoc teams, including both internal and external specialists, to work on deals; only 13 per cent have fixed internal M&A teams.

The PwC Swiss-wide survey on merger law costs CHF 250. To order a copy, please e-mail sonja.jau@ch.pwc.com.

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Publications:

European Business Forum (EBF) is a quarterly business publication targeted at business executives worldwide. EBF's goal is to bring together managers, academics and independent consultants to make Europe's voice better heard in the international dialogue on management issues. EBF appears four times a year in English. An annual subscription to the 96-page magazine costs EUR 110 (payable on invoice). For more information go to www.ebfonline.com.
To subscribe: sonja@ebfonline.ch

Global CEO Survey 2004 In a survey of nearly 1,400 CEOs worldwide, more than 80 per cent said they were confident about their company's revenue growth potential over the next twelve months and over the next three years. They see the greatest threats in increased competition, the loss of key talent, overregulation, currency fluctuations and terrorism. CEOs all over the world believe that enterprise risk management is one of the keys to increasing profitability. Most CEOs in Europe feel confident when it comes to compliance with corporate governance rules. You can order free copies of the Global CEO Survey 2004 findings from sonja.jau@ch.pwc.com.

Upcoming events:

Swiss Economic Forum – Best Practice
Friday, 22 October 2004, Thun

The forum is geared to young entrepreneurs, present and future, from Switzerland and its neighbouring countries. The programme features a combination of presentations by top business people and knowledge workshops. Added to this, an interesting programme of fringe and networking events is planned. Participants can put together their own individual programme from the wide range on offer.
For more information:
www.swisseconomic.ch

Bioscience, Business & Health Forum:
The Future of Medicine, Zurich

The goal of the event is to create a knowledge network for people involved in pioneering medical science, and provide information on a rapidly growing industry that has launched a broad-based offensive on the most serious diseases of our time. Bioscience, Business & Health Forums are organised by First Tuesday. Dates are as follows:

Wednesday, 21 September 2004: Diabetes
Wednesday, 2 November 2004: Cancer

For more information and to register:
www.firsttuesday.ch

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Alexander Abramov

New leaders, new seriousness: Russia’s catching up

With growth rates of over six per cent and a growing domestic market, Russia is on the way to becoming an economic power. The driving force is a new generation of leaders. They include Oleg Kiselev, chairman of investment bank Renaissance Capital, and Alexander Abramov, CEO of steel company EvrazHolding, both interviewed in this issue.

Text: Rolf Hosfeld, Stephan Hille, Photos: Gueorgui Pinkhassov/Magnum Photos, Mia Foster

Oleg Kiselev

Sometimes the world is like a game of chess: the rook swaps position with the king or queen, and suddenly the whole situation looks radically different. As a chess player, Oleg Kiselev understands this analogy only too well. The former scientist sits in a bright, practical, simply furnished office in the headquarters of investment bank Renaissance Capital, right next to the city-centre base of Moscow's mayor Yuri Luzhkov. Back in his days at the academy, Kiselev wouldn't have dreamed that one day he would be one of the most important business leaders in the country. Fifteen years on, and he's recently been named "Banker of the Year" for the second time.

"I fail to see any connection at all between my present business career and my scientific past," he explains with a laugh, "except, perhaps, that my mathematical training taught me to think extremely logically." Kisilev never learned investment banking formally, but there are now few people in the whole of Russia who are in such great demand in this field. He's a man who trusts to strategy, not to luck. Nowadays people like Oleg Kiselev represent a new zeitgeist based on solidity. The ups and downs of perestroika and the occasionally perilous challenges of the Yeltsin era have long been a thing of the past. "At first," says Kiselev, one of Russia's pioneering free-market entrepreneurs, "we thought that perestroika was maybe only a temporary gambit by the Communists. Of course the situation changed in 1991 with the collapse of the Soviet Union. But it was only after the rouble crisis in 1998 that we started to understand what doing business really meant and learned the meaning of internationally acceptable standards." At that time, with the rouble in free fall and the country's finances in tatters, many investors couldn't get away from Russia quickly enough. But many stayed, and were duly rewarded.

Experts are now unanimous in their optimistic view of Russia's economic future. "We believe the Russian economy is developing and achieving better results than many other countries," opined Anne Krueger, IMF First Deputy Managing Director, speaking on a visit to Moscow last year. Christoph Rühl, Chief Economist of the World Bank in Moscow, recently reiterated this positive view.

In the last four years, a climate of political and economic stability has prevailed in Russia – for the first time since the demise of the Soviet Union. Growth has been running at an average of 6.8 per cent, significantly higher than the 4.7 per cent averaged by the rest of Eastern Europe. After a decline during the last years of the Yeltsin era, consumer spending has been shooting up 8.4 per cent a year. Unemployment has fallen from 12.5 to 8.8 per cent, and the

In the last four years, a climate of political and economic stability has prevailed in Russia – for the first time since the demise of the Soviet Union.

A new middle class is emerging in Russia. This has immediate implications for the economy: household spending is growing at 8.4 per cent a year.

There has been a marked improvement in the climate for foreign investors. This was the conclusion of a forum staged by Russian magazine Expert, the Financial Times and PricewaterhouseCoopers in London.

state budget is balanced. Russia is catching up rapidly.
This also applies to the core areas of its traditional industry. Alexander Abramov's steel group EvrazHolding, for example, is a product of the 1998 crisis. At that time, Abramov, like Kiselev originally an academic scientist, sought the help of Lugano-based multinational Duferco to successfully transform bankrupt Siberian combines into profitable companies fit for the world market. Abramov's strategic philosophy is that it doesn't make sense to make major investments until you've got the management right. He is another proponent of the new Russian solidity.
There has also been a marked improvement in the climate for foreign investors. This was the conclusion of a forum staged by Russian magazine Expert, the Financial Times and PricewaterhouseCoopers in London only this spring. Perhaps the most optimistic signals are coming from Swedish furniture group IKEA, which in the next few years intends to invest in twenty new stores spread between Moscow, St. Petersburg and the Siberian city of Novosibirsk. The Swedes are hoping to attract seven million Russian customers, and expect to be posting a profit by 2005. According to Lennart Dahlgren, IKEA's country manager for Russia, the two existing Moscow outlets are already "among the most successful in the world". Gradually Russia is seeing the emergence of a middle class that no longer "just lives in a home, but enjoys it," as the Scandinavians' TV ads put it.
But there are already signs that Russia's long road to western bounty is not without its hurdles. The growth of recent years was too heavily dependent on a lucky streak owing to the consistently high price of oil. "Now we've really got to get to grips with the economy," commented Russian news agency Novosti shortly after the reelection of Vladimir Putin earlier this year. There's a lot to be done. The banking system remains weak, law and order is an issue in some places, and corruption and arbitrary bureaucracy are still a serious problem.
Will Russia make the transition to an open society? The Yukos affair and the arrest of oil magnate Mikhail Khodorkovsky was grist to the mill of the sceptics, but Alexander Abramov for one is optimistic for the long term: "I think that the Yukos affair was more of an isolated incident." Russia again finds itself at a crossroads, but the prospects of positive developments have never looked better. "This time round it's not just about brute survival," reckons analyst Leonid Grigoriev, "but about boosting the long-term competitiveness of the Russian economy in the age of globalisation." And things are happening, at least as far as economic legislation is concerned. Right at the top of the president's agenda this summer are legislative packages for financial market regulation and electricity and gas market liberalisation. Experts agree: these would be important steps in the right direction.

"There's a very special climate in Russia at the moment."


Daniel Gremaud, contact for Swiss-Russian projects.

Around 800 people work at PwC's Moscow headquarters. They include a team of some twenty tax experts who are responsible exclusively for Swiss-Russian projects. Their job is to help Russian clients build an international business via Switzerland. At the same time, the network is also available to Swiss clients who are interested in investing or operating in Russia.
Daniel Gremaud, Partner in International Tax Services at PricewaterhouseCoopers Lausanne, has been closely involved in Russian business for years. Among other things he is intimately acquainted with Russian legislation, and is an expert on Swiss-Russian projects. "There's a very special climate in Russia at the moment: a prevailing sense of optimism and change. Almost on a daily basis, events and radical changes are taking place that have a direct impact on politics and business," explains Gremaud. His involvement at both a business and a personal level has given him a special insight and enabled him to make many valuable contacts in Russia. One upshot of this is a Swiss-Russian-Ukrainian Desk, which helps define and set up legal and economic structures for international collaboration. In this context, last July a delegation of Swiss politicians, including Federal Councillor Couchepin, visited politicians and companies in Russia.

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“Russia is an interesting market.”

Oleg Kiselev[1] on growth, money and investment – and the future of banking in Russia.

ceo: Mr Kiselev, you joined Renaissance Capital in January this year. What is the company’s present profile?
Oleg Kiselev: Renaissance Capital is a partnership, which is not very usual for Russia. It is half Russian and half an international company. That means an international level of quality and the Russian vision of how to create this business in our country. My main role and idea is to bring both, the international and the Russian view, closer together.

As the company’s CEO, Stephen Jennings, pointed out, you are “one of the most significant appointments in the firm’s history”. What will be the main challenges for you personally?
First of all to create new businesses, especially in investment banking. First on the agenda is a consumer banking and consumer finance business, 100 per cent funded by our partners. I want to bring some value into this business. It will also be a great challenge for us to develop private banking, which so far has not been good in Russia.

You were voted the No. 1 research house in Russia in 2003 and 2004 as the first locally based firm. What have been your most successful deals?

[1]Oleg Kiselev was Deputy Director of the Institute of Chemical Physics at the Soviet Academy of Sciences before founding Alpa Photo in 1989 to become one of Russia’s first free-market entrepreneurs. Before joining the management of Renaissance Capital at the beginning of this year, among other things he served on the management board of Impexbank. Kiselev, twice named “Banker of the Year”, is also vice president of the Russian Union of Industrialists & Entrepreneurs.

One of the most recent projects we have done was a ten-billion-rouble bond placement for Gazprom that we organised. This is the biggest bond placement for any Russian company to date. Prior to this we placed five billion roubles for Gazprom, which at that time was the biggest placement. So we are playing a very active role in that market segment. We have been monitoring these bonds, and we are involved in many activities of a similar type in different sectors.

Analysts display a great deal of confidence in the Russian stock market and its prospective growth rates.
The stock market will develop, but sometimes I think that the Russian market is gaining faster than the economy is growing. Russia is an interesting market. That is why more money is coming in than the market needs or can digest. Sometimes it looks like a big balloon. Take, for example, the real estate market, which is overheated. For this reason we as a company are very careful with our clients.

It is said that Russia still has a weak banking system.
When the private banking system in Russia started out, we had very liberal laws. Nobody saw the need for stricter regulations. Before the default in 1998, banks were the major players in the Russian economy. At that time we were seeing two types of money cycle: the cycle of budget money, and banks. This circle was self-

“The stock market will develop, but sometimes I think that the Russian market is gaining faster than the economy is growing.” Oleg Kiselev

serving. On the other hand we had the real economy, where there was no money at all, but instead all sorts of quasi-money like barter trading or bonds: in short, trash money. This, of course, was an impossible situation. Actually this was one of the major reasons which led to the 1998 crisis. Thanks to the rouble crisis, everything changed from top to bottom. The situation is getting better now.

Some problems will remain. Which?
In the consumer banking sector we see several problems. The first one is Sberbank and its monopoly, which hopefully will be changed. Equal rights should be given to all banks. Secondly, we only have a weak bankruptcy law in this industry. There have been cases where a bank which was already absolutely bankrupt still held a licence to provide banking services. Last but not least, we have to increase the level of minimum capital a bank must provide in order to get a banking licence. Luckily, the specialists at the central bank seem to be taking the right steps, though not as quickly as the business community would like to see.

What has been achieved already?
There has already been a large reduction in the amount of useless paperwork, regulations and bureaucracy circulating between the central bank and private banks. There is talk of rejecting government guarantees for Sberbank. Increasing the minimum capital requirement could be an incentive for smaller banks to merge. There are now discussions about making the procedures easier for merging or acquiring banks.

What results can we expect from reforms or improvements in the banking sector, especially with respect to foreign investors?
Any changes in the banking sector will come slowly. My advice to foreign investors and bankers who want to invest is as follows: I do not think that portfolio investments in the banking sector are profitable compared with the industrial sector. The margin is very small. The profitability of Russian banks cannot be compared with the profitability of the industrial sector. In future, probably in five or seven years’ time, the banking sector will become very interesting. That is why I advise western banks to prepare themselves.

How would you assess the investment climate?
I am optimistic. Things are getting increasingly predictable, which means the investment climate is getting better and better. It is true that I was even more optimistic before the Yukos affair. However, this has not turned me into a pessimist.

Interview

“I believe we’re on the right track.”

Alexander Abramov[1] talks about the strengths and weaknesses of the Russian economy and its greatest potential: people.

ceo: Mr Abramov, can Russia look forward to a more stable future?
Alexander Abramov: Definitely. We have mineral resources, which is an advantage. Secondly, we have a well-trained workforce in the steel sector. Over the past five years, management in the private sector has been completely overhauled. The major challenge now will be whether we are able to attract new people and a new mentality to the government monopolies.

EvrazHolding started its operations in the steel industry in 1992. What were your first steps?
We acquired steel companies, most of which were in very poor financial condition at that time. The first steps were to bring order to management and operations, which involved radical measures. We have established a single budgetary process, implemented industrial and financial standards on production sites and devoted a great deal of time to creating the right motivation for our employees. Only after taking these steps did we start a large-scale investment programme. At that time you could have spent billions of dollars and it all would have been wasted. The biggest chal-

“It’s no secret that business in Russia can be hampered by red tape and administrative barriers, which, of course, need to be eliminated.” Alexander Abramov

lenge was to put everything in order from the management point of view. Now that these improvements have been made, Evraz has invested more than a billion dollars during the past five years.

What is the state of the art in the Russian steel business now?
There is no substantial difference between US and Russian steel mills today, although it is a fairly widespread myth that the Russians are running their steel mills with outdated equipment. This is not true. They are modern enterprises, in terms of both technology and strength of management. And they are also quite profitable.

What is special about EvrazHolding?
Contrary to most of our Far Eastern and European peers, we are a big producer of semi-finished products, which account for about sixty per cent of the company’s output. We benefit from the absence of protectionist barriers for semis in foreign markets, and we are building our strategy along these lines. We are among the world’s biggest players in semi-finished products, with low-cost production as our main competitive advantage. That is the reason we are in no hurry to build up rolling facilities to produce finished products.

What has been the nature of your relationship with PricewaterhouseCoopers?
At a certain point, Evraz decided that it was time to further rationalise its corporate structure. The most efficient solution was to invite in a reputable international advisor, and PwC was the one we have chosen to help us. Our work with them has been quite extensive. PwC prepared the assessment of our legal, organisational and management structure. We have both found our cooperation useful, and I would add that we are quite happy with the result thus far.

One of the problems in Russia’s economy is its dependence on mineral resources like oil and gas. Successful and competitive industries like yours could be an important counterbalance. What needs to be done to bring diversity into the economy?
The process is already under way, but this takes time. It’s no secret that business in Russia can be hampered by red tape and administrative barriers, which, of course, need to be eliminated. The budget remains dependent on mineral resources. But this state of affairs does not have to last forever. Of course, you have to invest in people. Not just in the financial sense, but also in terms of patience, time and positive attitude. Only after this should our attention turn to investing in technology.

Will Russia see the emergence of a vibrant consumer market driven by an emerging middle class in the coming years?
I hope so. The purchasing power of consumers has grown tremendously over the past five years. But for Russia, it is much more important that people become more active in the economy. Domestic industries need to develop, as Russians still spend too much money on imported goods. Industries meeting local demand have major growth potential. I believe we are already on the right track. Five years ago, for example, the share of locally produced juices in the Russian market was only around 5 per cent. Now this share has increased to 85 or even 95 per cent.

What about bureaucracy and corruption? How would you rate the investment climate?
Bureaucracy is growing, but corruption has been reduced quite dramatically. Compared with the environment we lived in some eight years ago, today’s Russia is practically another planet. As for the investment climate, EvrazHolding will be investing approximately USD 600 million over the next two to three years, whereas last year we invested only CHF 150 million. This speaks for itself.

Alexander Abramov began his career as a physicist and mathematician at the Soviet Academy of Sciences. He is founder and CEO of the steel company EvrazHolding, which with 125,000 employees is one of the largest industrial companies in Russia. The “Manager of the Year 2000” is also a member of the Council of Entrepreneurs under the government of the Russian Federation.

Feelings can’t be quantified
Or can they?

Emanuel and Rosmarie Berger, the husband-and-wife team that runs and owns an interest in the Victoria-Jungfrau Grand Hotel & Spa in Interlaken, rank among the best hosts in the world. US trade magazine Hotels even describes them as the “consummate hosts”. Why do guests from all over the world feel so well in their hotel? The secret is Total Quality Management.

Text: René Ammann
Photos: Markus Bertschi

The three of us are sitting in the Brasserie of the Victoria-Jungfrau Grand Hotel & Spa in Interlaken. My eye takes in the opulent paintings, the high mirrors, the magnificent room dating back to the time the hotel was founded, and a parquet floor that’s more than a hundred years old. “Don’t you think we should change places?” I ask. “Why?” asks Emanuel Berger in reply. “Because you can’t see what’s going on in the room. I thought restaurateurs were supposed to never turn their back to the door!” – “No, no, we’re fine where we’re sitting,” says Rosmarie Berger. “Otherwise we wouldn’t be able to concentrate on talking to you,” adds her husband. Both smile. It’s not the sort of hotelier’s smile that guests see through immediately. They’re both really amused.

Rosmarie and Emanuel Berger embody a corporate philosophy that makes guests into regulars: “We sell our emotions. We fulfil dreams. We prepare the stage for our guests’ performance,” explains Emanuel Berger. Practically no wish is too eccentric or unusual to fulfil. “Nobody’s ever asked for that before” or “We have always done it that way” are phrases you’ll never hear from any employee at the Victoria-Jungfrau. “We endeavour to always exceed the high expectations of our guests,” says Rosmarie Berger.

This philosophy doesn’t come cheap. Rooms must meet the highest standards in terms of design and comfort. The chef demands expensive induction stoves and new pots and pans to match. The food inspector insists on uncompromising hygiene and complete documentation. The IT man needs new connections for computers from all over the world, and the upholsterer wants to restore more pieces of bow-legged furniture. Just maintaining the 222-room Grand Hotel – including considerably more than 222 bathrooms, countless side rooms, salons and lobbies, endless hallways with carpets or parquet floors, miles of water pipes, and central heating systems that could heat a whole village – cost seven per cent of sales in 2003.

Solve problems immediately

In an establishment dealing with around 400 overnight stays a day, plus guests in its restaurants – at the Swiss Economic Forum gala dinner in May, for example, the hotel had to cater for around 1,000 people in addition to its normal residents – perfect planning is crucial. Where do problems arise? What can the management do to prevent bottlenecks? “We always have to deal with challenges immediately – we can’t afford to procrastinate,” says Emanuel Berger. “We have to comply with the moods and desires of every single guest, right away. The time we take to solve the problem determines whether the guest feels well here or not. If a guest wants to use his computer in his room, he wants to do it now, not in an hour’s time. So we have to make sure that every request, no matter what, is satisfied within a few minutes. That’s part of the service.”

How do you do that? Emanuel Berger explains: “Our staff have to answer for

Fulfil desires: Rosmarie and Emanuel Berger.

Ageless beauty since 1865: the facade of the Victoria-Jungfrau.

Concentrate before the storm: informal training for the service crew.

Four of the hotel's 250 staff: every one an entrepreneur working for their guests.

The new treatment rooms of the spa.

The hotel in figures

The Victoria-Jungfrau Grand Hotel & Spa presently has 222 rooms, including 66 Junior Suites, 18 Suites, 9 Duplex Suites and – the pinnacle of luxury – the Tower Suite under the domed roof. December 2003 saw the inauguration of extensive treatment rooms (costing CHF 17 million) added to the spa (built in 1991), plus ten new 56-square-metre suites. In 2003 sales came to CHF 35.4 million, 4.7 per cent down on the previous year. The number of guest nights fell 2.1 per cent to 71,027.

Victoria-Jungfrau AG

Victoria-Jungfrau AG has share capital of CHF 28 million in the form of registered shares. In 1978 the largest shareholder, the Kuwait Investment Office (KIO) in London, planned to acquire the majority, but this was not possible under the Lex Friedrich (legislation limiting the acquisition of Swiss property by foreigners). The current shareholders are KIO London (23.8%), UBS AG (15.11%), Swiss Re (9.82%), Assuricum AG/Zurich Insurance, Emanuel Berger, Berner Kantonalbank, F. Hoffmann-La Roche, Galenica, the Canton Berne building insurer, Novartis, Roche, and no fewer than 7,142 individual shareholders. The listed stock trades at between CHF 275 and 280 per share. According to Managing Director Emanuel Berger, fewer than three per cent of the shares change hands every year. To create synergies, in 1997 Victoria-Jungfrau AG bought the Hotel Palace Lucerne, another top-class establishment, which it renovated in 2003. To allow this renovation work to take place, no dividend was paid in the 2003 financial year.

www.victoria-jungfrau.ch

everything they do and represent the product in its entirety. Whatever their role, the individual is crucial. A waiter can make an evening a wonderful experience for guests – or he can ruin it. This means that everyone has to act like an entrepreneur, recognise the importance of his or her job, take responsibility – and get the job done expertly, efficiently and within seconds." The key is to train all employees thoroughly and systematically. According to the Bergers' philosophy, only people who feel secure in what they're doing can play the assured, cheerful host. Staff at all levels of the hotel hierarchy are trained on an ongoing basis in accordance with the "train the trainer" principle. This ranges from daily informal training for every single employee, through compulsory hygiene and fire prevention courses, to voluntary language training. Miss a class and you have to pay: a simple but effective approach. Emanuel Berger: "If you train your staff professionally and instil them with your way of doing things, everyone will also be prepared to keep an eye out for pitfalls and make sure that they don't turn into problems in the first place. Department and divisional heads – plus my wife and me – are responsible. We often have to act as firefighters. That's the job of the boss."

You can't leave success to chance

The Bergers are convinced that success can be planned. "For this reason we've set up a system to ensure that we perform at our best 24 hours a day, 365 days a year." Everything the Victoria-Jungfrau does is based on a Total Quality Management (TQM) system that covers all areas of the business and links them together. There's an entire cupboard filled with files containing precise definitions of every single management and working procedure. Absolutely everything, from financial controlling to garden design, from how to manage trainees to how to deal with complaints, and from hygiene guidelines for the spa to the recipe for butter croissants, is described and illustrated in meticulous detail. Now staff can access a large part of these standards via the intranet. Everyone can find out the latest figures for daily

The Victoria-Jungfrau used to owe its existence to the British. But now more than half of the guests are Swiss – and spend an average of CHF 500 a day.

revenues or resolve questions concerning the correct working procedure in their area of responsibility. "For example it enables every member of staff to check whether their superior has passed on reports of faults and defects, etc.," explains Emanuel Berger. "And it makes us all more attentive, because we have a means of constantly reviewing the way we work in a critical light." Every year the hotel also brings in external consultants to look at specific areas of the TQM from a theoretical and practical standpoint to help eliminate errors and ensure that the system is always up to date.

Quantifying emotions

Another management tool is a book weighing at least a kilo where everything that happens in the hotel throughout the year is documented. There you'll find tables showing detailed breakdowns of income and expenses in all divisions, monthly visitor numbers for each restaurant and the spa, and even complaint statistics. This complete annual review serves as a report to the board of directors, and is used internally as a working instrument as well. "This management view allows us to measure whether and how we have achieved our objectives every year, and set new objectives for the next financial year," says Emanuel Berger. In every single area, from reception to room service, the staff team assess whether they have worked successfully, record their position on any problems that crop up, outline areas in which they can improve, and define new objectives for the new year. "Our product has a lot to do with emotions. Emotions are often subjective and a matter of opinion. But we can only improve if we can quantify and measure our service precisely. For this reason we have created instruments that allow objective measurements," explains Emanuel Berger. If something is criticised twice in a row in one of the profit centres, an improvement process is triggered.

Think and act long term

Even so, the award-winning establishment (named "Hotel of the Year" in the 2000 GaultMillau guide) and hoteliers (voted 2003 "Independent Hotelier of the World" by 60,000 readers of the American magazine Hotels) have not completely avoided the effects of recession, terrorist attacks and people's growing aversion to air travel. In 2003 they had practically no guests from the Far East. Americans were less keen to travel in the light of the Iraq war, and the Germans didn't have the time or money. "With guest frequency down, we decided to use the time to extend," says Emanuel Berger. It cost CHF 17 million to add 16 treatment rooms to the luxurious spa and build ten huge suites. "We also tried to attract conferences and seminars originally destined for another venue to Interlaken." When times were good, corporations were tempted to treat their seminar guests to exotic destinations in a faraway country. In the last two years, however, they have been more inclined to opt for a combination of safety, quality and luxury. This adds up to good opportunities for a first-class establishment in Switzerland. The Victoria-Jungfrau offers a service whereby a single meeting with the customer suffices to plan a seminar – the hotel then organises the entire event free of charge, from guest arrivals and transfers, excursions and fringe events, to final billing. "This service is a great way for us to generate customer loyalty," explains Emanuel Berger. "It may be that we suffer a one-off financial loss, but ultimately that's precisely how we ensure the loyalty of our guests. That's what's decisive in the long term."

Investing in the face of recession

The hotel let hardly any staff go during the recession. Neither did it outsource functions or cut wages. For more than 100 years the Victoria-Jungfrau has been a reliable employer. The proportion of Swiss staff has been on the increase for years. Coordinating the work of the doormen, receptionists, waitresses, chefs de service, F&B, chefs de rang, sauciers and commis chefs (to name but a few) is "the boss's job", according to Emanuel Berger. "Motivating staff so that they are inspired to do their job in an entrepreneurial way is like being a conductor trying to coax harmony and rich tone out of an orchestra." Mutual respect is an important aspect of this. "We strive to build up a relationship of trust where staff feel they and their needs are taken seriously," says Rosmarie Berger. This attitude is evident from the hotel's own, comfortable staff quarters, and the staff restaurant, a bright, friendly room with a large sun terrace. The idea is that staff should feel like a guest here – they order à la carte, and the menu deliberately caters to national and personal tastes. What about staff turnover, a major problem in the hotel and catering industry? "Young people have to get experience at other establishments, and often move on," says Rosmarie Berger. "But our management is very stable, which is invaluable."

Motivating people by example

The Victoria-Jungfrau is open 365 days a year, "and 366 in 2004", as Emanuel Berger is quick to point out – and not every day is busy. How do you go about motivating a team during the low season? "When things are quiet you can't motivate anybody. Motivation is a state which staff must work on themselves," believes Emanuel Berger. "The best way of motivating people is to lead by example." There are good opportunities to do so on immutable dates such as Christmas, Easter and Mothers' Day: "These dates are traditionally the busiest time for the hospitality trade. Since we can do nothing to change them, we make sure we're fully prepared." On days like these, when all rooms and restaurants are full, the hoteliers and their staff can easily cover more than thirty kilometres on their way around the hotel: Emanuel Berger knows because he has measured the distance himself with a pedometer.

Supported by the Global Fund, Burundi is treading new paths in the fight against malaria, including spraying entire residential areas with insecticide.

Global partnership: Joint effort to fight malaria in Burundi

Nearly 2.8 million cases of malaria were reported in Burundi in 2001. Periodic widespread malaria epidemics were almost overwhelming the national health service and taking resources from other health programmes. The situation was exacerbated by war and movement of large populations of refugees and internally displaced people.

Nevertheless, the Burundi government was one of the first in Africa to see the need for a shift from existing malaria medication, which was proving increasingly ineffective against resistant strains of malaria, to a new generation of artemisinin-based combination therapies (ACT). As early as June 2001 the government recommended the use of ACT and lifted import duties on mosquito nets and insecticides.

A USD 14 million grant from the Global Fund is supporting a government programme aimed at reducing the impact of malaria by fifty per cent within three years. This is being done by greatly expanding the use of ACT, improving detection and distributing insecticide-treated bed nets. This will benefit the five million or so people (of a total population of six million) who live in malaria-endemic areas of Burundi.

One third of this money is being used towards the procurement of ACT to treat two million people a year. The rest will go to support other work, including residential spraying programmes. Thanks in part to the help of the Global Fund, Burundi's anti-malaria programme is so far on track for achieving its objectives.

PricewaterhouseCoopers and the Global Fund

The Global Fund (GF), established in 2001 on the initiative of the United Nations, is a public-private partnership involved in the worldwide effort to combat AIDS, tuberculosis and malaria. The GF is a funding organization that supports existing projects and strategies initiated by governments and relief organisations within the countries themselves. To ensure that the money is channelled properly and that financial transactions are monitored and documented, the fund has appointed local fund agents (LFAs) all over the world.

PricewaterhouseCoopers acts as LFA in Tanzania, Uganda, Ghana, Malawi, Burundi and Benin, and in future will also be responsible for Kenya and Zambia. PwC also works for the Global Fund in another eleven countries. The firm's global network, good local coverage and credibility make it the ideal partner for GF. Its involvement is coordinated by PricewaterhouseCoopers in Geneva, where the Global Fund also has its headquarters.

Photo: Ian Berry/Magnum Photos

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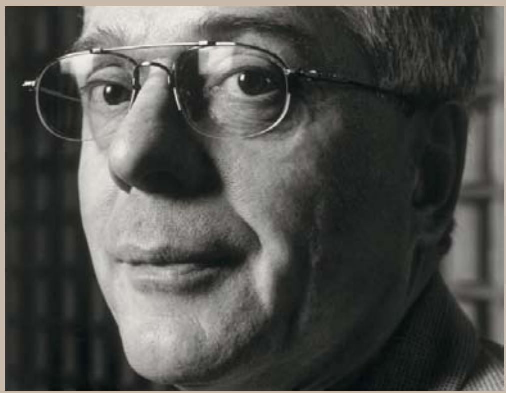
ceo forum/creativity and control

Peter Wüst
"I'm convinced that creativity can emerge any time, any place – not just in workshops, but in any department in an organisation."
08



Thomas Held
"The crazy desire of always being in control not only leads to unacceptable costs, but is increasingly choking social and political creativity."
06

Franziska Tschudi
"Innovations are not just high-tech, and certainly not restricted to the R&D department. We also have to keep moving forward in quality assurance and finance."
10