

# ceo\*

The magazine for decision makers. nov./dec. 2005

**Specialists.** Swiss companies are big in niche markets, and often world class.  
**CERN.** The first-rate idea factory for scientists is a challenge for managers.  
**Givaudan.** Empire of flavour and fragrance: A success story for the senses.



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Editors-in-chief: Alexander Fleischer, alexander.fleischer@ch.pwc.com, Franziska Zydek, zydek@purpurnet.com

Creative director: Dario Benassa, benassa@purpurnet.com

Concept, editing and design: purpur ag, publishing and communication, zurich, pwc@purpurnet.com

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Free subscriptions and changes of address: sonja.jau@ch.pwc.com



Markus R. Neuhaus,  
CEO PricewaterhouseCoopers, Switzerland

Switzerland's economy also relies on its ability to create niches. Among the welter of political and economic decisions pending in Switzerland, maintaining and promoting its strengths as a business location should not be lost from view.

In the previous three issues of ceo\* we reported on up-and-coming regions in the world. This edition puts yet another promising country in the spotlight – Switzerland. A characteristic of the Swiss economy is the host of enterprises that have carved out a niche market for themselves where they rank among the very top companies worldwide. It is worthwhile finding out what makes these specialists unique and what they all have in common.

Furthermore, it is to be hoped that the many niche players will tackle the task of succession planning in their own company in good time. It is a topic that holds great risks, as a current study conducted by our company and presented in this ceo\* shows.

#### Open up niche markets

Switzerland's economy also relies on its ability to create niches. The small home market and absence of raw materials leave the country no other choice. Among the

welter of political and economic decisions pending in Switzerland, maintaining and promoting its strengths as a business location should not be lost from view.

#### Acquiring new visions and new ideas

The global economy plays by Anglo-Saxon rules. That is a fact. But these rules leave considerable room for manoeuvre, which even a small country like Switzerland can exploit in innovative and forward-looking ways. It is the task of each state to ensure not just good but the best conditions for international competitiveness for its economy, its capital markets and its people. That doesn't mean building strongholds, but rather establishing openness, creating opportunities, encouraging exploration. In voting to extend the free movement of persons from the newly acceded states of the European Union, the Swiss people impressively demonstrated a new awareness: opportunity and openness are mutually reinforcing.

By opening themselves to external influences, they acquire new visions and new ideas. And these generate innovations that are often the basis of the business model of stars in niche markets. To a large extent, the

high density of patents and Nobel prizes in Switzerland is the result of this influx of talented people. However, it is also an important location factor.

Organisations such as CERN in Geneva, whose future-oriented and most exciting project is described in this ceo\*, make an important contribution to a climate conducive to innovation. Yet innovations are also created particularly when people meet to exchange ideas and information and to pass on personal experiences. Networks form the basis of such meetings. We talk about this subject, too, in this issue of ceo\*. For density of networks is also one of Switzerland's strengths.

I wish you a stimulating read.

Markus R. Neuhaus

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## Susy Bruschweiler: For many decision makers, networks are synonymous with uncomplicated exchange of information and experience. But they are not a gift – they require personal commitment and preparation.

Since 1995, Susy Bruschweiler has been the head of the Dübendorf catering company SV Group with 7,000 employees and a turnover of CHF 523 million in 2004. Bruschweiler is also a member of the board of Mobiliar insurance and of the pharmaceutical company Siegfried as well as a member of the executive committee of the Swiss Employers' Federation.

The question whether networks are a lubricant or inhibitor of the economy comes up time and time again. Yet it is the wrong question to ask. It is impossible to imagine the economy or politics without networks. They underscore the fact that nothing functions without relationships between people. It is also not surprising that the quite technical and formal sounding term “networks” is used to describe the diversity of interrelationships that exist today. In the past, the development and fostering of relationships led easily to patronage and created odd arrangements. For example, spending time in the military or studying together was sufficient for people to give each other offices and contracts on a grand scale, and to bring personal contacts to bear to obtain privileges. In the age of globalisation, performance and the information society, behaviour like this is utterly anachronistic. It is also on its way out. Today, the conclusion of a contract is more likely to be decided by

aspects such as competitiveness, proof of performance and competence.

Having the appropriate qualities is one thing. Ensuring that these are also known and appreciated in the market is another. And for me, this is the whole purpose of networks.

When I took over the position of CEO here ten years ago, I discovered that there were great discrepancies between what the company had to offer and how it was perceived externally. There was a lack of relationships with both politics and private enterprise. One of my most urgent tasks was to change this situation.

I attended events that I thought suitable for publicising SV Group as a modern, innovative and efficient company – and I still do so. I give presentations, state my opinion and answer questions. I thus give a face to the company and personally vouch for its credibility. Networks are ideally geared to public relations. They also qualify as instruments of customer retention and care. For the events that I attend often have existing or potential customers on their guest list too.

Networking has changed my day-to-day business. One CEO thinks of me, and respectively of the SV Group, when he wants to have an event organised. I can phone another to discuss a matter without first having to explain at length who I am and what I represent. I can send a third an e-mail asking him to have a quick look at a proposal of ours. Of course, by no means does this guarantee a contract. It does at least ensure that the proposal is checked, though.

The central aspect in connection with networks was, is and will remain that of belonging. However, from a content perspective, this has also changed a great deal over time. Whereas in the past the focus was often just on fostering egos, today for many decision makers the term “network” is synonymous with “uncomplicated exchange”. It is not a gift; it requires personal commitment and preparation. I remember well the first event that I attended. It was an invitation to an aperitif, presentation and supper, and I arrived a bit later because I did not want to be the first one at the event. In the foyer, the men – who are still in the majority even today – were standing together in groups, drinks in hand, engrossed in conversation among themselves. I did indeed have to give myself a push and go up to people. Undoubtedly, my sociability helped me a great deal there. Since then I have visited a countless number of events – as a participant and ever more frequently as a speaker. People now know me, and I receive many invitations. I accept those that appear to be a good platform for the SV Group. And if the topic of an event interests me personally, or if I meet people there who I am already friends with, even better. However, basically, networking is just one of my tasks as CEO of the SV Group. //

Photo: Mathias Braschler



# Peter Lorange: One way to renew a firm's competencies is to connect with external constituencies – other firms, research centres and academic institutions.

Peter Lorange is president of IMD (the International Institute for Management Development) since 1993 as well as IMD's Nestlé Professor of Strategy. Lorange is a US-educated Norwegian living in Switzerland. His area of academic expertise – about which he has written numerous books and journal articles – includes cooperative strategies and alliances.

Sustaining profitable growth is becoming a daunting task for many firms, especially in today's dynamic environment. Market opportunities may be fleeting, and strategies are quickly made obsolete through imitation and substitution. However, a firm's distinctive competencies – provided they are renewed continuously – are more enduring and will form a platform for business growth. One way to renew a firm's competencies is to connect with external constituencies: other firms, research centres and academic institutions. These connections shape a network that delivers value to all.

IMD's successful knowledge-based alliances illustrate the opportunities for growth that business-academic collaborations may bring. IMD works with 160 companies, mostly multinationals, from all over the world. Together they form the "learning network". In several forms, IMD presents research findings in areas that the members of the learning network have indicated are relevant. Companies in turn give

valuable feedback – it is two-way learning, give and take. In this "real life, real learning" context, in which IMD serves as a global meeting place, executives learn from faculty and from each other.

To provide relevant competency building to its learning network, IMD has to stay tuned to a wide variety of business situations. But even with extensive collaboration with members of IMD's learning network, and extensive investments in some 70 research projects, the school cannot always offer everything by itself. So it has formed strategic alliances with other schools, such as MIT's Sloan School of Management, EPF in Lausanne and ETH in Zurich, thus entering further complex collaborations.

In this highly complex environment, the key for success is the ability to mobilise the relevant knowledge sets. This requires (1) internal efforts at the school and (2) correctly managing the alliance at the points of contact.

1. Internally, IMD has chosen to abolish academic departments; the teaching and/or research teams will typically be multidisciplinary and cross-functional. It has also simplified title hierarchy, as classical academic title hierarchy is meaningless in a network organisation. People with relevant competencies complement each other in teams. A title hierarchy can only make such a network approach more difficult. Finally, contrary to most academic institutions, IMD has no tenure. Since the key to collaboration is to provide relevant research and teaching contributions, academic staff must be able to find their roles in this value-creating process, as judged by the learning partners in the network. If a member of the

academic staff is no longer able to provide relevant input, he or she will be asked to leave.

2. To facilitate collaboration in the network, IMD forms teams – consisting of members of faculty and senior staff – to manage relationships with the partners. It encourages the formation of a corresponding team in the companies it works with. A multitude of relationships will thus be established, not only one, say with the head of human resources or executive learning. Discussions between the teams typically tackle current business challenges, questions about the development of the firm's people, learning across organisational entities within the firm, and challenges in managing knowledge in the firm and its subunits. The teams seek to capitalise on low-hanging fruit to obtain more immediate results from the complex collaborations but also aim to develop milestones for more involved, far-out learning initiatives, typically requiring more development work both from IMD and the company.

Mobilising a larger set of stakeholders and the free flow of competencies helps all members of the network to increase creativity, think more proactively and continuously renew themselves. A win-win for all! //

Photo: Markus Bertschi





# Doris Portmann: We can and should participate in a variety of networks. Each network is unique and brings us into contact with new people all the time.

Since 1998, Brigadier Doris Portmann (52) has been the most senior woman in the Swiss Army and head of the Office for Women Serving in the Armed Forces.

In our networked world, many men and women wonder whether personal networks still serve any purpose at all, and whether the time invested in them might not be better spent in a virtual network. Indeed, members of the Google community claim that they have access all the time to all the information in the world.

And yet I maintain that personal networks are still important today, and are perhaps becoming ever more so. At the same time, they are not just there for the exchange of information. Rather, they are a means of making personal contacts, contacts which provide access to other people, contacts which may perhaps eventually lead to friendships, contacts which may be important professionally.

Networks do not develop by themselves. They require organisations and organisers. Above all, networks require a lot of time. There is no point putting in an appearance in a particular network once a year. On the contrary, people must bring their own personalities into the network so that they can then profit in return from the personalities of other people. And, as I said, this requires time: time to participate in meetings, to work at maintaining the network, in other words, exactly what we understand by “networking”.

There is an abundance of networks: political parties, the Army, service clubs and similar institutions, encounter groups, self-help groups, clubs of various kinds. I believe that there is no “either/or” here. Instead, it is a matter of “both ... and”. We can and should participate in a variety of networks. Each of the networks is unique and brings us into contact with new people all the time.

Networks are equally important for both men and women. Unfortunately, in everyday life I repeatedly find that women tend to dismiss networks. Most notably, they also do not see that women can be part of several networks at the same time. Why should participating in a “mixed” society of officers compete with sharing in a network of women doing military service? Why does a woman forego joining a service club when she thinks she has no time for it because of her family, while her other half – without hesitating – gladly answers the call? Why do capable and competent women follow Schiller’s Tell in believing that strong people rely on themselves and no one else? Together with other strong people, they could become even stronger!

The media often portray networks as a form of cronyism. Fingers point to the Army colonel at the top level of management at a major bank who is also a member of the Rotary Club. Open brackets – it could also just as equally sometimes be a “she” – close brackets. And what if! This alpha dog would probably also have had a career without the Army and Rotary Club. But maybe the networks have given him certain advantages. Through the Army and service clubs, he has gotten to know people whom he then had contact with professionally or was able to make contact with more easily.

Maybe an initial basis of trust was created between two negotiating partners because they did their military service together. And perhaps even personal friendships developed in these networks that will be of great benefit to those involved. Furthermore, the manager and the successful businesswoman work in Switzerland one day, in New York the next and in Singapore the day after that. Everywhere they will find personal contacts in a service club that may also cater to families, and that may help them to settle and live in a strange place. Are these examples that negative? Hardly! We should not forget either that knowledge, too, is conveyed in a whole variety of networks. This knowledge can apply to a particular area, for example in a professionally oriented network or a political party. However, a whole variety of topics can also be addressed. For instance, presentations in a service club provide introductions to a whole host of subjects. Maybe the networker will discover a hitherto unknown topic that is worth developing further, for example the basis for a new hobby or a new occupation.

Networking has a multitude of positive aspects. I am convinced that it is personally worthwhile for all of us to participate in networks and to support them. We can profit greatly from them for a long time to come! //

Photo: Gee Ly



## forum4. networks

# Lars Hinrichs: The more prepared you are to share your contacts with other people, the greater the reciprocal effect. Because sharing helps contacts to multiply.

Lars Hinrichs (28) is founder and CEO of the Open Business Club (openBC), Europe's foremost networking platform for contact management on the Internet. The platform was launched in 2003 with fifty members. Today, it has 500,000 users from more than 200 countries.

I have been involved with networks for as long as I can remember. In 1998, right after leaving school, I set up my first company, "politik digital", an Internet magazine focusing on the interconnection between politics and the digital world. Today, I have turned my favourite pastime into a business: I bring people together.

If we assume that everyone knows everyone with six degrees of separation, then potentially we all have a huge number of contacts that we can make use of. Everyone who is involved in professional life knows that the greatest business potential is not to be found in existing contacts but in contacts that are one degree further away. The shorter the chain of links between business partners, the more likely those links will result in a commercial deal. We show the users of our platform how many degrees removed they are from other people, and we make it possible for them to construct their networks themselves. Who knows whom? That is what we make visible to our members. The more you invest in your personal network, the more you get out of it. And the more prepared you are to share your own contacts with other people, the more positive the reciprocal effect on you.

Because sharing helps contacts to multiply. When we launched openBC on 1 November 2003, we never dreamed that we would expand to such an extent so quickly. We have a monthly growth rate of 10 to 15 per cent. We acquire 80 per cent of our members through users who recommend us. We are now the market leader in Europe – and the only profitable company among 300 social software suppliers around the world. We have 15 employees in the team at our Hamburg head office, as well as 20 country managers who operate locally in various countries according to the franchising principle. openBC is currently available in 16 languages so that members can communicate in their respective native language, the first offering of this kind ever. In addition to professional contact management, our members can find almost 2,000 forums on specialist topics on openBC. Every member is represented on openBC with a short professional profile. The users themselves decide which additional information they pass on and how open they want to be with their contacts. As a basic principle, we do not publish any address data. Every exchange of information on the platform is done via a secure connection in encrypted form. openBC is financed through the sale of premium memberships. Despite the relatively low fee, we achieve a very high cumulative value thanks to our constantly growing membership. Our offering is directed at business people across the globe – particularly entrepreneurs at the mid- and top management levels. Our goal is to have ten million users of our technology by 2007. At the moment, the main regions of growth are Eastern Europe and Asia, in particular.

We do not want to compete with personal contacts made through conventional business clubs. Instead, we want to provide an excellent supplementary service to traditional approaches by bringing a new technical dimension into networking. Our members benefit from the digital advantage of having immediate access to information 24 hours a day and 7 days a week. Due to the great demand, we have also recently started licensing out our technology as a networking tool to third parties such as major companies, universities and organisations.

Fifty years ago, professional networks were not as important as they are today because people spent their whole working life at the same company. This has changed a great deal and will change even more in the future. Trend researchers predict that we are approaching the age of the project economy. People will generally work in several functions. And companies will put together varying teams to solve specific tasks. The more we enter a project-oriented environment, the more important the time advantage will be. This advantage can be gained by creating added value yourself with the help of a wide-reaching network. In twenty years' time, we will all be more networked than today. A nice perspective. Because if everybody were networked with everybody, we would undoubtedly have fewer problems in the world. //

Photo: Henrik Spohler



market switzerland. niche players.

# The strong specialists.

Many Swiss companies make a profit, boast a clear strategy and have an abundance of entrepreneurial spirit. And more often than not, they are world class to boot.



Jürgen Mayer, Maxon Motor AG



Claudio Hintermann, Abacus AG



Felix Richterich, Ricola AG



Text: Bernhard Raos  
Photos: Thomas Eugster

When Jürgen Mayer, head of the Swiss motor manufacturer Maxon, wants to get his team going, all he has to say is: “We have 30 per cent of the world market in our niche. That means we need another 70 per cent.” Be more innovative than the others and grab every opportunity – armed with this blueprint, the niche player from Obwalden has become the global leader in supplying electrical mini-motors. Swiss companies are putting their faith in niches because of the competitive advantages a high degree of specialisation and a tight market focus can bring. According to Urs Fueglistaller, director of the Swiss Research Institute of Small Business and Entrepreneurship and a professor at the University of St Gallen: “Niche players are more versatile, more decisive and quicker than large companies. In big organisations, a lot of energy and resources are wasted on internal trench wars.” Nor is Fueglistaller just spouting theory: his institute sounds out companies in Switzerland on a regular basis using targeted surveys (see also the article on succession planning, page 33). Only a tiny fraction – 0.3 per cent of Swiss companies – have more than 250 employees. A good CHF 300 billion of the CHF 400 billion that make up the Swiss gross national product are generated by small and medium-sized companies. Size, though, is relative. For instance, the herbal candy producer Ricola in Laufen BL, which employs 390 people worldwide, still sees itself as a medium-sized company. So the decisive factor in market success for these global niche players is not size but rather their concentrated strategy: “We either do something properly or not at all,” explains Felix Richterich, Ricola co-owner and chairman of the company’s board of directors.

#### Platform for ambitious companies

In specialised, privately owned companies, innovative ideas are generated, and visions dynamically implemented. With SME Ambition, PricewaterhouseCoopers has established a community of interests for ambitious small and medium-sized companies in Switzerland. This platform facilitates the exchange of knowledge and experience, offering a range of services that are tailor made to meet the requirements of these companies.

Contact: peter.schmid@ch.pwc.com

Ricola is perceived as an authentic brand around the world, a factor that contributes to higher margins.

In contrast to large publicly owned companies, privately managed companies are not required to disclose financial information. Their profitability remains a company secret – and that, too, is arguably one of their success factors. Expert Fueglistaller lists some others: “With small and medium-sized companies, the charisma of the entrepreneur is often decisive for success. He often combines the functions of equity supplier, top manager and risk taker. In a company like that, there is also close personal contact with the employees.” According to Fueglistaller, many niche players are also one step ahead when it comes to service mentality. “These companies know the requirements of their customers very precisely and respond to them with individualised solutions.”

#### Courage and the willingness to take risks

Professor Fueglistaller’s ideas are borne out in numerous examples from business practice. Take the company Thermoplan in Weggis LU, a manufacturer of specialised food service equipment. This family business with 120 employees and a turnover of CHF 80 million is run by Domenic and Esther Steiner. Six years ago, the innovative couple pulled off their biggest coup so far: Thermoplan beat well-known rivals to become the exclusive supplier of the American coffee house chain Starbucks. Twenty thousand coffee machines have been supplied to date. Ninety per cent of the machine components come from Switzerland. Thermoplan now counts other large groups such as IKEA, McDonald’s and Burger King among its customers. Courage and the willingness to take risks have paid off. For Rolf Dobelli and his Internet company

getAbstract, things have also worked out well. getAbstract supplies business literature in compressed form for downloading. The company’s lean, intelligent summaries have already attracted 150 corporate customers, including UBS, CS, Microsoft, Deutsche Telekom and PricewaterhouseCoopers. getAbstract was founded seven years ago in the middle of the dotcom euphoria. It survived the crash and today runs a profitable business with 20 permanent employees and 120 freelance journalists, and has registered offices in Lucerne and in the USA.

#### Sufficient boundary conditions demanded

Dobelli declines to reveal profit figures, but says: “On average, we are growing by 40 per cent a year. In 2004, 2.3 million abstracts were downloaded.” A second pillar of business will be “world literature compact”, appetisers from Hesse, Brecht & Co. distilled to a maximum of eight pages. “This business will develop more slowly,” reckons Dobelli, who also writes novels himself. Nevertheless, the business objectives are ambitious: in five years’ time, he would like to see turnover increase tenfold. Markets with high growth are often driven by strong demand, where market clout enables higher margins. Ultimately, the principle applies to all sectors: successful market leaders consistently and systematically pursue a strategy of profitable growth. So long as they are allowed to. If the regional survey conducted last year by the St Gallen-Appenzell Chamber of Industry and Commerce can be considered a thermometer, then the temperature at many small and medium-sized companies is rising. Today, political and monetary stability alone are not sufficient boundary conditions. Fifty-eight per cent of the companies surveyed feel hampered by the regulatory environment. More than half would support the demand that, in the future, new laws be compatible with SMEs. Fully 93 per cent demand fiscal relief on succession arrangements and would like to replace the double taxation by a capital and assets tax. That Switzerland still has a long way to go before it has caught up in this respect was summed up by Secretary of State for Industry and Commerce Joseph Deiss at mid-year: “To be innovative, companies need freedom to act. Too many regulations, guidelines and rules make their life difficult. This is where we need to start if we want to remain competitive at an international level.”



## niche player 1



Jürgen Mayer, CEO and chairman of the board of Maxon Motor AG, specialising in components and systems for precision drive technology.

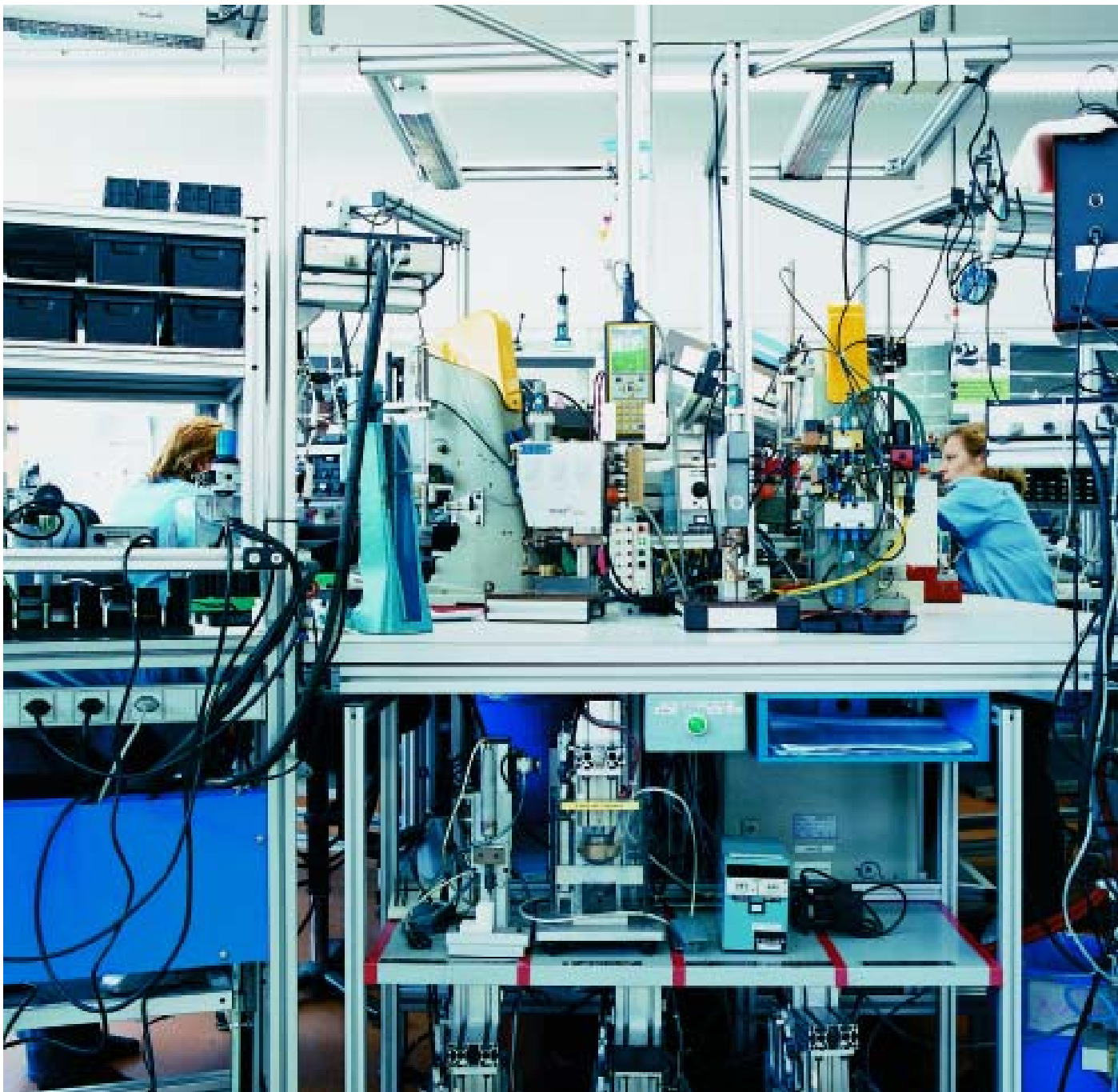
### Maxon Motor: Shooting star with micromotors.

Four million highly specialised mini-machines are produced every year in Obwalden – and the possibilities are still far from exhausted.

Maxon Motor AG supplies components and systems for precision drive technology. At the entrance to the company complex in Sachseln OW, a board displays the following message: “Those who simply stalk their competitors will not find any lucrative markets.” The company credo is signed by the CEO and chairman of the board, Jürgen Mayer.

During a tour of the premises, the dynamic 65-year-old proudly demonstrates that such principles are not just there for effect. At production robots worth millions and on

high-tech production lines, world-class small motors are made here for practically every area of application – from credit card readers to ticket machines, flat motors for the industrial and automotive sectors, special medical appliances, not to mention the drive systems of the Mars robots for both the National Aeronautics and Space Administration in the USA and the European Space Agency in Europe. Although the



In Sachseln, small motors for practically any field of application – from credit card readers to drive systems for robots – are being developed.

space motors account for less than 1 per cent of overall Maxon sales (CHF 226.8 million in 2004), they are an excellent advertisement.

In his office overlooking Lake Sarn, Mayer lays a tiny motor on the table. Weighing three grams and measuring six millimetres across, the motor can do 100,000 revolutions per minute. "I am convinced that even one-millimetre motors are possible. The only question is whether they actually make

sense," says the engineering graduate. There is no lack of ideas for new applications. Mayer can even imagine a drive that strengthens flagging human sphincters. The company is hoping for substantial growth from medical technology. "In this sector we are merely at the beginning of a tremendous development." In addition to the existing company, a building with 6,000 m<sup>2</sup> of production space has been taken over, and it is here that the medtech division will be housed. CHF 12 million is to be invested – financed from the company's own funds. The first half of 2005 was the most successful period yet in the company's history.

Mayer is therefore unconcerned about the future. He says a doubling of turnover is possible within five years, though not on his watch – Mayer is scheduled to retire in 2006. His successor will come from the management team. It is also planned to establish a group management with divisional responsibilities.

Maxon still sees itself as a medium-sized company strongly defined by Mayer. The



Swiss top technology in space: In 2004, the NASA Mars vehicle "Spirit" made a successful landing on the Red Planet, followed by "Opportunity", NASA's second vehicle. In each of the two missions, 43 electric motors were used, 39 of them made in Sachseln.



**"We are only a successful niche player as long as we have the technological leadership."**

label "boss" does not disturb him – on the contrary: "Employees need direction. I am close to the people, maintain contacts and provide information openly." Every month, every department knows where they stand financially and with regard to quality standards. All employees receive a bonus that is tied to the success of the business. Last year, the bonus was the equivalent of a month's salary. Mayer does not forget to praise Maxon's owners, the German industrial family Braun: "They make this wage policy possible for us." Since its founding 40 years ago, Maxon has grown from 36 employees to 1,400 worldwide and the three production sites in Switzerland, Germany and Hungary. In the intervening decades, Mayer has experienced the company's highs and lows. One crunch came in the 1980s, when major customer Grundig suddenly moved its video production to the Far East, taking half of the Maxon's sales with it. Hard times hit again when, at the turn of the century, the semiconductor market was in a crisis and the company had to make people redundant. Now, in the interest of independence, no one customer may account for more than 10 per cent of total sales. "Those who ignore change will end up ruined," goes one of Mayer's maxims. How did the global leader in micromotors – four million are currently produced each

year – end up in Sachseln, of all places, far from the major industrial centres? In the 1960s, when the Braun family was looking for a site in Switzerland, the Swiss federal government made economically underdeveloped Obwalden attractive to them. They stayed. CEO Mayer, a fan of the rural idyll, does not, however, downplay its disadvantages. "The tax burden, for individuals in particular, is comparatively high, and important transport connections – such as the Zurich airport – are a long way away." Mayer views the lack of technical personnel as a real problem: "We need engineers and draughtsmen. These areas are evidently not sexy enough for young people today." In the long run, he thinks this shortage will be fatal for Switzerland as an employment location. For "we are only a successful niche player as long as we have the technological leadership in our applications." Those who are not faster, better and more innovative than others, he believes, have no chance against the cheaper competition from Eastern Europe or the Far East. Production at Maxon is highly vertically integrated. For example, the company develops many of its own machine robots and materials tech-

nologies, such as special injection-moulding procedures for ceramics, and metal powder. Mayer's satisfaction is evident when he touches on the subject of "human robots". Here is where Maxon outcompeted the Japanese. Among other things, the company supplies the drive motors for the human-like robot Honda 7. And Mayer would not be Mayer if he did not have another one of his catchy core aphorisms at the ready: "A complaint about the severity of the competition is really often only a complaint about the lack of ideas."

**Maxon Motor AG, Sachseln**  
 Home page: [www.maxonmotor.com](http://www.maxonmotor.com)  
 Year of establishment: 1961 (under the name of Interelectric Sachseln AG)  
 Number of employees: 1,400  
 Sales: CHF 226.8 million  
 Products: High-quality drive components and systems  
 Owners: Main shareholder Karl-Walter Braun  
 CEO and Chairman of the Board: Jürgen Mayer

## niche player 2



Felix Richterich, Chairman of the Board of Ricola and grandson of the company's founder, Emil Richterich, in the Ricola herb garden.

### Ricola: Global success with Swiss herbs.

Around 235 million packets of herbal candies and instant teas are sold in 50 countries every year – all grown and produced in Switzerland.

The scene in the meeting room of Felix Richterich, chairman of the board of the sweet manufacturer Ricola in Laufen BL, is typical: when the 47-year-old does not reach his secretary straightaway to divert phone calls during the interview, he pulls out the plug of the telephone with no further ado. The grandson of the company founder Emil Richterich doesn't do things by halves: "We either do something properly, or better not at all."

His response to the question whether he still enjoys sucking one of his own sweets sounds like something from an advertising spot: "I have one of our products in my mouth at least once a day. I also often have one in my mouth to test new mixtures." His favourite sweets are the sugar-free Fresh Pearls herbal candies. He always has a packet of these with him. Richterich is responsible for brand management and strategy. At the beginning of 2004, after 16 years, he handed over the helm of oper-



The Ricola administration building, built in 2000 by Herzog & de Meuron: around 1,000 tonnes of plants from more than 220 Swiss agricultural establishments are made into sweets in Laufen every year.

ational management to Adrian Kohler, then head of finance.

A few key indicators: in 2004, the Ricola Group, which also includes the sweet manufacturer Disch (Sportmint) in Othmarsingen AG, achieved a sales figure of CHF 244.5 million with 390 employees worldwide. With 4.9 per cent growth, Ricola exceeded the industry average in the international sweet market of between 1 and 3 per cent. The 235 or so million packets of herbal candies and instant teas are sold in 50 countries. A good four-fifths of production – everything is produced in Switzerland – is destined for export. In the domestic market Switzerland and in the main markets France and Germany, as well as in Hong Kong and Singapore, Ricola is among the market leaders in its niche with shares of between 12 and 26 per cent. The company does not publish any profit figures, but maintains that up to now it has been possible to finance investments largely out of revenues.

Success is not a pillow to slumber on, though, as Richterich knows: “We, too, have to compete against cheap products and hold our own on the sales shelves of the retailers.” The competition for the best till places for consumer goods is tough and expensive. The trade demands listing fees – and if sales decrease, the product disappears from the shelves. “In addition to the cultivation and further development of the brand, that is the biggest challenge for a medium-sized company,” says Richterich. To survive against market giants like Cadbury or Proctor&Gamble, which are worth billions, Ricola has to depend on strong distribution partners. Ricola has its own sales companies only in Switzerland and North America.

Richterich emanates the self-assurance that comes with success: “Our product is qualitatively superior. The consumers and retailers honour that.” Ricola is viewed as an authentic brand, and he is proud that it occupies top positions in the various brand ratings. The most important product in the range is still Ricola Swiss Herb Candy. The recipe for it dates back to 1940 and is a

“Other countries also supply high quality. We have to continually work to maintain our standard.”

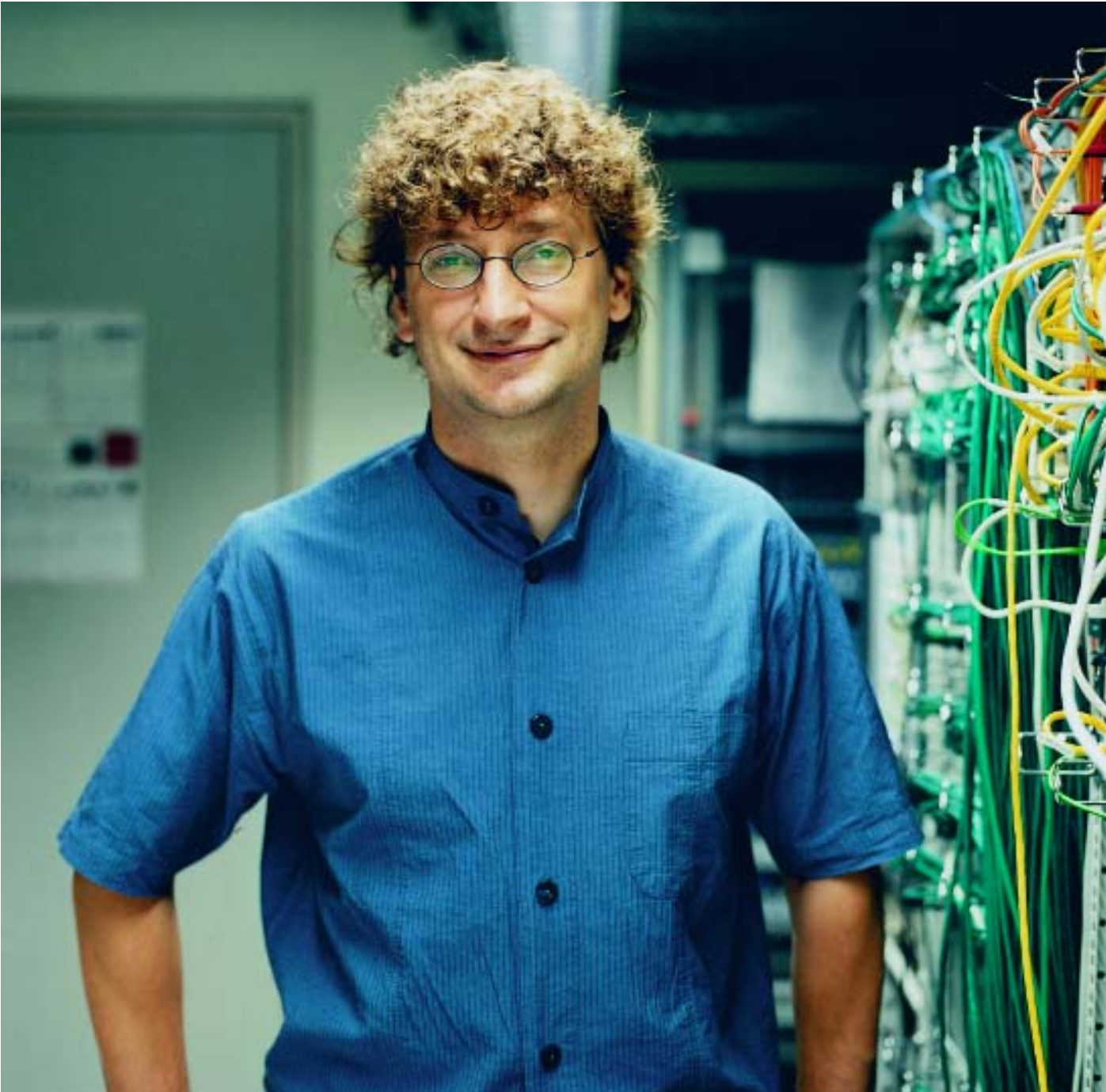
company secret. The ingredients, however, are known. Take the essence from ribwort, lady’s mantle, elder, marshmallow, peppermint, thyme, sage, cowslip, horehound, burnet, veronica, mallow and yarrow, mix all that with sugar or sugar substitutes, add natural aromatic substances and colourings, and the “hard cube candy with a slightly rough surface” is done.

In Laufen, the delicate scent of lemon balm and sage from production at Ricola provides a local aromatherapy. The candies contain exactly what the label says they do. Every year, around 1,000 tonnes of fresh plants are used, acquired mainly from some 220 agricultural establishments in the Valais, Emmental, Poschiavo, Jura and in Central Switzerland. A good two-thirds of the herb farmers bear the “Bud” label from Bio Suisse. All the plants for Ricola are cultivated in a controlled and environmentally friendly way – that means without herbicides, insecticides or fungicides, as well as without artificial fertilisers. “We pay attention to quality throughout the entire production process,” says Richterich. However, he is wary of Swiss complacency: “Other countries also supply high quality. We have to continually work to maintain our standard.” Richterich praises the competence of his staff and continues to put his faith in Switzerland as a business location. Ricola is currently constructing a new production building in Laufen. The company is counting on the bilateral agreements with the EU, which will ensure a level playing field in Ricola’s most important markets.

#### Ricola AG, Laufen

Home page: [www.ricola.com](http://www.ricola.com)  
 Year of establishment: 1930  
 Number of employees: 390  
 Sales: CHF 244.5 million  
 Product range: 45 herbal candies and tea specialities  
 Owners: Richterich family (100%)  
 CEO: Adrian Kohler  
 Chairman of the Board: Felix Richterich

## niche player 3



Claudio Hintermann, CEO of Abacus, has cause for satisfaction: in the first half of 2005, better results than ever before were achieved.

### Abacus: Tailor-made software solutions.

At 30,000 Swiss companies and in more than 300 local agencies, business software from St Gallen is already in use – a trend on the upswing.

Since the company was established in a student flat in St Gallen, the software architecture enterprise Abacus has been in the black. The first half of 2005 was the most successful for the company ever. Abacus is the market leader in business software for Swiss companies with between 10 and 250 employees. To date, it has sold almost 60,000 modules and is in use at 30,000 companies. Abacus has a long list of customers that includes, among others,

more than 300 local authorities, the canton of Thurgau and all Swiss diplomatic missions as well.

Claudio Hintermann, CEO of Abacus, actually never wanted to be the boss: "My three partners thought that, with my relaxed manner, I could best represent the company externally." Indeed, the curly haired 46-year-old who frequently sports jeans and a T-shirt does not quite fit the popular image of a boss of a company with 150 employees and estimated annual sales of CHF 30 million. Hintermann explains the lack of offi-



The new Abacus building – a hint of Silicon Valley in St Gallen. The company earns its money with licences, maintenance and training. Sales partners see to the sale and implementation of the software modules.

cial figures from Abacus with the business model the company has followed ever since its beginnings 20 years ago: “As soon as figures are mentioned, it is then only about money and this or that rating. That is not the goal of our company, and it distracts us from the basics.” He says Abacus is managed with an eye to keeping the company engine running properly. Abacus is one of the few remaining independent Swiss software suppliers and must now beat off the competition from giants such as SAP. Hintermann appears unperturbed. “Elephants choose elephants. Smaller animals also prefer to keep among themselves.” Abacus has an important advantage: they offer industry-specific solutions along with all the Swiss specifications. The St Gallen company is anticipating a boost from the digital signature agreement signed at the beginning of July with the Swiss postal service, which paves the way to the electronic registered letter. This development builds on technology from the

company SwissSign, in which Abacus had a stake. The small company has now been taken over by Swiss Post, and the certification process is under way. The digital signature has already been integrated into the next version of the Abacus software “digital erp”. Soon it will be possible to send and store legally signed business documents digitally, from annual financial statements to individual receipts. Because “digital erp” supports original documents, in future paper will no longer be required in business correspondence or in accounting. Abacus obtains its revenues mainly from licenses, maintenance contracts and training courses. Around 50 sales partners attend to the sale and implementation of the software modules. The company has worked with most of them for many years. One reason is that the software architects stayed on the ball and completed the introduction of new platforms on time – from DOS through Windows to Java and Open Source. “In our industry, you have to be paranoid and constantly fear the next technological leap,” says Hintermann. Ten per cent of the company’s employees are work-

“In our industry, you have to be paranoid and constantly fear the next technological leap.”

ing on a new server-based platform – an investment costing millions that will pay off from 2007 onwards. Abacus would then have a tool for developing the international market, too. But that is all still to come. What is real right now is the company’s elegant calling card on the outskirts of St Gallen: a futuristic glass building with an imposing pyramid of lights, marble floors and fountains, an auditorium for almost 200 people, a fitness centre for employees – well frequented during the lunch break – and not one, but three bars. The employees are meant to feel at home here, and the individual departments are expected to function as a team, not to compete against one another. The pizzeria and fancy bar are also open to the public. The four owners invested approximately CHF 20 million. Hintermann dismisses criticism that it is too extravagant. “Should we have invested in yachts or holiday homes?” he asks. He prefers to measure success by employee and customer satisfaction rather than by his own wealth. “In this way,” he says, “we also remain agile in our markets.” He likes the metaphor used by the St Gallen university professor Urs Fueglistaller from the Swiss Research Institute of Small Business and Entrepreneurship to prefix his message of greeting on the occasion of the 20-year anniversary of Abacus: “Dancing on the volcano has paid off.” //

**Abacus AG, St Gallen**

Home page: [www.abacus.ch](http://www.abacus.ch)  
 Year of establishment: 1985  
 Number of employees: 150  
 Sales: CHF 30 million (estimate)  
 Products: Business software for SMEs  
 Owners: Claudio Hintermann, Eliano Ramelli, Daniel Senn, Thomas Köberl  
 CEO: Claudio Hintermann

# trend. emotion vs. calculation

## How do you make rational decisions?

By accepting that rationality does not exist.

Professor Klaus Scherer<sup>1</sup> from Geneva has been carrying out research on the interaction between economics, psychology and philosophy. And has arrived at some astonishing results.

Interview: Franziska Zydek

ceo: What is behind the claim that “good decisions are made in the mind and not on the basis of gut feeling”?

Klaus Scherer: For more than 2,000 years, people have been reflecting on human nature. This is how long this alternation between the idea that humans are controlled by pure rationality on the one hand, and the ideal of intuitive decision behaviour guided by emotions on the other, has been going on. We now know that the basic differentiation between the rationality of the mind and “gut feeling” is not correct. Emotions do not take place in the stomach or in the heart – emotions take place in the mind!

Is this a victory for the proponents of perfect rationality?

Quite the opposite! Today, we increasingly recognise that perfect rationality is a meaningless, theoretical and extreme situation that cannot function at all. The idea of perfect rationality is based on the assumption that we have all the information we

need at our disposal and are therefore capable of making an objective assessment of the situation. However, this notion is utterly unsubstantiated, because there is never a time when all information is available. To really collect all of the information would extend the decision process ad infinitum. However, the longer a decision takes, the more expensive it becomes. Furthermore, with time, certain alternatives are eliminated and factors change – new information replaces old information.

So in your opinion, pure rationality does not exist at all?

Actually, it is logically impossible. Rationality assumes that we have clear, so-called transitive preferences, i.e. A, B and C follow one another hierarchically, and, in this order, we prefer to opt for A. Preferences with decisions, however, are not transitive. The hierarchy with decisions always depends on a comparison, meaning we are faced with alternatives that do not have a clear ranking. This makes a perfectly rational decision impossible.

Today, many business decisions are made on the basis of a rational cost-benefit calculation.

For rational reasons, purely rational cost-benefit calculations are not at all possible. In highly complex situations, we cannot know everything. In addition, there is the problem of defining benefit. The early

English economists spoke of “pleasure and pain” as the basis of benefit. Benefit brings joy, desire, satisfaction – but these are psychological processes. Centres of desire in the brain are activated, and the degree of intensification influences the evaluation of the benefit. Profit is therefore benefit because it creates pleasure. Consequently, benefit differs from individual to individual.

But for CEOs, benefit is the factor that brings their companies profit ...

Is profit just the sum of money below the line, or is it the aspect of satisfaction which profit brings? For CEOs, which kind of profit brings more pleasure – high profit, or low profit that is maybe achieved with less cost? Or can satisfaction be greater if a lower profit has been achieved without having to make some of the workforce redundant? This is where rationality starts to unravel. A person's own requirements, objectives and feelings come to the fore. That is why emotion cannot be separated from rationality, and vice versa.

How does this inseparability influence the decision process?

Making a decision means integrating a multitude of information very quickly: opportunities, benefits and causalities. This often has to be done in the space of a few

<sup>1</sup>Klaus Scherer lectures and conducts research at the University of Geneva in the area of experimental and applied psychology, including emotion, stress, personality and communication. He is a specialist for the application of scientific findings in the area of business and administration, and is the director of a new national research institute, the Centre for Affective Sciences.





milliseconds. People do not function according to mathematical formulae like computers. In short-term decision processes, no cognitive or calculative machinery can be used in the brain. Here, a person resorts to knowledge from experience – in psychology, we call this “stored schemata” with a strongly affective character. These are strong feelings from the past that are frozen as experiences and can be retrieved over and over again. Our entire life experience is stored in these schemata. When we are pressed for time, they are retrieved from our long-term memory.

**Does this mean that we subconsciously fall back on old experiences?**

In part, these are actually ancient experiences, so-called evolution schemata. Certain reflexes derive from the phylogeny of mankind, and the genetically recorded emotional reactions to these are stored in affective schema. One example that fits very nicely in the business context is the evolution schemata: strength equals survival. In addition to this, there are also the personal and life-story schemata.

**And all these schemata have an influence on the decision-finding process?**

In most cases, to positive effect! For those people who can retrieve suitable schemata quickly will make the best possible decision in each case.

**How do we store the correct schemata?**

Reacting with the right emotions in important situations is decisive. The constellation

**“When coming to a decision, CEOs should try to interpret and evaluate situations in the light of their own objectives and values. This is the art of proper event assessment and the ability to cope with these situations and their consequences.”**

of events in the reaction becomes part of our long-term memory and our personal affective schemata. Or, put another way, the more a person was able to react in an emotionally correct manner in the past – to react in an emotionally intelligent way – the better the emotional schemata that then guide his or her decisions later. And this includes rational decisions too!

**Can you give a simple example?**

Your car skids on snow and you act properly, subconsciously and without emotions, i.e. you are guided easily by your affective schema. If you were aware of the danger of skidding, you would react in the wrong way. Our decision processes are always made at different levels, some of which include frozen life experiences as affective schemata. Then there is a higher level where the aspect of reflection plays a role. And then

an even higher one where calculation occurs: if I do this, then the probability of that ... is ...

**So it is of relevance for CEOs that they act at the right time on the right level?**

When coming to a decision, CEOs should try to interpret and evaluate situations in the light of their own objectives and values. The specialist term for this is “appraisal”. This is the art of proper event assessment and the ability to cope with these situations and their consequences. In short: the correct assessment of our own ability to act.

**Can this ability be learned?**

You can develop it, for instance, with conscious reappraisal. You force yourself to reassess situations as soon as you notice that you have assessed something wrongly. And frequently, you arrive at completely new results in doing so. You can thus manage yourself and look for alternatives. It is a pity when people become carried away by their emotions to such an extent that they are unable to carry out a reappraisal.

**In a moment of great emotionality, how do you realise that it is time for a reappraisal?**

By tackling these physical mechanisms. There are many degrees of awareness, and we are constantly active on several levels. There are people who continue working on one level while they are undergoing reappraisal on another. That is the fine art behind it – and there are very elegant solutions that can work in this way! //

# ceo3/05.pwc expertise

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# Compliance: Growing risks in M&A transactions.

As a result of globalisation and more stringent requirements of national and international regulators, analysing potential acquisition targets has become more complex. Subjects such as Corporate Governance and Compliance are therefore a top priority for Boards of Directors, CEOs and CFOs.

[kurt.hausheer@ch.pwc.com](mailto:kurt.hausheer@ch.pwc.com)

In the search for revenue and profit growth many enterprises are increasingly also making acquisitions abroad – in particular in emerging and developing countries. Such an international focus means that the enterprises must find their way through various cultures and have to observe different legal environments and accounting principles. With growing globalisation, organisational complexity is also growing and therefore the risk that enterprises – or parts of them – are not in compliance with all the applicable regulations. At the same time corporate scandals and collapses in the recent past have resulted in regulators subjecting private and especially publicly quoted enterprises to ever more and stricter rules. Corporate Governance and Compliance are therefore a top priority for Boards of Directors, CEOs and CFOs.

According to a PwC survey, in the USA Corporate Governance and Compliance are key topics in management committees, because the majority of managers expect the risk of fraud to increase in the next few years (see diagram p. 28). Such a development can be met only with further strengthening of internal and external control systems.

Structured organisation of business processes and embedding the enterprise in a web of internal and external rules are often perceived as a financial and organisational burden. But one can also see the implementation of the necessary organisational Corporate Governance and Compliance arrangements as an opportunity, because it is a question of making business processes more efficient and effective.

## An extension of the analysis of target companies is needed

The World Bank estimates that worldwide annually more than USD 1 trillion is paid in bribes. For multinational companies and their representatives white-collar crime – including bribery – represents not only a very high financial risk but also a considerable reputational risk, as the current case at VW illustrates.

The danger of purchasing such criminal events by acquisition of a company requires an extension of topics covered in the Due Diligence examination and the integration phase. In order to fulfill the regulators' requirements and to minimise the danger of criminal events in acquiring enterprises, possible acquisition targets must be carefully illuminated and analysed. And that means that in addition to examining classical areas such as strategy, finances, taxation and pension commitments, increasingly aspects such as Corporate Governance and Compliance, internal control systems (ICS) and fraud must also be looked at. In order to determine the risk profile and accordingly the additional areas to be investigated, the following questions must be answered:

Where?

Geographical location of the object company, group, customers and suppliers

Who?

Management structure and team, staff, customers, agents, advisers, sellers, intermediaries, regulators

What?

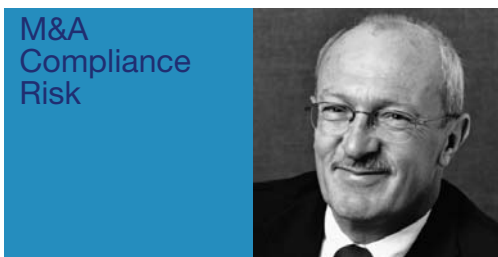
Industry, strategic suitability, finances, ICS, Corporate Governance, Compliance, corporate policy, valuation, business practices, economic forensic evaluation

Why?

High corruption index, past history of the target company, reputational risk

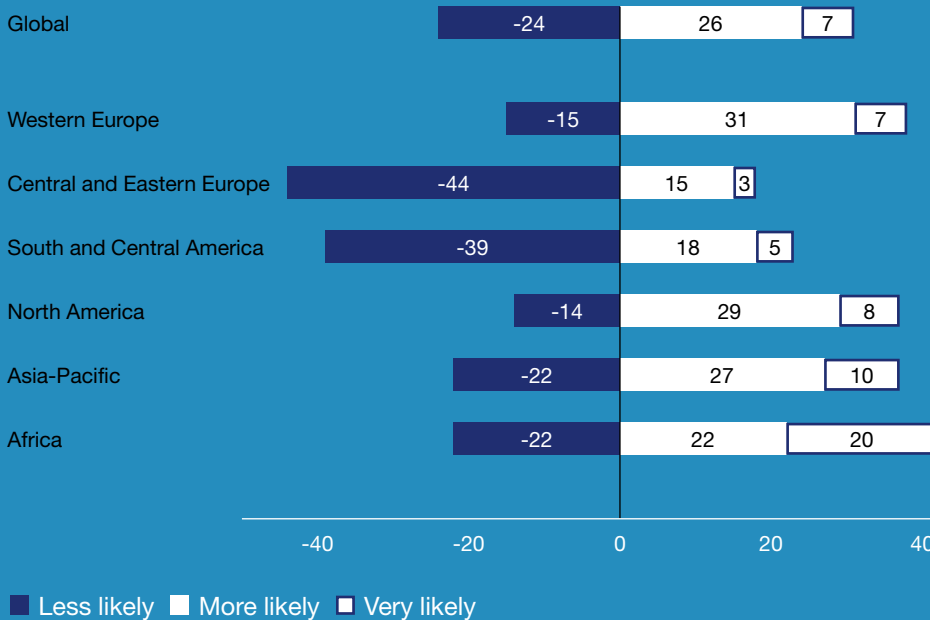
Other?

Language, accounting, legal environment, negotiating strategy and tactics



Kurt Hausheer, Leader Advisory, Zurich.

## Expectations of risk of fraud for the next five years



The responsibilities of companies and management are increasing

The Sarbanes-Oxley Act is the most important legislative revision for capital market participants since enactment of the securities laws in 1933 and 1934. Its global application bestows great significance on this body of legislation. In Switzerland only 14 large companies are directly affected, along with numerous Swiss subsidiaries of international groups that are listed on a US stock exchange. However, the law influences not only the Corporate Governance discussion but also the interpretation and form of laws already in existence. The reasonable assurance required of the internal controls that payments and expenditure are authorised by management and the controlling bodies extends the scope of the Foreign Corrupt Practices Act (FCPA), which represents the statutory basis for the public prosecution of crimes such as embezzlement, bribery and fraud. Companies and their decision makers have to reckon with draconian pecuniary fines and penal sentences, if appropriate care cannot be adequately documented. Based on the FCPA, ABB, whose subsidiary companies in Nigeria, Angola and Kazakhstan are said to have paid about USD 1 million in bribes between 1998 and 2003, was fined USD 10.5 million by the US Department of Justice. In addition, ABB agreed in the ensuing procedure with the SEC to pay to the SEC USD 5.9 million of profits earned, including interest and a fine of USD 10.5 million, without admitting or denying the charges raised.

In an ideal acquisition process initially the potential purchaser has access to useful information for answering the many open questions only by means of an information memorandum, a data room and management presentations. Under exclusivity a more in-depth insight into the target company is possible, but full access is granted only on closing. Therefore, until signing, a risk and benefit profile should be drawn up as a decision basis for management, using the knowledge generated and the information collected.

If possible from a negotiating standpoint, the subject of the ICS and the potential for economic wrongdoing should be investigated on the spot between signing and closing. Indemnity and guaranty clauses should also be included in the purchase contract. If

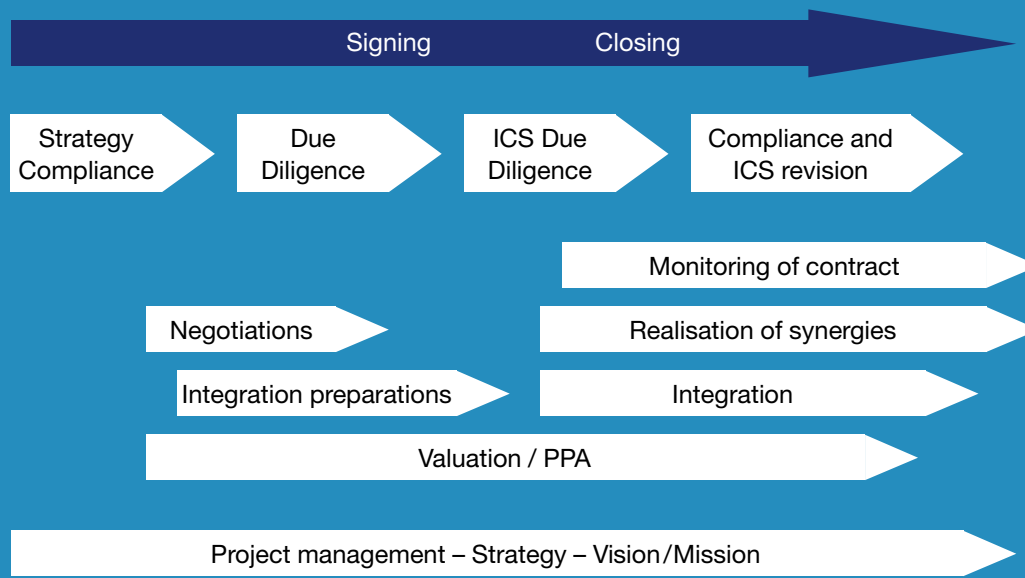
during the period before signature of the contract material violations of applicable regulations and laws are identified, it must be possible to hold the seller responsible.

### The post-closing phase is gaining in importance

The traditional M&A procedure has always assigned very great importance to the post-closing phase because the success of a transaction depends primarily on successful integration. Today, more than ever, the integration phase must be planned and performed professionally. Given the access and penalty provisions of international regulators, an unfocused, opportunistic integration can become a real problem. Potential weaknesses in the ICS of an acquired company or undiscovered and unreported cases of fraud and bribery can lead to high fines, loss of reputation and disrupted business operations.

The key to success of such a process is professional project management, the timing of which is critical. An experienced team, careful planning of the timetable, definition of clear objectives and continuous evaluation of how far the objectives have

## Activities in the acquisition process and their relative timing



ICS = Internal Control Systems  
PPA = Purchase Price Allocation

been achieved from the key elements. In addition the negotiating limits must be clearly defined.

Because in most cases the development of specialised resources within an enterprise is not worthwhile, companies are dependent on external assistance. Such projects have to be approached with close cooperation between clients and consultants and with consideration given to cost efficiency and effectiveness. The client has to be able to rely on the consultant's global network and specialised know-how, while the consultant must be aware of the client's needs and processes. Only in this way can the scope and focus of the services be customised.

A project team that is professionally, geographically and hierarchically heterogeneous guarantees that identified deal issues can be clarified and discussed from various perspectives, which greatly simplifies the search for solutions and is in itself an important contribution to integration planning.

## Summary

When acquisitions are made outside the traditional market, the more enterprises must confront new challenges posed by stringent regulatory requirements. The tightening of general conditions requires extending the scope and focus of the analysis of acquisition projects. Weaknesses in the ICS and the improvements needed, valuation of assets and liabilities, negotiation support, drawing up

and realising synergy potential and integration scenarios become the centre of attention. The complexity of such projects is considerable, their professional accomplishment essential! Regulators have long been unsatisfied with national boundaries within their own territory – they can strike at any time, anywhere. The penalties are draconian and amount not infrequently to tens of millions. As far as the reputation and the operations of an enterprise are concerned, the significance of violating regulations is in most cases incalculable, but one can assume that the effects are severe.

# Private Banking: 13 per cent growth – illusion or reality?

The struggle for new clients and assets will in future be fought even harder and more aggressively. The “PwC Global Private Banking / Wealth Management Survey 2005” shows why.

rolf.birrer@ch.pwc.com  
susan.de.zordi@ch.pwc.com

The Private Banking sector is becoming an ever harder-fought market: classical advisory models, which concentrate on asset investment and largely ignore the long-term objectives of clients, their obligations and tax situation, are becoming less sought after. The needs of clients have changed, and therefore their demands on financial institutions and advisers have risen and become more complex. Only by consistently adapting to this new situation and distinguishing oneself from the competition will it be possible to expand market share sustainably. According to the “PwC Global Private Banking / Wealth Management Survey 2005”<sup>1</sup>, the market players surveyed expect an annual growth of assets under management of 13 per cent; in the Asian market CEOs reckon with growth of up to 21 per cent. Swiss CEOs assume growth in assets under management of only 8 per cent.

<sup>1</sup>The comprehensive “PwC Global Private Banking / Wealth Management Survey 2005” canvassed 130 market players in Europe, Asia, South America, South Africa, the Middle East and the USA. The study can be obtained under [www.pwc.ch/wealth](http://www.pwc.ch/wealth).

## New clients as the growth motor

This situation is also reflected in the CEOs’ strategic priorities: winning new clients will in future enjoy top priority; development of existing client relationships takes second place.

With a share of 37 per cent CEOs are hoping for the largest growth from new client relationships, that is half from new clients gained from competitors and half from clients new to the Private Banking market. With a further share of 27 per cent, CEOs expect growth from the flow of new funds from existing clients (see diagram). It is noteworthy that only a fifth of Swiss players intend to open branches abroad during the next two years. The Middle East, Singapore, Eastern Europe and China are classified as strategically important markets. Among the other players the figure is a third.

Because all the players cannot exceed the market average, differentiation by one’s own strategy and brand is essential. In the struggle for clients CEOs consider the quality of client advisers and the nature of client service to be the most important distinguishing characteristics. The complex

demands on advisers are steadily increasing, but the corresponding training support may not be keeping up with this development: a surprisingly high 45 per cent of participants in the survey invest less than USD 5,000 in annual training for their client advisers; only 40 per cent of the banks and wealth managers surveyed have a formal staff retention programme.

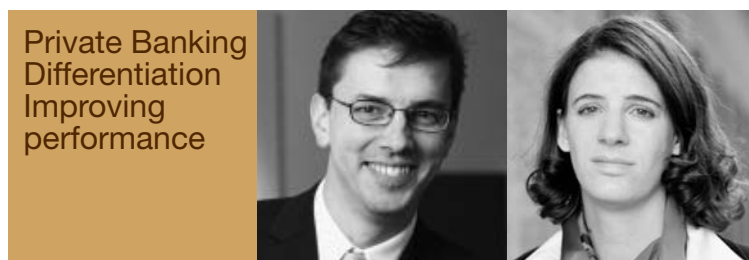
In addition these programmes are frequently limited to salaries and bonuses; other aspects, such as professional and personal development, are ignored. A lack of well-qualified client advisers restricts the existing growth opportunities in Private Banking. Much more attention should therefore be paid to identifying and encouraging key talents.

## Mergers and acquisitions as an alternative

Because of the very fragmented market and apparently high prices, mergers and acquisitions in Private Banking have up to now remained below expectations. Organic growth continues to be the motor. Nonetheless, about 40 per cent of those surveyed in Europe are considering a takeover within the next 12 months. International banks are particularly open to acquisitions, whereas small and medium-sized institutions want to limit themselves to less drastic measures: for example acquisition of client advisory teams or joint ventures.

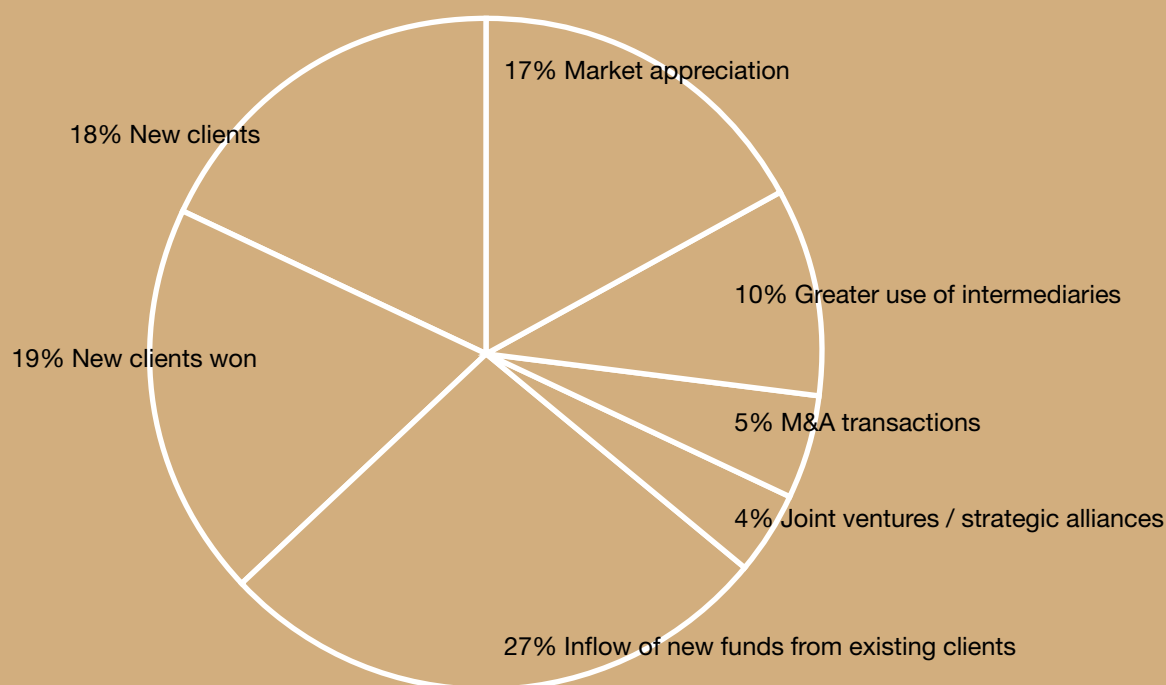
## Differentiation as the key factor

The much-discussed open architecture is in reality scarcely ever found. In fact most institutions try to place their own products and services with clients almost exclusively. Outsourcing is most likely to occur in highly specialised fields such as Private Equity and Hedge Funds.



Rolf Birrer; Assurance, Zurich,  
Susanne De Zordi Bernkopf, Assurance, Zurich.

## Private Banking / Wealth Management: expected turnover growth



The reluctance to change to open architecture can be explained by the comparatively high margins for products in the areas of Loans, Wealth Management, Hedge Funds and Private Equity. Wealth managers, who want to offer their clients the best possible service, will in future focus on core competencies and not cover the whole range of products and services themselves.

### Costs threaten to become a critical factor

In addition, costs in Wealth Management threaten to become a critical factor. Because demands on client advisers are increasing, it is expected that staff costs will also rise. This trend will be intensified by the rise in Compliance and IT costs that is also expected. The growing significance of meaningful performance indicators and key figures was recognised by CEOs. There is room for improvement: although 70 per cent of those surveyed determine profitability by client adviser, only half have corresponding figures by client, and only 54 per cent determine key profitability figures for individual products. Improved client segmentation and more refined key figure systems would provide a clear advantage over the competition, because services and prices could be defined more appropriately.

### Tax consulting and risk management

Both onshore and offshore, taxation has become a fundamental factor that cannot be ignored. The PwC survey shows that 80 per cent of CEOs surveyed are aware of the importance of tax aspects – but only a minority of 23 per cent are of the opinion that their advisers possess adequate professional knowledge to advise their clients competently on tax matters. As a consequence – and in order not to endanger client relationships – there is a development towards more and more external tax specialists being called upon to advise clients.

Although according to the survey many enterprises have already invested in risk management systems, further improvements are necessary. Up to now only a few institutions have at their disposal integrated

risk and value management systems that link performance and capital employed. At present risk management involves mainly Compliance and the avoidance of losses. 73 per cent of those surveyed assess their own risk management as good, in particular in connection with Basel II. However, the systems have not yet advanced as far as expected. Awareness that risk management and reputation are very closely linked has risen. Nonetheless, only 22 per cent of the wealth managers surveyed see risk management as an opportunity to gain competitive advantage by informing their existing and potential clients of the risk management instruments they have implemented.

The competitive pressure in the struggle for Private Banking clients will become even more intensive in future. Those banks which pursue a consistent strategy and adapt their services to clients' needs and thereby distinguish themselves from their competitors will be successful in serving existing clients and acquiring new ones. //

## Cooperation between the state and private industry

Public Private Partnership (PPP) has developed worldwide into an important approach for solving complex public tasks. In Switzerland, however, conceptual bases for PPP have up to now been very infrequent and scarcely ever met in practice. As part of a “PPP Initiative Switzerland” well-known public and private partners (Canton Zurich Building Department, Credit Suisse, Federal Department of Finance, Finance Administration Canton Zurich, PricewaterhouseCoopers, The Swiss Builders’ Association, The State Economic Secretariat and UBS) have together set themselves the task of thoroughly discussing the subject of PPP for Switzerland. The basic study “Public Private Partnership in der Schweiz” highlights the potential benefits of PPP and what is needed to realise PPP.

[www.pwc.ch/medien](http://www.pwc.ch/medien)

## Performance-related employee remuneration

Increasing regulation, competitive pressure and globalisation are compelling enterprises worldwide to take new approaches to competitive overall remuneration of their employees. Although options are still the most popular equity-based participatory instrument, the new trend in plan design points clearly in the direction of performance-related employee share participation plans, such as performance shares and restricted share units. There is great uncertainty among enterprises about the impact of the new accounting principles on share-based incentive plans. These are the results of the PwC study “2005 Global Equity Incentives”, for which 131 companies with global operations in 27 countries, including companies in Switzerland, were surveyed about their employee participation schemes.

[www.pwc.ch/medien](http://www.pwc.ch/medien)

## Mergers in the entertainment and media industry

During the current year the European entertainment and media industry will probably experience more than 110 transactions (2004 – 97 transactions). Already in 2004 the aggregate volume in Great Britain increased to EUR 8 billion (2003 – EUR 3 billion) and the number of transactions to 43 (2003 – 31 transactions). In continental Europe the volume sank from an aggregate of EUR 13 billion in 2003 to EUR 8 billion in 2004. In particular, many transactions took place last year within the British entertainment and media industry. According to the study “PwC Media Insights 2005”, since the low in 2002 the number of transactions has been growing steadily. In Switzerland transactions involving regional newspapers and printing are increasingly observed.

[www.pwc.ch/medien](http://www.pwc.ch/medien)

## Financial services expanding

International financial services providers are again banking more strongly on growth. Because of historically low interest rates and the robust economy, the targets for the coming 12 months are very ambitious. The result of the growing competitive struggle and the increasing demands of shareholders is that in 65 per cent of companies, increase in turnover is higher on the list of priorities than a year ago. 68 per cent of the managers surveyed worldwide stated that, in order to increase turnover, they would also consider cooperative arrangements and takeovers. These results are disclosed in the PwC global study “Economic Intelligence Unit”.

[www.pwc.ch/medien](http://www.pwc.ch/medien)

## The pharmaceuticals industry is consolidating further

Increasing pressure within the pharmaceuticals industry is forcing enterprises to consolidate worldwide. Inadequate productivity in research and development, expiring patents and headline-making product recalls are driving the mergers and takeovers within the pharmaceuticals industry. The medicine sector is following this trend and is also looking to mergers and takeovers. Above all, large companies in the high-tech area will be acquiring smaller local niche suppliers worldwide. The biotech sector, on the other hand, is concentrating on the preparation of initial public offerings. In Switzerland too the number of listed biotech companies will increase. This is forecast by the PwC study “Pharma Insights 2005”.

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# Wanted: Successor! Successfully securing the future of the business.

Every entrepreneur wants to be sure his business ends up in the right hands and to guarantee its long-term future. But experience shows that owners seriously underestimate how long and complex the succession planning process can be.

[heinz.hartmann@ch.pwc.com](mailto:heinz.hartmann@ch.pwc.com)

Switzerland is a country of family businesses. About 68 per cent of the 309,000 Swiss firms are either family owned or privately managed. According to statistics about 57,000 of these businesses will have to make succession arrangements within the next five years. Almost half a million jobs are directly affected – that makes the subject topical also from an economic vantage. It is a main concern of most entrepreneurs to transfer their lifework into the right hands and to secure the future of the business. However, experience shows that succession arrangements are becoming ever more challenging. Today, we have to deal with complex processes in which ever more frequently, in addition to family and employees, external parties, such as foreign purchasers, are also involved. Often the knowledge and process for executing the succession without conflict are lacking. So many entrepreneurs put off the problem of succession arrangements – and thereby risk the future of their firm. The study “Nachfolger gesucht!” (Wanted: Successor!), for which the Family Business Center of the University of St Gallen (FBC-HSG) in collaboration with PwC surveyed about 10,000 Swiss entrepreneurs, has

revealed the following problem: although 80 per cent of entrepreneurs surveyed want to pass on their businesses in the next five years, almost 60 per cent have not yet undertaken any planning or named a successor. And although most businesses are aware that successful succession planning takes three to five years, often it takes up to ten years, and the current practice of the Federal Tax Administration has considerably increased the complexity and length of the transfer transactions.

## Underestimating the problems

The extent to which succession planning is underestimated is shown by the fact that nine out of ten businesses see no problem in the challenge of organising their own transfer. However, in practice the problems arise precisely when too many measures have to be tackled at the same time and under time pressure: separating operating and non-operating assets, improving controlling and reporting, searching for a new manager, reforming the capital structure or changing dividend policy. Furthermore, it is not always easy to develop a suitable successor and to integrate him into the business.

## Sales to third parties are rising

For many entrepreneurs, transferring the business to relatives is still the top priority. Almost 60 per cent are planning a solution within the family. Only a quarter are aiming for a sale to third parties, and only in a few cases are management buy-ins and stock

exchange listings considered. But the reality is that the wish for a family solution is fulfilled more and more infrequently, if the business is not to be given away. In more than 40 per cent of succession solutions a sale to a third party is likely. Trend rising. Often the equity of the successor generation is not enough for a purchase, so that in the end external purchasers have to be sought.

## The role of the consultant is becoming more important

Sales to professional interested parties, that means to groups – often also foreigners – or financial investors are increasing. These purchasers possess professional know-how about how transactions are executed, and they are tough negotiators. There is scarcely any entrepreneur – for whom succession arrangements are unique – who can forgo professional consultants. Depending on the problem, consultants are frequently called upon in very different ways: four-fifths of the entrepreneurs first contact an auditor or tax adviser. 70 per cent call on external assis-



The study is available in German and French and can be ordered free of charge from [sonja.jau@ch.pwc.com](mailto:sonja.jau@ch.pwc.com)

tance to draft the contracts. However, only just over a third call upon external advisers in the search for and selection of a suitable successor. This is all the more surprising since the results of the study show that especially in this area difficulties are frequently expected. It is surely up to the consultants to point out what they can contribute to the search with their wide network of contacts.

#### Financing: the most common stumbling block

Business successions fail for a variety of reasons. Top of the list are financing difficulties (31.9 per cent of the mentions), or diverging price perceptions (25.5 per cent). For the business concerned, a failed takeover often means a period of uncertainty, above all for customers and employees. For the person handing it on, it means once

again getting down to business full tilt, instead of enjoying a well-earned retirement. If all attempts fail, in many cases only liquidation remains. What that means for the economy is shown by the 2004 study “Bedeutung und Struktur der Familienunternehmen in der Schweiz” (Importance and structure of family enterprises in Switzerland) by the same authors. In Switzerland almost 10,000 family businesses end up in liquidation within five years of a failed transfer. Therefore both entrepreneurs and society have an interest in business successions having as good an outcome as possible. In addition to the legal, financial, fiscal and entrepreneurial aspects, in particular the emotions of the retiring owner of a firm are affected by succession planning difficulties. The following examples illustrate some of the obstacles that can arise when making succession arrangements.

## Case study 1:

### Successful transfer at second attempt

A business with 1,500 employees and manufacturing locations in Switzerland and Germany is fully family owned. The entrepreneur controls the absolute majority of shareholder votes; the children own minority interests. Because the entrepreneur has already passed official retirement age, both banks and major customers are urging that reliable succession arrangements be made. The outside pressure is great, since owing to its financial position the business is reliant on debt. Years ago an attempt to transfer the entrepreneurial responsibility to the son failed. Nevertheless, in the second attempt the family is also involved: the children are interested in the business and in some cases work in it. They purchase their parents' shares over an heir-controlled holding.

#### Checklist for successful business succession planning

1. Tackle the succession question early instead of postponing it.
2. Don't look for the solution alone, but involve the family.
3. Consider financial and fiscal aspects of the succession already in the current business, for example in the dividend policy or in profit retention.
4. Carry on the actual sales process single-mindedly to avoid unsettling customers and employees.
5. Professional execution of the transaction with the help of specialist advisers increases the certainty of the transaction and often leads to a higher selling price.

## Case study 2:

### Approach with external consultants

Two brothers own a business in the building supplies industry with about 200 employees. About five years before the planned sale they begin to prepare for the business succession: they separate the non-operating assets – above all real estate – from the operating assets, appoint a management and gradually withdraw from the operational business. The brothers are in agreement that a sale to an external third party is the best solution. Interested parties coming into question for a purchase are large concerns having wide experience of such transactions. Therefore the brothers also call upon external consultants. Their assignment: to find potential purchasers and support the selling process. Within seven months the advisers find a purchaser and complete the negotiations successfully. In this way they succeed in avoiding customers and employees being unsettled because of a long drawn-out sales process.

## Case study 3:

### Private reasons hinder decisions

A successful business with two dozen employees is in the engineering industry. A large part of the business's technical know-how is concentrated in the entrepreneur. In his mid-fifties, the entrepreneur recognises in good time that a succession solution is unavoidable. A first attempt to sell the business without outside help fails. Two years later the entrepreneur again finds a "preferred buyer". This time he calls upon advisers when he sees that his price perception is far removed from that of the purchaser. In order to accelerate the dawdling sales process and to obtain a higher price, other potential purchasers are sought and found. The purchase prices bid for one and the same business vary by up to 50 per cent. The preferred buyer's bid is at the lower end of the range. Finally, the contracts are negotiated. The night before signing, the entrepreneur decides not to sell his firm despite the good price. He cannot bring himself to trust his potential successors implicitly and personally cannot imagine spending the coming years without working in his business. Because the firm is very profitable and fully equity financed, there is no outside pressure. The transfer has been postponed indefinitely; a new solution has to be found.

## How can an entrepreneur ensure that his business will continue to exist in the long term?

Four answers from Heinz Hartmann, Assurance, Zurich.



### How does one support an entrepreneur who wants to arrange his succession?

For the business owner succession arrangements are normally a one-off event. If we include the preparatory work – such as tax advice – we are involved in more than 100 succession arrangements every year. Every entrepreneur can benefit from this wealth of experience, because there are no standard solutions. In addition to classical tax and legal advice, in more and more cases we offer our clients a "Lead Advisory" service. This includes the business valuation plus the active search for potential buyers, leading and supporting sales negotiations and monitoring and steering of the entire sales process, which in most cases lasts between five and nine months.

### Why are auditors and tax advisers the preferred discussion partners?

Arranging successions is something very private. The entrepreneur needs a reliable partner. This position of trust is built up by auditors and also by tax advisers over many years of cooperation in most cases. Multi-disciplinary professional organisations, like PricewaterhouseCoopers, have at their disposal the technical know-how and the specific M&A experience to be able to successfully execute business transactions.

### The study shows that external consultants are seldom called upon when a successor has to be found. Why?

Many entrepreneurs try to find a solution within the family – and if that does not work, they perhaps consider a business partner as their successor. Many are not aware that an external consultant with his wide range of contacts has a great deal to offer. An external consultant improves the security of the transaction – and anyone who considers a wider circle of interested parties frequently achieves a higher price. //

### How can entrepreneurs be made more aware of the succession question?

The key question is: How can an entrepreneur ensure that his business will continue to exist in the long term? And this question almost asks itself, for in his heart of hearts every entrepreneur knows that one day he will have to hand over control of his business. It is our task to point out to entrepreneurs how successful succession planning works, where problems can arise and how one solves them. We are going to discuss the subject in more detail as part of a series of events.

# New tax rules: Maybe you will soon be a securities dealer?

People who successfully manage their private securities portfolio may in future have to reckon with capital gains being taxed as business income from professional trading in securities.

matthias.schweighauser@ch.pwc.com  
marcel.widrig@ch.pwc.com

The expression “professional trading in securities” is not defined in law. In order to eliminate this legal uncertainty, the Federal Tax Administration has issued Circular No. 8 dated 21 June 2005 on professional trading in securities. Parallel to this the Federal Council approved on 23 June 2005 the dispatch to Unternehmenssteuerreform II (Corporate Tax Reform II), in which a future explicit rule for professional trading in securities is foreseen. Both rules involve possible consequences for all those who manage their own securities portfolio.

## Circular No. 8 on professional trading

The Circular on securities provides a list of criteria drawn up by the Swiss Tax Conference, based on which in certain cases professionalism can be excluded from the outset, which is designed to result in increased legal certainty.

The list of criteria comprises the following items, which must be cumulatively fulfilled:

- 1 Holding period of the securities sold must be at least one year.
- 2 Annual transaction volume is < 5x holding at beginning of the year.

- 3 Realised capital gains are < 50 per cent of total annual taxable income.
- 4 Transactions entered into and investments are in principle available to all investors.
- 5 Investments are self-financed or income is > proportion of interest paid.
- 6 Purchase and sale of derivatives is limited to hedging own securities' positions.

If the taxpayer does not fulfill all these criteria, as in the past each specific case must be examined as to whether professionalism is present, using the criteria developed by the Federal Court, such as portfolio turnover, debt financing, systematic approach and employment of special professional skills.

## The majority of disputed cases will have to be decided by the Federal Court

The intended legal certainty provided by Circular No. 8 will probably be achieved for only a small number of possible cases of professional trading in securities. As in the past the overwhelming majority of disputed cases will have to be decided by the Federal Court, because in only very few cases will all six criteria be fulfilled. In addition, previous cantonal rules, as in Canton Bern, for

distinguishing tax-free capital gains from taxable securities trading will have to be reviewed and possibly adapted to the Circular.

## Dispatch to Unternehmenssteuerreform II

The dispatch proposes a future rule for professional trading in securities, whereby, according to the text of the dispatch, it more closely defines a tax-free capital gain. According to the proposed text, professional trading in securities is to be presumed if either the securities are held for less than five years and at least 20 per cent is debt financed (whereby indirect debt financing such as by a mortgage increase suffices), or the annual sales proceeds amount to at least CHF 500,000 and the investment assets held at the beginning of the tax year were turned over at least twice.

## Definition problems are pre-programmed

The legal rule for professional trading in securities proposed under Unternehmenssteuerreform II does not restrict current practice, but extends it: homeowners with securities portfolios, but who finance their property largely by borrowing, will probably find it difficult to avoid being qualified as professional securities traders – for who holds securities for more than five years today? It can only be hoped that during the parliamentary discussion corresponding corrections are undertaken.

## Recommendation:

Care should be taken in the case of critical transactions and if possible the tax consequences should be clarified in advance with the tax authorities. //



Matthias Schweighauser, Private Clients, Basle,  
Dr. Marcel Widrig, Private Clients, Zurich.

## Events, publications and analyses.



### Lifeblood traffic

In the field of traffic, public authorities and private enterprises share between them the search for new solutions. The previous competencies in this task sharing are themselves a part of the changing processes. For the public authorities this means on the one hand offering an efficient primary infrastructure that meets basic needs for mobility services and thereby investing their valuable resources effectively. Methods and

### Reader service:

The authors of the topics covered in the pwc expertise section of this issue of ceo magazine can be contacted directly at the e-mail addresses given in their article. For a comprehensive overview of PricewaterhouseCoopers publications, please visit [www.pwc.com](http://www.pwc.com). You can order PwC publications and place subscriptions by e-mailing [sonja.jau@ch.pwc.com](mailto:sonja.jau@ch.pwc.com) or faxing 058 792 00 10.

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criteria employed by private sector management are finding their way into public administration.

The study "Lebensnerv Verkehr" describes lines of approach, practical examples and conclusions for future-looking traffic organisation. It includes in addition to analyses and specific guidelines recommendations to politics and business. The report cannot and will not reinvent traffic policy. It endeavours, using the experiences of a team of advisers, to identify important topics and to place them in an overall context. The emphasis is on road and rail. They are direct competitors and cope with the predominant share of the mobility requirements of the population and business.

"Lebensnerv Verkehr" is available in German in the full version and in synopsis. In French a synopsis is available. The cost of the full version is CHF 40 and the synopsis can be purchased for CHF 20 from [sonja.jau@ch.pwc.com](mailto:sonja.jau@ch.pwc.com).

### Steuerforum 2005

The PricewaterhouseCoopers Steuerforum has already become a tradition and in 2005 will be held at a total of 14 locations in Switzerland. The focus will be on the experience of ten years' VAT, the impact of the first BVG revision, Corporate Tax Reform II and opportunities and risks of expanding eastwards. At the Steuerforum CEOs, CFOs, entrepreneurs and tax managers meet to exchange practical knowledge and discuss relevant tax questions. Participation is free.

### Event locations and dates:

Zug, 8 November 2005, Kongresscenter Metalli  
Lucerne, 10 November 2005, Verkehrshaus der Schweiz,  
Basle, 15 November 2005, Kongresszentrum Messe Basel  
Bern, 16 November 2005, PricewaterhouseCoopers Bern  
Zurich, 16 November 2005, Hotel Widder  
Aarau, 17 November 2005, AZ MEDIEN HAUS  
Lugano, 22 November 2005, Hotel Bellevue au Lac  
Winterthur, 22 November 2005, Casinotheater Winterthur  
Lausanne, 22 November 2005, Hôtel Lausanne-Palace & Spa  
Thun, 23 November 2005, Hotelfachschule Thun  
Neuchâtel, 29 November 2005, Hôtel Beau-Rivage, Neuchâtel  
Genève, 30 November 2005, Hôtel Mandarin Oriental du Rhône  
St Gallen, 17 January 2006, Pfalz Keller St Gallen  
Chur, 8 February 2006, Calvensaal

Information and registration:  
[www.pwc.ch/events](http://www.pwc.ch/events)



Making room for the thousands of computers that will be installed at CERN as part of the LHC computing grid. When the experiments at the LHC switch on in 2007, they will generate about 0.5 per cent of all the information in the world.

# The art of acceleration.

They invented the World Wide Web. Now, they are building the most powerful, most complex scientific machine in the world. But the scientists at CERN near Geneva have other talents, too: they are first-rate manager

*Text: Giselle Weiss, Photos: Roth und Schmid*

Particles – the basic building blocks of matter – may be small, but the machines used to study them are not. Take, for instance, the Large Hadron Collider being constructed 100 metres underground at the European Organisation for Nuclear Research (CERN), near Geneva. Twenty years in the making, the CHF 6 billion LHC packs 50,000 tons of high-tech equipment into a 27-kilometre-long circular tunnel to make a crash test course for particles. When the LHC starts operating in 2007, it will be the most powerful, most complex





CEO Robert Aymar put CERN back on track by overhauling its management structure and bringing a CHF 600 million budget deficit under control.

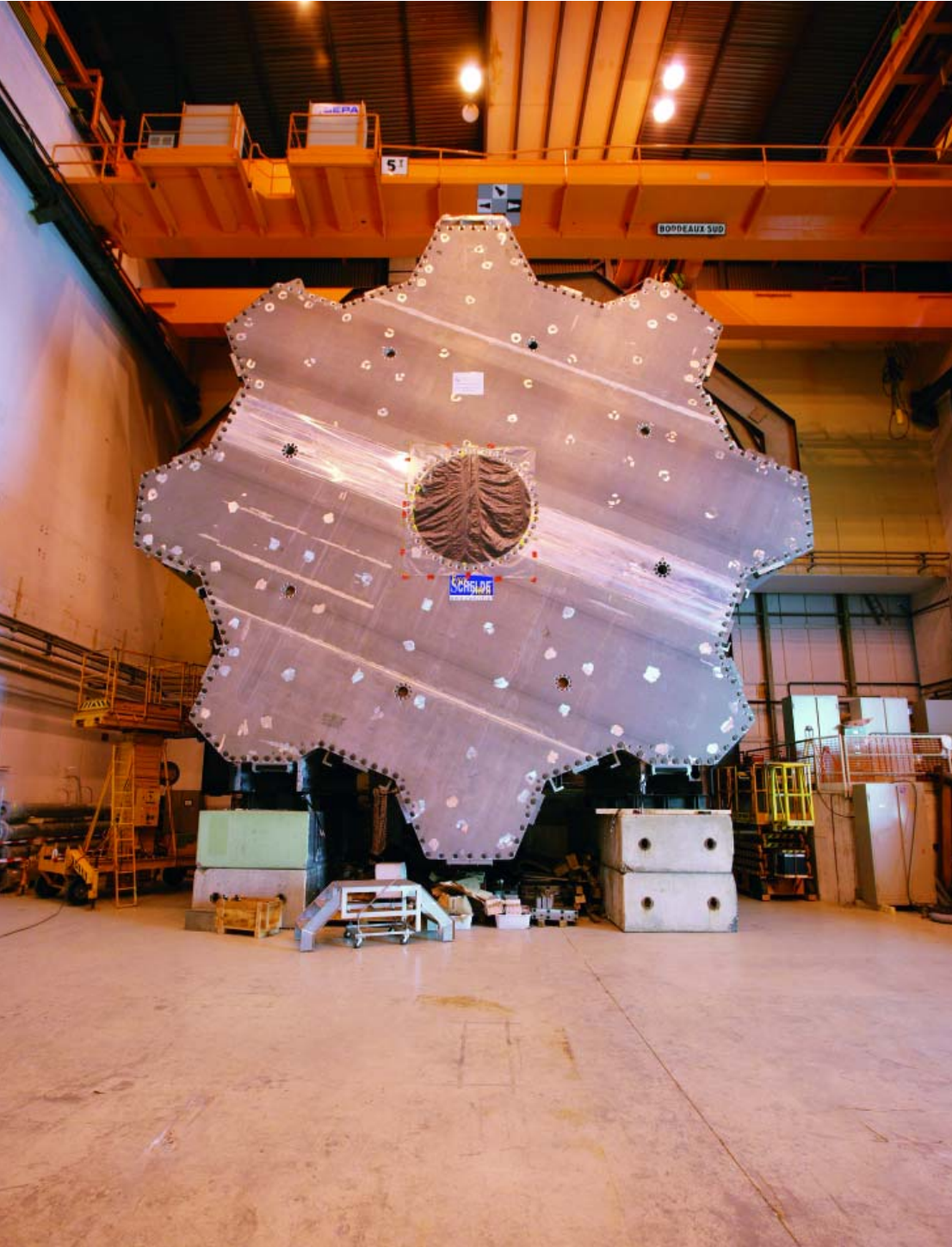
CERN CEO Robert Aymar presides over an empty directorate meeting room at the laboratory. The backdrop is a full-size simulation of the LHC accelerator.

scientific machine ever built. The information gained from slamming tiny bits of matter into each other in this “accelerator” will give physicists the world over eagerly awaited insights into the nature of the universe and what holds it together. The LHC is only the latest in a long line of achievements for CERN. The business of the laboratory is basic research, not products. But in building generations of accelerators, CERN has developed technologies used in practical applications such as medical diagnostics, manufacturing processes and advanced methods of radiating. The World Wide Web – the tool that makes it possible to navigate the Internet – was invented at CERN. In addition to 3,000 permanent staff, 6,500 visiting scientists – half of the world’s particle physicists – come to work at CERN, representing 500 universities and 80 nationalities. “It’s incredible, the number of

languages that you hear when you move in the canteen,” says Enrico Chaveri, CERN’s head of human resources. In fact, says Chaveri, who is himself Swiss and Italian: “The example of CERN is unique among collaborative efforts. A group leader may be German or French or British – we don’t care.” Recruiting comes down to an embarrassment of choice. CERN is naturally where physicists and engineers want to be. Still, holding this enterprise together is not an activity for the faint of heart. It is doubly difficult when you consider that CERN is at the service of its 20 member states, whose priorities may differ. “CERN’s future is controlled by the whole community in Europe,” says Robert Aymar, CERN director general and CEO. “We have to be sure of the will of the community before making a choice.” Aymar, an expansive, silver-haired Frenchman who has spent most of the last 30 years heading large research laboratories, took over the directorship in 2004, capping a period of difficulty for CERN.

In approving the LHC in 1996, CERN’s governing council simultaneously reduced the CERN budget by CHF 1 billion over the construction period. In 2001, the laboratory disclosed that the LHC was CHF 600 million in the red and could not be completed on time. Aymar, an early champion of the LHC, was appointed by the CERN council to chair an external committee tasked with reviewing CERN’s entire programme for a way out of the crisis. The committee’s recommendations included rebudgeting within CERN, and introducing very modern methods of project management and cost control. At the same time, the term of the then director general was ending, and Aymar was offered the job. “I didn’t ask for it,” he says. But he was at a natural juncture himself, he was not yet ready to retire and he found the prospect of seeing the LHC to completion hard to resist. “I like to motivate people,” he says, “to do things and to fight for some-





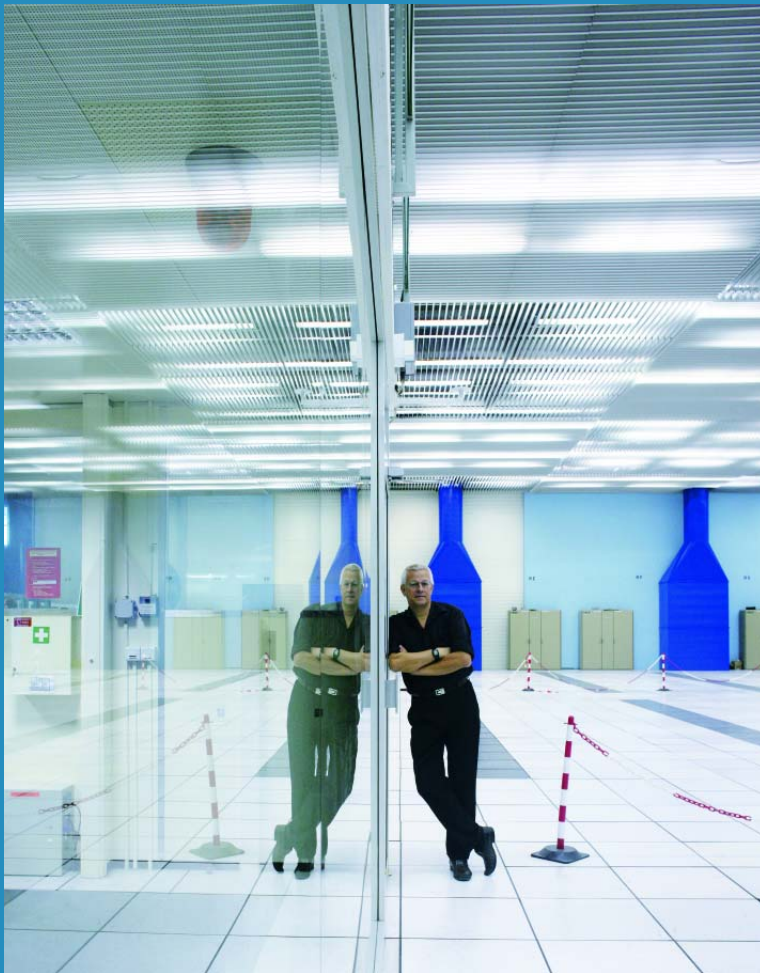
The huge star-shaped structure contains part of the magnet system for the ATLAS experiment. Magnets are manoeuvred about and lined up in CERN's magnet assembly and test facility.

thing. I have been that way all my life." Change did not come easily. "CERN is unlike most companies," says Aymar. "The only carrot we have is the motivation of the people to do something very brilliant – to innovate for technology. The stick we don't have." With council's approval, Aymar streamlined CERN's management structure, introducing the functions of chief executive officer, chief scientific officer and chief financial officer, and collapsing 15 divisions into 7 departments. Administrative procedures were overhauled as well, and electronic systems introduced.

**"CERN is unlike most companies. The only carrot we have is the motivation of the people to do something very brilliant – to innovate for technology. The stick we don't have."**

Solving the LHC cost overrun also meant shutting down some of CERN's other experiments temporarily, to free up staff to work on the LHC. The LHC involves thousands of complicated magnets, nearly enough wiring to circle the moon and other assorted equipment. All these various parts need to be manufactured, delivered, assembled, tested and installed. Delays – and there have been many – wreak budgetary havoc. An earned value management (EVM) system was put in place to get costs and schedules under control. Doing that meant breaking the LHC project into 11,000 smaller jobs and having contract engineers report regularly on the status of each job. The status updates in turn made it easier to generate regular financial reports.

"The techniques used in the past were just not good enough," says Lyn Evans, LHC project leader, of CERN's new way of thinking. "The EVM has allowed us not only



“Industry can profit from CERN’s innovations.”

Norwegian Sverre Jarpe, chief technology officer for CERN’s openlab, on CERN’s innovative collaboration with industry in the area of IT.

ceo: What is the organisation’s relationship with the IT industry?

Sverre Jarpe: We’ve always worked with the large industrial suppliers of IT basically because since the beginning we’ve been on the bleeding edge of what the technology has been able to provide. This is of course anchored in the fact that a scientist is never satisfied with what he’s got. If you give him a certain quantity of computing power, he will say, “Well, what about twice that much?” If you give him certain storage capacity, he will say, “Well, what about four times that?”

How did the idea for openlab come about?

Traditionally, a company will approach us and say, “Here is an early version of something. We’re not sure it’s reliable enough yet for a bank. But maybe you crazy scientists would like to have a go at it.” So we take the equipment (or, increasingly, software) and test it to the limit and report whether its reliability or performance or heat generation was up to our expectations. For the vendors, this feedback is very important. A few years ago, we decided to explore working more closely with a certain number of partners, taking into account our requirements, what the companies were interested in supplying, what they were interested in having tested and so on.

How does a company become a partner?

The rules are USD 0.5 million per year in membership fees to be a partner of openlab. The contribution can be in cash or in kind. The companies bind themselves for three years. At the moment our partners include IBM, Intel, Hewlett-Packard, Oracle and Enterasys.

Why would anybody want to pay the equivalent of USD 1.5 million for three years to join openlab?

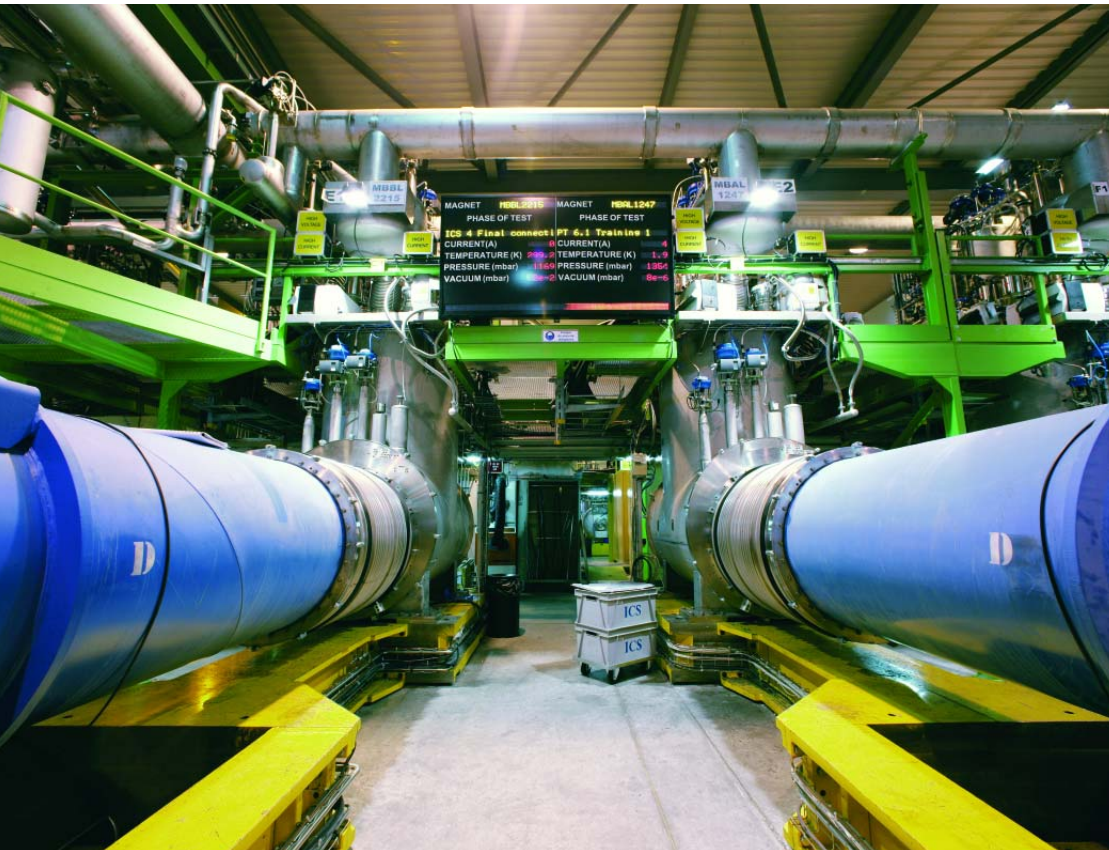
You have to keep in mind that for these companies to keep their own research and development facilities going, it also costs a lot. For instance, the CERN Computer Centre currently has a PC farm of 2,000-odd machines. If we collaborate with IBM on testing the storage equipment, we don’t count the fact that their equipment is not just sitting in the facility but talking to hundreds of computers, which further challenges the system. If IBM were to build this environment themselves, it would cost them an arm and a leg. And I think that the companies understand this.

What is next for openlab?

We are working on plans for what we call openlab2. The idea behind openlab2 is to form centres of excellence or centres of competence, and then ask multiple companies to join the centres. For example, one focus of openlab2 will be Grid technology, a supply-and-demand concept of computing modelled on the electrical grid that naturally attracts both scientists and businesses.

What is the bottom line for companies?

Just as an example, right now we are expanding tremendously in the networking area. So science is driving national and international networking. And companies realise that there is a feedback loop. They may not get a lot of dollars attached to the bottom line. But they do get a lot of experience with bleeding-edge equipment and how it’s being used and how it can be pushed further. That is what they appreciate in collaborating not just with CERN but with places like CERN.



LHC magnets being tested. The LHC calls for 1,232 superconducting magnets. The parts needed to assemble them come from all over the world.

inside the project to be much more transparent, but it's allowed us to be much more transparent to the outside." See for yourself: <http://lhc.web.cern.ch/lhc/> features a "dashboard" that anyone can click on to see the status of various components, as well as an updated "construction and installation" schedule.

Help also came in the form of a loan from the European Investment Bank. From the very beginning, CERN had foreseen a loan to enable completion of the LHC. But it was a first for the laboratory, and granting it required a leap of faith on the part of the bank. For one thing, producing particles that you hit to see what comes out doesn't sound like a very promising business model. For another, according to CERN's founding convention, member states may withdraw within one year, CERN does not own the ground it is built on, and the organisation's assets are expensive but have no resale value. "Would you want to get a used accelerator?" asks Patrick Geeraert, head

of CERN's finance department. On the other hand, the organisation has the backing of 20 member states, a long tradition of ground-breaking research, and the LHC has an expected lifetime of 15 to 20 years. The loan was approved in 2002 for CHF 443 million.

Because CERN's budget is fixed, its commitment to the collider and to its other physics projects has come at the expense of infrastructure. The situation is one Aymar intends to address. "The buildings and everything have not been maintained for years and years," he says. "And it's going to pieces now. We have water coming through the roof." He plans upgrades both for older CERN instruments that will feed into the LHC, and for the buildings and power supply. Asked where he will find the money, he replies, "We have to manage."

The term of CERN's CEO is five years, a relatively short time considering how long it takes to conceive and build an accelerator. In June 2004, CERN council unanimously approved a seven-point plan of strategic options for the future. Among the concerns embodied in Aymar's plan are deciding what comes after the LHC, entrenching the

laboratory's new-found sense of personal responsibility and accountability, and developing the expertise that physics will need in the years ahead. Aymar would also like to push for greater collaboration between CERN and other European particle physics laboratories in the building of accelerators. It is one way of sharing the burden in ever-tighter financial times.

The LHC is not yet complete, but anticipating the torrent of data it will produce has already led to advances in computing and in electronics. That is emblematic of CERN's importance to society and its strength as a collaborating centre. In October 2004, the laboratory celebrated its 50th anniversary with appropriate pomp and circumstance. Over the decades it has shown its influence as a force for integration on an international scale. During the Cold War, for instance, CERN provided a means for East and West German scientists to work together. For several countries, notably Spain and some of the eastern European countries, membership in CERN prepared them for joining the European Union. And CERN was the model for a laboratory being built in Jordan that counts Israel and the Palestinian Authority among its founding members. But the organisation remains true as well to its essential purpose. "CERN has a duty to provide all the physicists in Europe the services and tools they need for their work," says Aymar. "It's where every physicist should feel at home." //

## CERN

The European Organisation for Nuclear Research was founded in 1954 to provide first-class scientific research facilities in a neutral environment for Europe in the aftermath of World War II. In the intervening 51 years it has become a world centre for particle physics research, with a CHF 1 billion annual budget and two Nobel prizes to its credit. Its member states have grown from 12 to 20, and the number of collaborating countries is many times that.



Givaudan

# The flavour and fragrance empire.

Human senses can distinguish between more than 10,000 smells and flavours. The repertoire of the creators at Givaudan encompasses at least twice that number of mixtures – from tomato soup to luxury perfume. With a turnover of CHF 2.7 billion, the Geneva-based firm is the world's number one in the sensory pleasures market.



Natural flavours from herbs and fragrances – such as the scent of ylang-ylang flowers – are perfectly reconstructed in Givaudan’s laboratory. In addition, completely new fantasy creations are concocted to meet the trend-dependent needs of the food and fashion industries.

**Text:** Corinne Amacher

Think of Givaudan the next time you hesitate before adding sugar to your coffee. The specialists at the Geneva-based fragrance and flavour manufacturer are working on an alternative to the high-calorie sweetener. It is not a sweetener, but something completely new. They are developing molecules that have no taste, but send a signal to the brain: Attention, sweet! Deceptions like this in the structure of tiny additives could soon be used in foods which contain unhealthy amounts of sugar. The same process could also be used to reduce the salt or fat content.

It’s not that we are embarking on a new version of the “light” wave. Givaudan is looking to the future: people today want to eat healthily, but are not prepared to make

concessions when it comes to enjoyment.

The management considers the growing demand for healthy and yet tasty ready-meals to be more than just a trend – it is a fundamental change in eating habits and lifestyle.

With the trademark-protected “TasteSolutions for Health and Wellness” programme, Givaudan wants to prove that healthy convenience foods don’t have to taste of soggy cardboard, but can have a pleasant flavour of their own.

New discoveries from research into our senses of taste and smell make such inventions possible. Although the human sense of smell is not as good as that of a dog or a mouse, nature has given us an impressive sensory system: the smell receptor family is the largest family of genes in the human genetic make-up. The human mouth contains more than 25 genetic receptors which can differentiate between the basic

flavours of sweet, sour, salty and bitter. The upper part of the nose contains a further 350 genetic receptors which classify scents and send them as signals to the brain. The way an apple tastes is reported by the nose, not the tongue. It can differentiate between more than 10,000 molecules.

The repertoire of the Givaudan flavour creators covers around twice as many mixtures. 20,000 different fragrances and fragrance mixtures are stored in their archives, with 300 for strawberry alone. Using the usual method, a handful of new scent molecules can be decoded each year, but this climbs to thousands with the new methods based on artificial receptors. From herbal tea through chewing gum to tomato soup – nowadays all industrially produced foodstuffs contain artificial flavours. As market leader, Givaudan



The high demand for vanilla reflects people's desire for security and cosiness. That's why many perfumes contain a vanilla note.

supplies practically all the major food and cosmetic manufacturers; anyone who wants to avoid the artificial flavours from Geneva will have to switch to organic shops. With a turnover of CHF 2.7 billion, Givaudan is the world's number one, ahead of America's International Flavors and Fragrances (IFF) and Firmenich from Switzerland. 60 per cent of turnover comes from flavours for the food industry, 25 per cent from fragrances for consumer goods such as detergents, shower gels or soaps and the remainder from luxury perfumes.

It was Givaudan director Jürg Witmer who split the company from Roche and who has built it up to be worldwide market leader over the last five years. What challenges are left for Frenchman Gilles Andrier, who joined the company in 1993 as controller and who took over the post of CEO in spring 2005? "We want to become the clear leader in

those few geographical markets and business areas in which we are not yet the market leader", he said (see interview page 48). One case in point is the luxury perfumery sector in India.

Shanghai will soon be the largest centre for luxury perfumery

While the traditional markets in Western Europe, North America and Japan are only expanding slightly, profits in future are primarily expected from those regions with the highest levels of population growth: Asia, Eastern Europe and Latin America. New flavour creation centres are being set

up to serve customers in those areas. In Asia, Givaudan is in the midst of a quantum leap. The existing production plant in Shanghai is to be complemented by a second, doubling production at a stroke. The plant is intended to satisfy the rapidly growing demand in China. The managers of Givaudan are convinced that Shanghai will soon be the largest international centre for luxury perfumery.

Alongside internal growth, there were two good opportunities to grow through acquisitions – the takeover of Tastemaker in 1997 and the purchase of the flavour subsidiary of the Nestlé Group, IFS, at the beginning of 2002. In addition, the business was rounded off by smaller acquisitions, such as International Bioflavors in Wisconsin, USA, which has developed a process for making natural cheese flavours from milk. The fact that a



20,000 different fragrances and fragrance mixtures are stored in the Givaudan archives, with 300 for strawberry alone.

company from the land of Emmental bought a cheese flavour factory overseas caused amusement on both sides of the Atlantic. In the fight for market share, the company acts as a consulting firm, which not only provides flavours for its customers, but invents entire product lines – from the idea through market research to proposals for marketing. This creates lasting customer relationships. The multicultural character of Givaudan is an advantage, for fragrance and flavour are matters of culture. Whether it's noodle soup or spring rolls, the Chinese laugh at what Western Europeans think of their dishes. Chinese customers are therefore advised by Chinese, not Swiss consultants.

#### Refined technologies for extracting and preserving flavours

To be successful in competition, a company must continually offer something new. The technologies for extracting and preserving

flavours are ever more refined. In chewing gum, for example, the flavour molecules are enclosed in tiny capsules that only burst in the mouth. A banana drink, a particularly nourishing substance, tastes really refreshing because it contains a “cooling agent” which adds the fresh effect.

In the search for new flavours and fragrances, researchers rely on two methods. They try to track down trends such as the longing for nature and wellness and manufacture the corresponding scents. Or they capture their olfactory trophies in glass domes on so-called Scent-Trek excursions to Asia or Latin America, to then recreate them artificially in the lab. It could be a new variety of chilli from Mexico or ashoka flowers from India, with the scent of freesias and lilies. A year ago, a furore was caused by the discovery of the molecule known as Azurone,

whose marine ozone notes are reminiscent of a sea breeze, or the green-pineapple scent Pharaone 10 – two substances which Givaudan patented. The people at the helm of the company want to concentrate more on high value and profitable scents like this and reduce the range of standard ingredients, which are exposed to greater competition from established companies and newcomers.

#### Numerous creations for leading fashion labels

While flavours for foods are almost always made to mimic nature, a perfume is a flight of fantasy. A culinary flavour consists of a few dozen different molecules, a perfume mixture can contain around 300. The creations devised by Givaudan for leading fashion labels are numerous: “Eau de Merveilles” for Hermès, “Eau de Jade” for Giorgio Armani, “Attraction” for Lancôme. The pièces de résistance in the fast-moving



“We are a Swiss company with a global identity.”

Gilles Andrier, 43, CEO of Givaudan since April 2005, on careers, ambitions and his favourite scent.

ceo: What is your favourite perfume?  
Gilles Andrier: The perfume “Iris”, that Givaudan developed for Prada. It is part of an exclusive collection of four scents in total, which are sold together as a set.

Your wife works as a perfumer for Givaudan in Paris. Is she the nose behind the Prada perfume?

Yes, the collection is hers. We are very pleased to be able to count a fashion house such as Prada among our clients.

You are a qualified engineer and joined the Geneva fragrance manufacturer in 1993 as controller. What attracted you to Givaudan? The company is an interesting size. It is large enough to be active on a worldwide scale, and small enough for employees to feel that they have a stake in its success. On top of that, fragrances and flavours are an exciting business. There are very few industries that deal with two of our five senses – taste and smell – at the same time. Finally, I was attracted by the cultural diversity: Givaudan is a Swiss company with a global identity.

You have had a rapid career rise through various posts within the company and have been appointed as Chief Executive Officer at the age of 43. Why do you think that is? Well, it must be because I’m young! Seriously though, my advantage was that I had the opportunity to get to know many areas of the company in a short time. That enabled me to acquire the skills required for the post of CEO. I also benefited from my previous experience as a consultant when it came to the strategic development of the company.

Givaudan is already the worldwide market leader. What do you see as your challenge? My challenge lies in building on our position as worldwide number one with a market share of 17 per cent. That’s not as simple as it sounds in a mature industry with low growth rates. I also want to become the clear leader in geographical markets and business areas in which we are not yet market leader. That is the case with fragrances, for example, where we are currently number three.

Is that likely to be through acquisitions? In the past Givaudan has played a central role in the consolidation of the industry. Because we are a performance-oriented organisation, we want to concentrate primarily on internal growth. That is the only guarantee of continual performance increases. Acquisitions will happen when the opportunity arises. //





Ultra-modern technology: Givaudan is the world's biggest supplier of natural and synthetic flavours and fragrances.

perfume industry include “L’Air du Temps” by Nina Ricci or “Opium” by Yves Saint Laurent. Even these top sellers are continually reassessed and reworked. When “Opium” with its ornate notes threatened to fall from fashion, the perfumers breathed new life into it. They took away the heavy components and relaunched it under the name “Opium été”. Later came “Opium fleurs de Shanghai” too, with the scent of Chinese magnolia. The creator of these perfumes is Danielle Andrier, wife of CEO Gilles Andrier, who works for Givaudan in Paris as a perfumer.

Not only the scent itself must keep pace with the times, but also the means in which the scent is released, such as scented candles or scent in a dry form which only releases the fragrance on contact with water. Electronics help too. Using the

“Virtual Aroma Synthesizer”, fragrances can even be mixed over the Internet, so that the customer from Moscow can talk to the scent specialists in Cincinnati. The USA is also developing a device that releases scents saved onto CDs – a walk in the woods or a sea breeze. What, have you never smelled a vanilla symphony? Vanilla is incredibly popular. The high demand for vanilla reflects people’s desire for security and cosiness. It is the all-time favourite ice cream flavour by far. Anyone who went skating at the new Eiffel Tower ice rink in Paris at Christmas 2004 would have been wafted by a vanilla fragrance from the Givaudan lab. On top of that, many perfumes also contain a vanilla note. Only chocolate generates more powerful memories of childhood than vanilla. And what do you know, the Italian fashion label Laura Biagiotti has launched a chocolate-scented perfume onto the market. Luckily it doesn’t contain sugar. //

#### Givaudan in figures

With a market share of 17 per cent, Givaudan is the world’s largest provider of natural and synthetic flavours and fragrances. 60 per cent of the CHF 2.7 billion Swiss turnover comes from flavours for the food industry, with 40 per cent from fragrances for consumer goods and luxury perfumery. Through two major acquisitions, the flavour business has continually increased in importance over recent years. Average growth in the sector is only two to three per cent, a figure that Givaudan easily exceeded in 2003 and 2004. The company, based in Vernier near Geneva, employs almost 6,000 people worldwide.



Supported by the Global Fund, numerous counselling and health centres have been established in Indonesia. In this way, the Global Fund provides assistance in the fight against tuberculosis, HIV/AIDS and malaria.

## Global partnership: Fighting against disease and tsunami effects in Indonesia.

Indonesia has a population of more than 242 million people comprising some 365 different ethnic groups. The geographical and cultural diversity in the country presents the biggest island state in the world with great challenges in the health sector. Indonesia has the third-highest burden of tuberculosis in the world, an HIV prevalence rate of 0.1 per cent of the population and nearly two million people living with malaria.

### Immediate aid after the catastrophe

The Global Fund focuses on reducing the mortality rate from tuberculosis and on breaking the chain of transmission of the disease with targeted programmes over a period of five years. USD 71 million has been made available for this purpose. In December 2004, the tsunami destroyed many areas where the Global Fund is active, and a large proportion of the tuberculosis programme was literally washed out to sea. The Global Fund reacted immediately, allowing grant monies to be reallocated for emergency aid. In this way, it was possible to allocate USD 1.5 million for assisting in the rehabilitation of health centres in Aceh and North Sumatra. PricewaterhouseCoopers also reacted swiftly to the emergency, immediately volunteering to provide their services to the principal recipient on a pro bono basis as a way of freeing up funds for the tuberculosis

programme again. The reaction to the tsunami catastrophe demonstrates the huge advantages that public-private partnerships can offer: as a Local Fund Agent (LFA), PricewaterhouseCoopers represented the Global Fund on site. The recipient of the funds – an Indonesian ministry – could thus be supported early on with best practice from the private sector. This in turn had an effect on the administration and allocation of the funds. Immediate assistance included a risk analysis of individual projects that permitted a reprioritisation of grant monies.

### Fight against HIV/AIDS

The Global Fund undertook the financing of two programmes to fight HIV/AIDS. The first, with funds of USD 16 million, concentrated on prevention. In addition to radio and television programmes, leaflets were distributed to more than 32,000 potentially vulnerable people. Seven new centres for men and women infected with HIV have been created. The commitment of the Indonesian government to the fight against HIV/AIDS is supported by an initiative of the

World Health Organisation (WHO) to provide antiretroviral treatment to three million patients by the end of 2005. Accordingly, the funds for the second HIV/AIDS programme of the Global Fund are primarily being deployed for therapy, in particular for the scale-up of antiretroviral treatment. USD 65 million is being used to intensify counselling and testing, to support local facilities in the care of AIDS patients and to carry out training at national, provincial and district level. The Indonesian malaria project of the Global Fund, with a financing of USD 24 million over five years, included measures for preventing, detecting and treating the disease. To date, it has been possible to protect more than 27,000 people from this insidious disease by using insecticides. 881 village malaria posts have been created, treating some 70,000 patients.

### Active for the Global Fund

To ensure that the funds of the Global Fund end up in the right channels and that the financial transactions are monitored and documented, Local Fund Agents have been contracted all around the world. PricewaterhouseCoopers has taken on this task in many countries of the world, among them Indonesia. //

Photos: Robert Pearce

ceo\*

\*connectedthinking

PRICEWATERHOUSECOOPERS 

Susy Bruschweiler:  
“Networking is just  
one of my tasks as CEO  
of the SV Group.”

06



Lars Hinrichs:  
“If everybody were net-  
worked with everybody,  
we would have fewer  
problems in the world.”

12



Peter Lorange:  
“A learning network is  
two-way learning, give  
and take.”

08



Doris Portmann:  
“I am convinced that it is  
worthwhile for all of us  
to participate in networks  
and to support them.”

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