ceo

The magazine for decision makers

December 2010

The Swiss success model

What are Switzerland's strengths as a business location? Its weaknesses? What is "typically Swiss"? Executives of Lantal, Straumann, Rega, Osec and Lonza, together with other leading personalities, weigh in on the questions.

pwc

Publisher: PricewaterhouseCoopers AG ceo magazine, Birchstrasse 160, CH-8050 Zurich, Switzerland

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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Dr Markus R. Neuhaus,
CEO PwC Switzerland

For the last twelve years in Switzerland we've been in the gratifying situation of being the clear leader in our industry – a position built on the trust of Swiss business.

It may sound somewhat presumptuous to talk of one's own country as a model of success. This is why we initially wanted to pose the title of our dossier as a question. Ultimately, however, we decided not to make yet another vague assertion about Switzerland but instead to state loud and clear: Switzerland and its economy have weathered the last few difficult years better than many other countries. Consequently, it is worth taking a closer look at the strengths of the Swiss economy – not so we can lean back, but so we have a clear picture of the situation as we shape the future of our country. Of course, a magazine cannot influence the future. But it can put a spotlight on examples that might otherwise go unnoticed. This is precisely what we have tried to do. I am confident that this issue of ceo magazine will shed light on some interesting facets of Switzerland.

Both the financial industry and the shop floor – and large and small representatives of both sectors – are essential features of the Swiss economy. In this issue our experts explor both these themes, enriched with their own insights. The growing importance of carbon management and changes in consumer behaviour are global developments with major implications for the Swiss economy. I hope these articles provide you with useful information.

When a person develops, there comes a point when this change also manifests on the outside. The same applies to organisations – or at least it does for PwC.

In dialogue with our clients we found out that they especially value the technical quality of our services. But we also discovered that working with us would be an even more positive experience if we improved in terms of our personal behaviour.

In the last five years we have worked hard to do so, and will continue to focus on these areas in future. We have taken a close look at client relationships, and have reoriented our employee development and service delivery. At the same time, building on our assurance services (still our strongest line of business), we have systematically expanded our service offering to be able to offer organisations all-round support from strategy to implementation. This way we can give companies comprehensive assistance in assuring their security, managing risks, and solving problems throughout their business. The change that PwC has undergone in recent years is now reflected in the corporate design of our global network of firms. Instead of the somewhat long "PricewaterhouseCoopers", we have adopted the short, practical name "PwC", and have generally opted for a fresh brand image. Naturally, I hope you like our new look.

But what I hope even more is that you are excited about the experience of working with us – excited by the value you gain from it, and by the way we help you address your issues and concerns.

I wish you stimulating reading!

Markus R. Neuhaus

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Dossier
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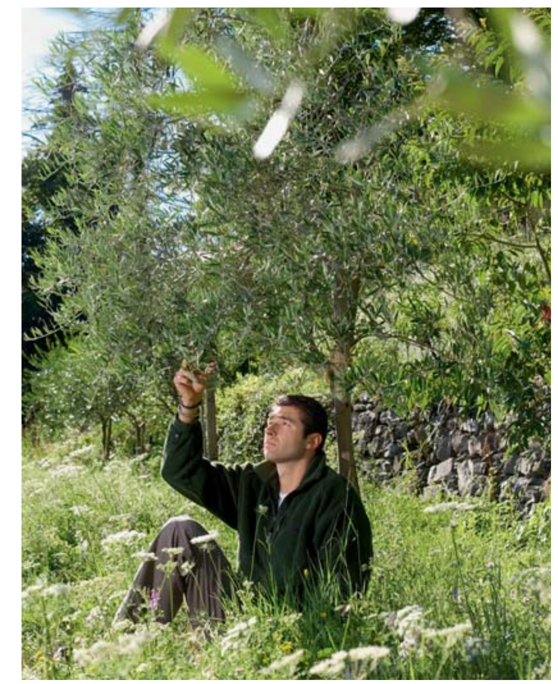
Value insights

Commitment



Cover: Keystone/Steffen Schmidt

Dossier
The Swiss success model

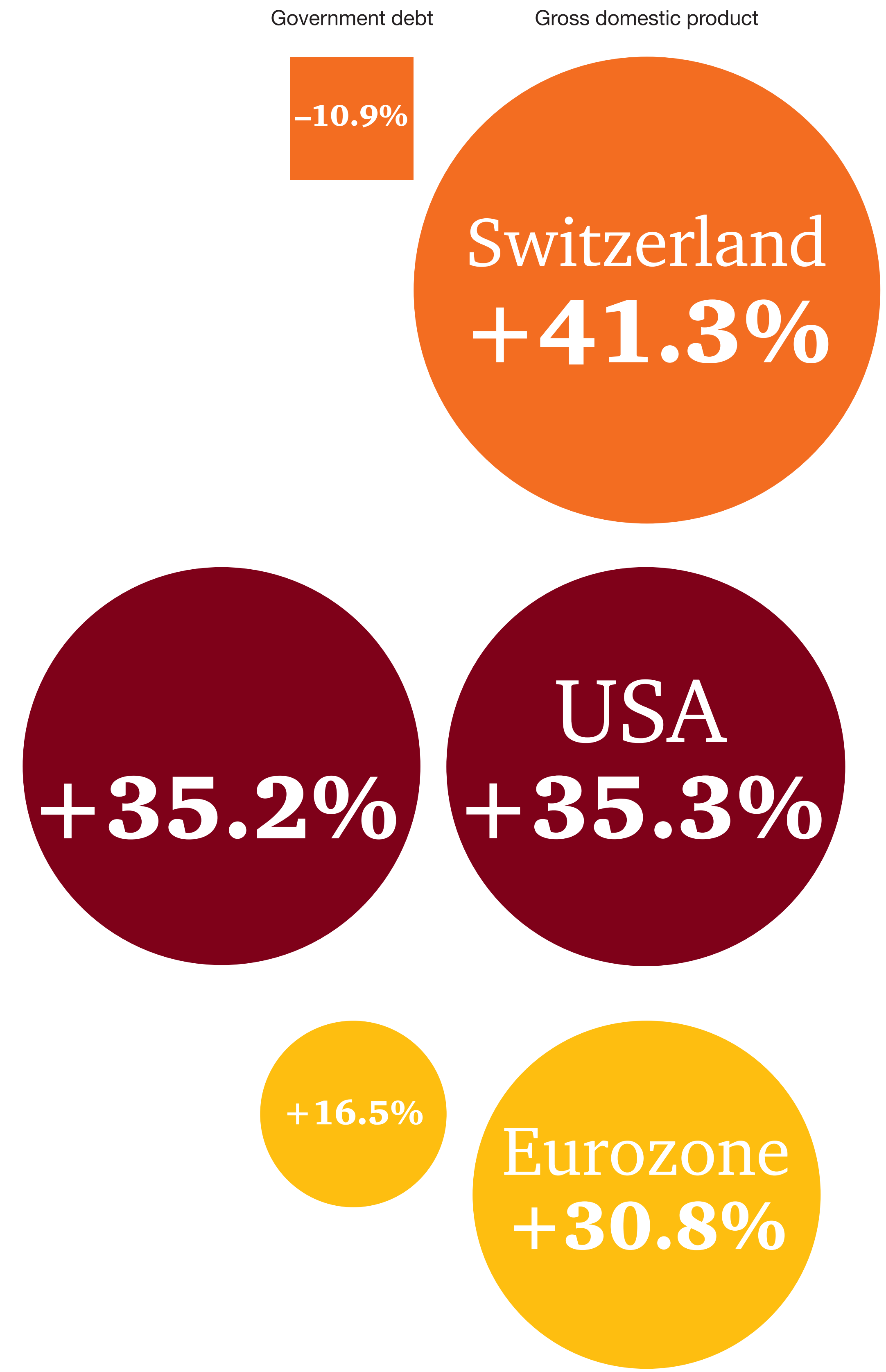
Switzerland weathered the crisis better than other nations. Even during 2009 and 2010 the Swiss economy managed to boost output while keeping government debt relatively low. In this year's "Global Competitiveness Report", World Economic Forum experts place Switzerland at the very top of the world rankings. They describe the economic environment in this country as one of the most stable in the world. Is Switzerland a model of success? In our dossier, prominent figures on the Swiss economic scene explain why they believe in Switzerland as a place to do business, what they believe is good, what they reckon is worth changing – and what they see as typically Swiss.

Texts:
Corinne Amacher, René Bortolani
Iris Kuhn-Spogat, Bernhard Raos
Franziska Zydek

Photos: Roth und Schmid

Government debt in relation to per-capita gross domestic product, 2009/10.

Switzerland managed to raise output while reducing debt.



Source: OECD Economic Outlook, 2010

"This country plans for the long term, not for the short term"

Daniel Küng, CEO of the competence centre of the Swiss export promotion agency Osec, talks about the value of Swissness, Switzerland's image abroad and what it takes to be internationally successful.

Mr Küng, is Switzerland a model for success?
Based on figures and results, the answer is a resounding yes. Switzerland accounts for just 0.1 per cent of the world's population, yet that 0.1 per cent generates 1.4 per cent of the world's trade. If we also consider that one in three jobs paid by Switzerland is located abroad, this proves how strong the country's foreign presence is. The capital stock – the average annual gross investment by Switzerland abroad – amounts to approximately CHF 850 billion, which is a huge figure. In the 1990s, half of the gross domestic product was invested abroad; now, that figure is 1.5 times as much.

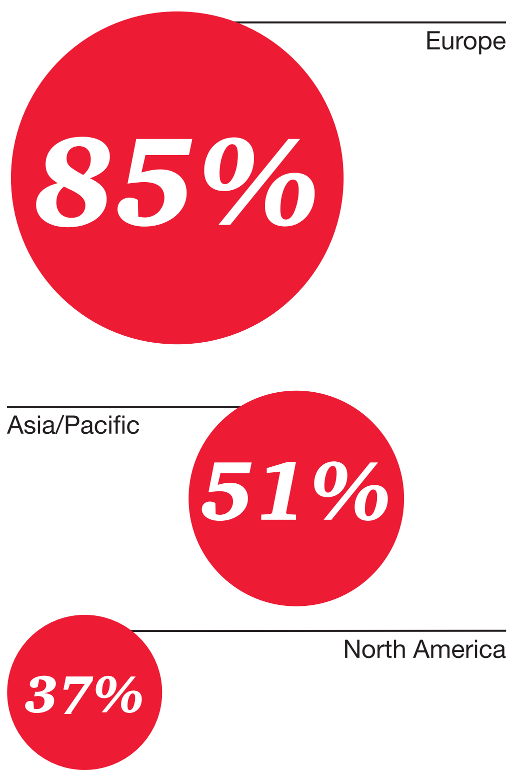
What are the reasons for the country's success?
They are the traits that can be summarised by the term "Swissness": quality, seriousness, responsibility, stability, reliability and sustainability. Sustainability means that this country plans for the long term, not for the short term. Other success factors include absolutely first-class dynamism and the willingness of our companies to take risks with regard to their commitments abroad.

Have negative headlines, such as those regarding the Libyan affair, the referendum on banning minarets and the legal dispute with the USA harmed Switzerland's image or put the country at a competitive disadvantage?
From my perspective, no. Abroad, the events you mention dented our image slightly, but no more than that. Our political sensitivity in Switzerland means that we tend to overestimate any reactions from abroad. I experience that in my dealings with the USA. The tax and banking affair is an issue on Wall Street and in government circles. But the rest of America is not interested in it. Nor is the first thing that President Obama thinks when he wakes up, "How do I solve the problems with Switzerland?"

In your experience, is Switzerland still perceived abroad as a country of chocolate, watches and mountains?
Yes, but fortunately, increasingly less so. Switzerland is being more frequently seen as

Daniel Küng
has been the CEO of Osec since 2004. A graduate in economics and business management, Küng began his career as a management assistant at Mercedes-Benz do Brasil in São Paulo. In 1982, he set up Agrosuisse, a service company for administering and advising farm establishments and agricultural industry companies in Brazil. In 1987, Agrosuisse expanded to Portugal where Küng developed it into a consulting company for foreign SMEs wishing to establish a subsidiary in Portugal.

The most important export markets in the 4th quarter of 2010
Most important target countries based on a panel survey of more than 200 Swiss SMEs (multiple answers possible)



Source: Osec

a place of work, creativity and innovation. The land of Heidi is still present but is slowly fading into the background.

The organisation Osec, which you head up, is an association under private law that offers help to companies in Switzerland and Liechtenstein that want to expand abroad. What form does this assistance take?
Large corporations planning to enter new markets do not need us. They have the corresponding export and development structures in-house. But smaller companies have little experience with globalisation. Suddenly, China, India, Brazil, the Gulf States or perhaps our neighbour Germany become attractive as new sales markets. We advise these SMEs (small and medium-sized enterprises). It is all about how you enter such a new market and how you overcome linguistic and cultural barriers.

How do you do that? The boss of an SME that has reached its limits in Switzerland and wants to expand abroad contacts Osec and asks: "What can you advise me? How should I proceed?" What happens then?
Let us take the example of a manufacturer of high-quality ballpoint pens. With a new machine, he can produce 300,000 units. But because he can only sell 100,000 pens in the saturated Swiss market, he is planning to export the remaining 200,000. The first thing we establish is which countries to consider. With his product, he has to enter a high-price country, which is probably not India, but could be Germany, Singapore or Japan, where customers are prepared to pay more for quality. If we agree, let's say, on Singapore, then the question is whether his company has the personnel and financial resources to conquer a new market. We ask questions such as: Do you have a business plan? Do you have an export or sales manager and not just a consultant in Singapore? How will you finance the expansion? Do you have the necessary resources? In short, we clarify the fundamental prerequisites.

Does Osec also implement the market entry?
We provide assistance in entering the market. For instance, our office in Singapore draws up a market analysis or we commission it from a third party. Who are the competitors? Are there possible agents, importers or joint venture partners? Can other Swiss companies who are present in Singapore help with suggestions and experiences? And, of course, we also set up the necessary contacts to potential local business partners and government departments.

How do you charge for your organisation's services?
The provision of information is free of charge, as is the basic consultation, for instance the export check. Only when the entrepreneur wants a market analysis or business plan or to establish contacts with the assistance of our people on-site do we charge for these services, at CHF 150 per hour, which is not very much.

So Osec is a type of entrepreneur-friendly help system?
We do not have to generate a profit and are subsidised by the state to support SMEs.

Your experience as an entrepreneur helps in your work. You set up a company in Brazil that advised other companies in the agricultural sector.
Yes, that helps me. I benefit from the 17 years that I spent in Portugal even more than from my experiences in Brazil. In Portugal, I provided consulting services in the industrial sector and dealt, among others, with Swiss companies who wanted to establish a branch or subsidiary in that country.

Reaching agreement is one of the special features of our political system. However, it also slows processes down.

What are the entrepreneurial prerequisites for success abroad?
First, you need a good product. Second, your commitment abroad must be well prepared. You should have a strong position in the domestic market to be able to sustain a foreign project. I am thinking less about the financial and more about the personnel resources here. Normally, there are sufficient funds, but frequently managers have insufficient know-how. Third, you need a realistic business plan. If you imagine you will recover the money invested after just half a year, most of the time, you'll be wrong. And ultimately you need good consultants. For instance, if you intend to expand to India, you also need good cultural advice on-site.

You once said: "The Mediterranean is the ocean of the past, the Atlantic is the ocean of the present and the Pacific is the ocean of the future." Does that mean a commitment in Asia is favourable for Swiss companies?
Not for all – it depends to a great extent on the product and the strategy. Asia is predominantly the market of the future, but Brazil or the Gulf States are also interesting, and Africa has yet to be discovered.

You don't feel that Africa is a forgotten continent, economically speaking?
Three years ago, I still had doubts about the potential of Africa, but not anymore. Things are starting to move in many African countries, even if we are still at an early stage. That is why I am not yet advising Swiss SMEs to invest in Africa. We are still recommending the established markets such as the EU and the USA; 80 per cent of our exports go to these two markets. Next come China, India, Russia and Brazil – countries that are also already largely established. The next wave includes Vietnam, South Africa and Mexico, and we are also receiving growth signals from countries such as Peru and Indonesia. The latter in particular is a country with huge economic potential for investors once corruption has been eliminated and trade obstacles removed. Finally, countries such as Angola and Nigeria are starting to appear on the horizon. I am convinced that these countries will be on our radar in ten years' time, as is already the case with Indonesia, Columbia and Peru.

You have been the head of Osec for six years. How has the environment changed internationally and for Switzerland in that time?
Globalisation has increased enormously, even if it is currently going through a subdued phase. We must ensure that we do not revert to protectionism. The debt situation in many countries does not make us particularly confident.With regard to Switzerland, in the period that I have worked for Osec, it has continuously enlarged its share of the globalisation pie, even in the crisis years of 2008 and 2009.

Economically, we have an international orientation; politically, we continue to reject the European Community. Are you for or against Switzerland joining the EU?
From a purely economic point of view, it would undoubtedly make many things easier if we were a member of the EU. In addition to the economic aspects, however, other dimensions need to be considered. The decision whether Switzerland joins or not then actually becomes a political issue. As the head of Osec, I would prefer not to give my opinion on this in public.

Has the bilateral approach that Switzerland has taken towards the EU proven itself in your opinion?
Very definitely, yes. After the membership initiative was rejected, it was the right path to take. It enables us to have good political and economic dealings with the EU. There are, however, signs that it is time to review the bilateral approach and/or its form. Whether the best solution is to retain or optimise the status quo, or to introduce a more advanced bilateral approach or even a stripped-down version of EU membership, or join the EU outright, I do not want to say here. But I could not agree to any solution that does not also take into account the concerns of our exporting SMEs.

You have travelled extensively and lived abroad a lot. How has that affected your outlook?
Thanks to the years I spent abroad, I see myself as a citizen of the world. But in Switzerland and in my position as the head of Osec, I live with the political and business conditions that exist in this country – and the two poles can sometimes be diametrically opposed. I deal with 26 cantons, and they do not always want the same thing. You have to seek and find solutions that permit a majority consensus.

That's what we Swiss are used to doing!
Yes, indeed. Reaching agreement is one of the special features of our political system. However, it also slows processes down. In Switzerland, we tend to strive for 100 per cent solutions and are not satisfied with 80 per cent solutions. For that, in my experience, you need 20 per cent effort for the first 80 per cent and 80 per cent effort for the last 20 per cent. This process costs a lot of money and energy – but in most cases, the outcome is highly stable. —

“We benefit from the good fiscal situation”

The life science company Lonza has its headquarters in Basel and a large plant in Visp. Company CFO Toralf Haag explains the company’s fitness programme, its plans for growth and the advantage of Swiss virtues in global competition.

Toralf Haag
hails from North Germany and has been CFO at Lonza since 2005. Before that, he held the same position at Norddeutsche Affinerie AG in Hamburg. Haag has a degree in business administration and did his PhD at the University of Kiel. Up to now, he has always worked in the industrial sector and managed, among others, the Stamping & Frame division at a US subsidiary of Thyssen Krupp Automotive.

Mr Haag, how do you define your role as the CFO at Lonza?
The CFO is undoubtedly primarily responsible for the company’s financial policy. In the process, he should not be too conservative; he also has to further the company’s strategic development. No company progresses if it is intent only on saving costs and is too averse to risk. Consequently, I am involved in all these processes at Lonza.

What form does this strategic role take?
There is, for instance, an intensive exchange of ideas and information with the CFOs of our customers. There are many common areas when it comes to optimising working capital and investment projects. Our pharmaceutical and biotech customers are considering, for instance, whether they want to make investments themselves or outsource to us. I am increasingly involved in these discussions with customers.

Can you give us an example from practical experience?
In the area of custom manufacturing, we are considering whether we should carry out a forward or backward integration in the value creation chain. Forward integration would mean not only producing an active ingredient for a customer but also packaging it in the right dosage. Backward integration would mean also taking on contract research. As a fundamental principle, we are interested in so-called pipeline deals where we carry out a contract for several products at once. This can go as far as us taking over a customer’s entire production plant.

Lonza is a global player. Does your company exploit its Swissness?
Very much so. We have developed internationally out of Switzerland and combine Swiss virtues with global expansion. Lonza is a quality company and has a well-qualified workforce. Moreover, its Swiss site benefits from the country’s favourable financial and fiscal situation.

Is the high level of wages in Switzerland an issue for you as the CFO?
The level of wages is not of overriding importance. Comparable wages are also paid in China for very well-qualified employees. We are investing strongly in the automation of our plants; and there the level of wages is increasingly becoming less important. One

CHF 2.69 billion in turnover

Lonza
offers products and services for the health and life science industries and is seen as the global leader in the production and process support of pharmaceutical ingredients as well as in the chemical and biotechnology sectors. The company is also strong in cell-based research and in high-quality intermediate products for the food, hygiene and water, and wood treatment industries, as well as the agricultural and body-care markets. Lonza employs 8,200 people worldwide, has its headquarters in Basle and generated a turnover of CHF 2.69 billion in 2009.

area in which Switzerland has to be careful is over-regulation, where we run the risk of heavily curtailing our competitiveness.

Does Lonza find sufficient numbers of qualified employees in Switzerland?
The quality of graduates in Switzerland is very good, but there are not enough of them. We are increasingly employing foreign engineers at our sites in Switzerland. And we are developing research capacities in China and India.

Not only research capacities – Lonza is building new plants in China and Singapore. Does that have consequences for Switzerland as a business location?
The greatest opportunities for growth are to be found in the Asian markets. We are developing capacities there because we still have some catching up to do. However, our Swiss site in Visp is our largest worldwide, and we invest a three-digit-million sum there every year. We specialise in products with high value creation and complex production programmes. The biotechnological production is also located in Switzerland.

The export industry is complaining about the high exchange rate of the Swiss franc. Does the turbulence in the currency markets affect Lonza?
The effects of currency conversion are increasingly having an impact on the company's turnover figures and profits. The strength of the Swiss franc is restricting the competitiveness of our site in Visp because the costs here are incurred in Swiss francs, whereas the majority of products are exported to the USA and Europe. At other sites in the world, we have a predominantly "natural" hedging system. For our plants in the USA, we conclude the majority of contracts in US dollars and in the euro region in euros.

How is Lonza positioning itself in the delicate economic environment at the present time?
We have to live with it. It is important that we are conservatively organised with regard to our balance sheet structure and our financing. A good blend of customers from different countries and areas is required. In addition, we are active in the pharmaceutical and life science sectors, which are relatively resistant to crises.

Are countries reacting correctly to the financial crisis?
The governments and central banks did a good job in the first phase. However, the process intended to prevent further crisis is taking much too long and is being poorly managed. Two measures could be implemented easily and quickly: trading with derivatives without a direct counter-transaction should be prohibited, and a clearly defined minimum capital quota should be defined for banks. There is still a risk that we could slip into further crisis.

You say that although you are not a fan of regulations?
I am against over-regulation. But we must have a few binding rules.

You have lived in Switzerland for the last five years. Have you perceived any change in the country over that time?
The discussions between the political parties have become more aggressive and more intense, which is good for further development. I view the discussion on the

The quality of graduates in Switzerland is very good, but there are not enough of them. We are increasingly employing foreign engineers at our sites in Switzerland.

values of managers and their salaries critically. A certain level of salary is needed to recruit good managers in international competition. Isolated regulation would be detrimental to Switzerland as a business location.

Switzerland's lone stance is coming increasingly under pressure. How can it score points as a business location in the future?
Switzerland has fared well up to now with its strategy of bilateral agreements with the EU. The EU region is the largest market for Switzerland, which is why a path of further convergence must be continued. This should be done gradually to ensure acceptance among the population at large.

Is Switzerland an issue among your fellow managers in Europe?
Not in our business discussions. Frequently, there are envious glances at Switzerland and its solid finances and good fiscal policy.

Like many other companies, Lonza had a difficult year in 2009. Where are you in your re-engineering programme?
All measures will have been implemented by the beginning of 2011. We want to reduce our costs by between CHF 70 and 80 million. We are on course here. Two out of the three plants scheduled for closure have already been closed; the third, in the USA, will be closed by the end of the year. The cutting of 450 jobs will then largely have been concluded.

What will Lonza be like in the future?
Lonza will be leaner because we are reducing costs. But it will also be fitter because, thanks to the reorganisation, we will have a more market-compliant organisation with improved processes. Companies should subject themselves to such a process every few years. This sharpens the cost awareness and results orientation of employees.

Does long-term planning make sense in times like these?
Long-term planning is important, even if the degree of detail declines with the years. With a raft of investments and disposals over the last few years, we have converted Lonza from a fine chemicals into a life science company. We have a good position with the mix of the three divisions Life Science Ingredients, Custom Manufacturing and Bioscience, and we will develop these three business fields further with internal and external growth. We are also thinking about a fourth pillar of business, but that is not yet official.

Companies listed on the stock exchange get pilloried in particular when short-term forecasts fail to materialise. Lonza experienced that in 2009.
We were slightly too optimistic in 2009. But our business is volatile. In the Custom Manufacturing areas, we are dependent on the major pharmaceutical companies. If they reduce their stocks, it has a direct impact on us. In addition, the approval processes for drugs are becoming ever stricter, which is increasingly delaying production.

Nevertheless, Lonza is setting its sights high and is aiming for two-digit growth rates again in turnover and profits by 2013.
We have invested a lot over the last two to three years and want to generate a corresponding return on our investment. We owe that not only to our shareholders; it is also what we expect of ourselves and is based on orders already on our books. The risks are our operational performance and delays imposed by the regulatory authorities.

Working well together
For the Lonza Group, the acquisition of companies such as Peptides (Belgium), Bioscience (USA) and Amaxa (Germany) represents a strategic and operational challenge that is far from mundane. Depending on the initial situation and the goal, not only the full integration of the new member into the Lonza Group must be ensured, but also its further development as an independent business unit. The integration of several companies within a short space of time is daily business for PwC. In close collaboration with the PwC consultants, the Lonza Group has been able to successively expand its expertise in the area of company transactions. Information about the PwC experience of the Lonza Group and other clients can be found at www.pwc.ch/experience.

Keeping their feet on the ground

Swiss Air Ambulance (Rega) embodies safety, quality and progress and is appreciated by more than 2.2 million patrons as a typically Swiss institution. Remain solid but agile – that is the maxim of Rega CEO Ernst Kohler.

“Three million patrons – only then can I retire.”

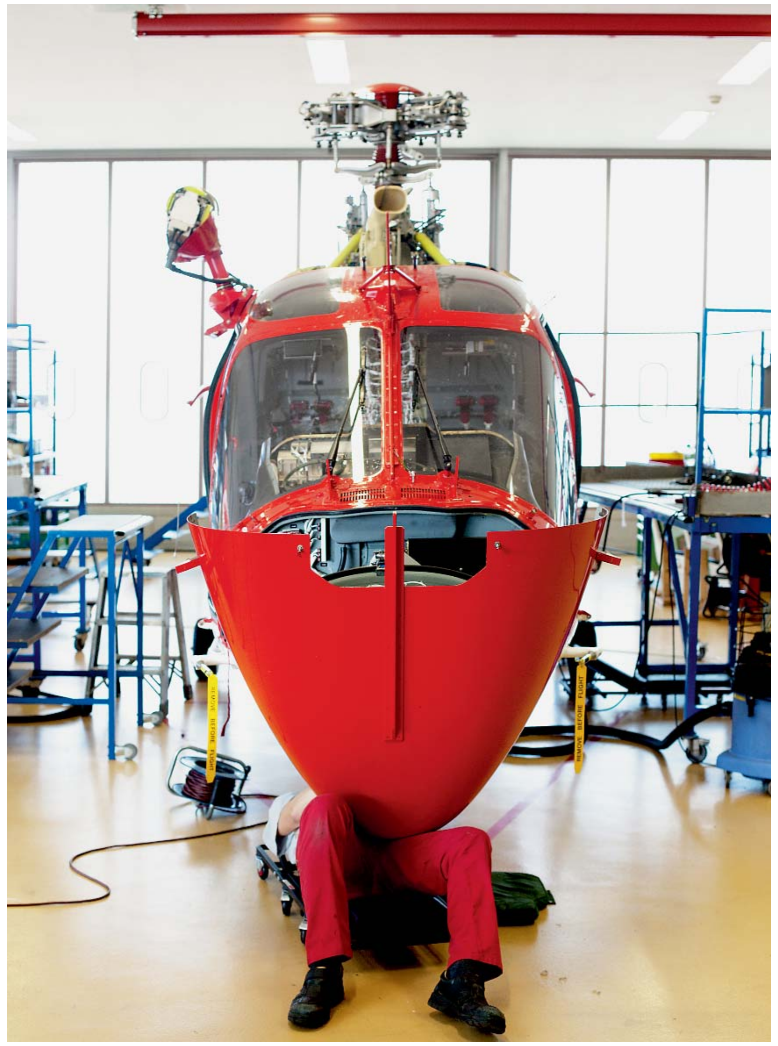
Ernst Kohler
The Rega CEO completed an apprenticeship as an electrician before doing further training at the Technical College in Winterthur. At the same time, he qualified as a mountain guide. He gained experience as a mountain rescuer and was the deputy rescue chief at Swiss Alpine Rescue in Meiringen. In 1987, Kohler started work at what was then the Federal Office for Military Airbases (BAMF) and held various management positions from 1996 onwards, his last position being head of operations and commandant at Meiringen Military Airbase. Since 2006, he has been chairman of the executive board at Rega after spending seven years on its board of trustees. He holds the rank of colonel in the Swiss Air Force.

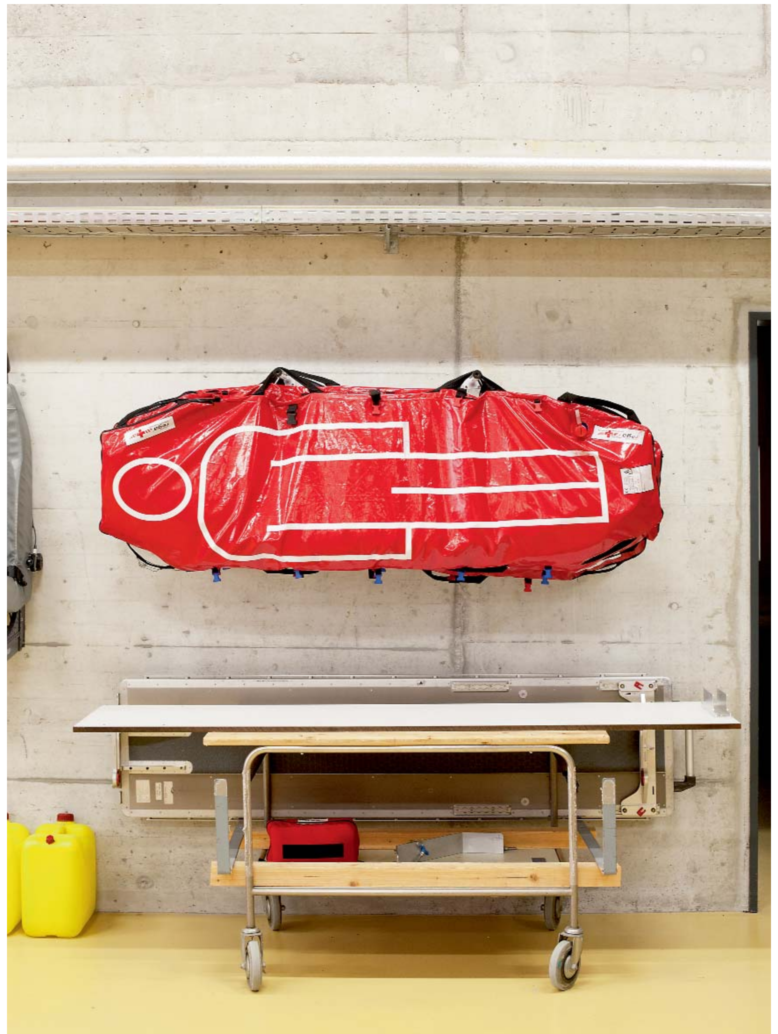
His first mountain rescue was a defining moment for Ernst Kohler. At the age of 22 and having just completed his training as a mountain guide, he was called out on a rescue mission. A mountain guide and a seriously injured person had to be retrieved from a cave. Kohler prayed that the ice screw he had positioned would hold. It did – and Kohler learned a lesson for future assignments: eliminate weak points and professionalise procedures. “A rescue mission is something rational,” he says. “You are required to analyse an event quickly, run through all potential scenarios in a matter of seconds and then make the right decisions.”
He still draws on his experiences in impassable terrain today when he heads off to work in a tie rather than carrying a rope. Five years ago, Kohler became CEO of Swiss Air Ambulance (Rega), which organises and carries out more than 14,000 rescue missions every year.
Rega adheres to the highest standards of quality and safety. “In other words, fundamental Swiss virtues,” says Kohler. Since its founding in 1952, his organisation has become the most popular company in Switzerland, as attested by a survey conducted by IHA-GfK, a market research institute. For Kohler, maintaining a reputation is not an academic exercise but rather a pragmatic principle that is integral to the organisation: “It starts with the professionalism of the rescue team at the scene of the accident and ends with the form and manner in which an invoice is issued.”
Rega is a typically Helvetian organisation. It is also unparalleled. In contrast to other rescue services abroad, which are predominantly financed by taxpayers, it is primarily patrons in Switzerland who enable air rescue with their contributions. CHF 80 million (at CHF 30 per person, unchanged since the 1990s) is collected every year. For patrons, that makes perfect sense: statistically speaking, one in twelve Swiss will need help from Rega once in their lives. As a private-sector, non-profit foundation, Rega is entirely independent of state, cantonal, party politics or commercial interests, and according to Kohler is obligated “solely towards its patrons and patients”. The red cross on the undercarriage of the aircraft is a reminder that Rega is there to help “irrespective of a person’s reputation, ability to pay, social status, nationality, race, belief or political conviction,” as stated in its deed of foundation.
Rega also sees its mandate as a transnational one; its work does not stop at the border. With three air ambulances, Rega fetches Swiss nationals back home from anywhere in the world. Last year, the organisation handled around 3,000 cases of emergencies abroad; 915 of these were repatriations, most of them using Rega’s own jets. However, Rega is also at the service of foreigners. Last spring, when the cloud of ash from Iceland grounded flights across half of Europe, including Switzerland, Kohler swiftly decided to relocate two air ambulances to Sicily to ensure that Rega remained operational. Then an emergency call came from the north. Two American children with serious burns had to be moved from Oslo to a special clinic in Boston. The aeroplanes based in the south made it possible for Rega to take off despite Swiss airspace being closed and to go around the cloud of ash – an organisationally and medically challenging task. Thanks to good planning, the right equipment and expert know-how, the Swiss air rescue teams were the only ones in the world able to carry out such an operation.

From start-up to an SME with over 300 employees

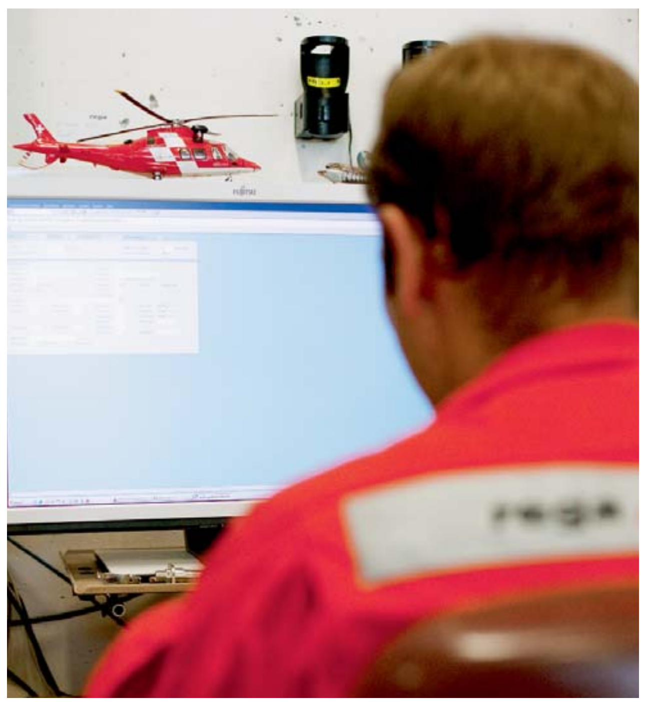
Launched in the 1950s with predominantly volunteer rescuers, the pioneering company has developed into an SME with over 300 employees. Rega is characterised by specialists from a broad spectrum of professions – doctors, pilots, paramedics, specialist nursing personnel, technicians and administrative staff. As a representative of the third generation of management, Kohler faces the task of consolidating Rega and making it fit for the future. As an experienced mountain climber, he knows that every ascent is followed by a descent. Accordingly, he aims to “keep the feet of the flying organisation firmly on the

Rega also sees its mandate as a transnational one; its work does not stop at the border. With three air ambulances, Rega fetches Swiss nationals back home from anywhere in the world. Last year, the organisation handled around 3,000 cases of emergencies abroad; most of them using Rega’s own jets.





The preparatory work for a potential emergency is huge. A Rega base is in the air for an average of only 70 minutes every day; the remaining time consists of waiting and maintenance for teams and machines that must be on 24-hour standby.



A budget of CHF 145 million

Rega
was established in 1952 by members of the Swiss rescue association and is a private-sector, non-profit foundation. It has a budget of CHF 145 million. In 2009, Rega carried out a total of 14,013 rescue missions, more than 10,000 of them by helicopter. Due to substantial investments in new helicopters, the operating result fell by 29 per cent in 2009 to CHF 13 million. The organisation employs more than 300 staff and is primarily financed by contributions from Rega members.

ground". The challenge, he says, is "to stay agile at the same time".

For Kohler, that basically means no compromising on safety or quality. Rega has twelve helicopter bases in Switzerland between St. Gallen, Basle, Locarno and Lausanne, plus its partner base in Geneva. They have been chosen in such a way that all locations in Switzerland can be reached by air in 15 minutes or less. The helicopters with balloon gondolas of the past have been replaced by flying intensive care units. The helicopter AgustaWestland Da Vinci, for instance, eleven of which are currently being purchased as part of a major refurbishment programme, is considered the most modern mountain rescue helicopter in the world with regard to comfort, space and technical equipment. Rega is spending CHF 113 million, spread over several years, on replacing its fleet – an investment that is only possible thanks to its strong community of patrons. The state does not pay a cent.

Patrons make possible not only investments in infrastructure but also the preparatory work carried out by the organisation. And the preparatory work for a potential emergency is huge. A Rega base is in the air for an average of only 70 minutes every day; the remaining time consists of waiting and maintenance for teams and machines that must be on 24-hour standby. Each assignment costs an average of around CHF 3,000. Over and above the contributions from patrons, Rega's annual budget of CHF 145 million also includes payments from accident and medical insurance companies for rescue missions.

Increasing young people's awareness of Rega

Although Rega operates at the interface between the cost-intensive sectors of aviation and health, the tariffs for its services have remained constant since 1996. However, the pressure from insurance companies has grown, in part also at the recommendation of the federal price supervisor who considers the tariffs to be too high. Kohler points out that alleviating the burden on the insurance companies would inevitably result in an additional burden on the patrons, "but the patrons should not be asked to pay even more than they do now." Swiss helicopter rescue costs less than one thousandth the amount of the cost for Swiss health care, he says. He would never accept a cost-cutting exercise to the detriment of quality, for instance a reduction in safety.

Quite the contrary, in fact: plans for the next investment projects are already in place. Transfer flights between hospitals or missions in fog still must be cancelled because visual flight is impossible in such weather conditions. Rega is therefore working on implementing new approach methods using navigation by GPS (global positioning system). Although the technology is ready, approval procedures have yet to be finalised. "It is up to our generation to realise GPS approach flights to hospitals and thus ensure that air rescue is no longer restricted to visual flight," says Kohler. "I am convinced that there is potential here for the next stage of development in air rescue."

It is not only the technical achievements that offer potential; in Kohler's view, the opportunities presented by the patron base have not yet been fully exploited either. His goal is to see the Rega patronage card installed in the purse or wallet of as many Swiss nationals as possible, just like an ID card, driving licence or rail card. For Rega, a wide patron base means maximum independence from commercial interests – to the benefit of patients. Kohler wants to increase awareness for Rega particularly among young people, for instance through the Internet platform launched in August: www.myrega.ch. Young people are included in their parents' family patronage up to the age of 18, but then their patronage automatically expires. Many do not bother again with Rega until they themselves have families. In the stage in between, there is still some catching up to do, in Kohler's opinion. Refusing to believe that the ceiling has been reached with the current number of 2.2 million patrons, he promises: "Three million patrons – only then can I retire."

The high standards of design and quality symbolised by Ida Gut appeal to women who are looking for urbane classical fashion in modern clothing, clothing that expresses cultural sensitivity.

The Swiss success model
Ida Gut

A yearning for home

In a fast-paced, globalised world, old-fashioned values such as quality and reliability are in demand. An interview with the Zurich fashion designer Ida Gut on Swiss values, the personal search for roots and a relaxed approach to tradition.

Ms Gut, what is Swissness for you?
You'd like to know what Swiss is for me?

Isn't that the same thing?
For me, Swissness is a label that can be applied to anything you want to sell under that brand. Swiss, however, refers to traits and features that are typical for this country and have developed over a long period of time.

Last year, you created the uniforms for the staff at Swissôtel. These hotels are located all over the world and, like their name says, symbolise Swiss hospitality. What did you use as a basis for developing the clothing – proven Swiss values or Swissness?
The customer wanted it to be based on the traditional costumes of the Appenzell region. So it was clearly an orientation to traditions and values that have developed over centuries. But you can't put people in Bangalore or Lima in traditional Swiss folk costumes. The idea therefore was to extract the essence of the traditional costumes and adapt it to a modern form that works for people all over the world, yet is still unmistakably Swiss. The uniforms also need to be tough and suitable for everyday use.

How did you approach these tasks?
I sat down with my team and thought about the archetypal Swiss characteristics for us and how these can be transferred to fashion. It is interesting that the traits we developed for today were already reflected in the fashion back then – i.e. in traditional costumes.

It is about identity. Who are we? What are we? How do we want to portray ourselves?

Ida Gut: Fashion, Concepts, Creative Design
The Zurich-based fashion designer Ida Gut launched her first collection in 1993. Today, the creative team at her company brings out two collections a year in line with the industry's cycle, and these are marketed to specialist stores. The items in the collections are produced in Ticino on a continuous basis and also sold in the company's own store in Zurich under the Ida Gut label. Since 2000, the designer has also been creating clothing concepts, among others for organisations such as Migros, Swissôtel and the Expo. For the last three years, she has contracted to develop fabrics for global distribution.

Can you explain that?
I'm not one for clichés, but today, as in the past, a marked consciousness for value and precision is a typically Swiss trait. A certain woodenness, a type of awkward charm, the need for dissociation coupled with the desire to take a look over the fence, a cryptic sense of humour and shrewdness. Playfulness, pace and lightness, however, are not usually part of the Swiss DNA.

How do you pack all this into items of clothing?
By using high-quality materials and attaching great importance to detail. And by investing in good finishing. In the past, it took years to finish a traditional costume with its embroidery and decorations. It was worn for a lifetime and perhaps even passed on to the next generation. A modern item of clothing can also exude this quality.

So it is less about fashion and more about expressing an attitude?
It is about identity. Who are we? What are we? How do we portray ourselves? Questions that are not only pivotal to a company's uniform but also for every one of us in general.

There is definitely a strong current trend towards Swissness in fashion. Casual wear includes hand-knitted jumpers, caps with edelweiss and belts with Appenzell cows on them. Do you think this is an expression of a general search for individual roots?
I think the yearning for hearth and home will become all the greater the faster we move. The globalised world offers huge opportunities and freedom for every individual; however, people miss stability and seek constancy. Fashion, which after all is and always has been an expression of its time, is caught between these two poles.

But isn't fashion itself an example of a transitory and fast-paced way of life?
Fashion is a business driven by financial success. Modern technology is making more and more things possible with regard to fabric manufacture and dyeing techniques. At the same time, however, many of these techniques are so strenuous for the fibres that the product is virtually already damaged when it is launched on the market. This is in conflict with the need of a growing target group for high-quality products, carefully worked clothing from natural raw materials in a style that endures for longer than just one season. You need time to produce clothing like that – and that brings us back to traditional costumes. Their quality is beyond question. Perhaps that is also one reason why traditional clothing and accessories are so popular now.

Where is the dividing line between traditional clothing and gaudy kitsch?
Oh, a bit of gaudy kitsch is permitted every now and then! Why do we have to be so strict all the time? In other countries, they have a totally relaxed attitude towards folklore and are proud of it. Nobody finds it tasteless when Japanese women wear kimonos or Russians wear uniforms with shiny buttons.

You have already produced and sold in many countries. How are you perceived abroad as a fashion designer from Switzerland?
I have always been positively received wherever I have been up to now. Perhaps the little Switzerland that makes people smile because of its lack of fashion sense is only a figment of our imagination. I have licensees all over the world who all have great trust in our partnership. This is probably due to the fact that Switzerland symbolises values such as reliability, honesty and neutrality.

What about creativity?
Let's say, innovation. I think people believe we Swiss are capable of developing products, and that includes fashion, that are modern, long-lasting and practical, and which are not copies or mass goods.

In the past, it took years to finish a traditional costume with its embroidery and decorations. It was worn for a lifetime. A modern item of clothing can also exude this quality.

Do you think that the "Made in Switzerland" label is seen as a type of quality guarantee abroad?
Definitely. But the question for me is: What is inside when it has "Made in Switzerland" on the outside? If Switzerland is seen as a symbol for quality and trust, then promises need to be kept and misleading packaging avoided. For example, selling a product as Swiss but producing it abroad.

Don't you have to do that in the fashion industry to stay competitive?
In many industries, including fashion, we cannot compete with other larger countries in this respect anyway. Rather, we can nurture our own way of thinking and, instead of rationalising, consciously leave something unrationalised. Or we can take time to consider how we can change something or make it better than the others. In this way, we would remain credible – and perhaps even generate a competitive advantage. For that, however, you need honesty, straightforwardness, self-confidence, discipline ...

... and patience?
The time factor does indeed play a major role. It takes time to produce a good, high-quality product. But – and there we are back again with the archetypal traits – doing something with composure and deliberation is a tradition in Switzerland. It is our own decision whether we take the time – or whether it is given to us.

ceo 3/2010
Value insights

Wolfgang Rieder,
Financial Services

Swiss financial industry
New strategies in private banking

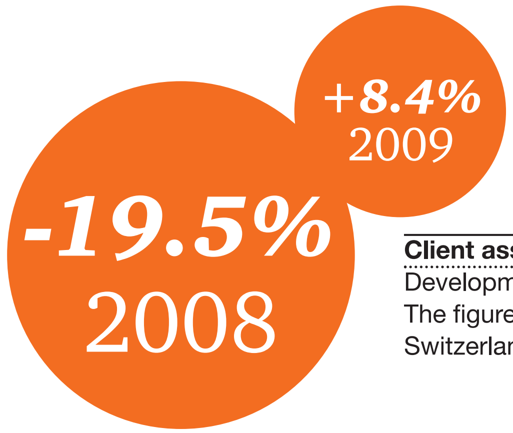
The situation in the Swiss financial industry has changed, especially when it comes to Swiss banks' international operations. The new situation is creating opportunities for new business models in private banking.

Switzerland has actually weathered the financial crisis well, with only one institution running into trouble. This is an excellent track record by comparison with other countries. Even so, the situation in the Swiss financial industry has changed, and many banks have had to review their business model. This primarily has to do with the structure of the Swiss financial industry, which revolves to a large extent around private banking. Players that are heavily involved in private banking, especially on a cross-borderlevel, are having to come to terms with significant changes in their operating environment.
This, the indirect impact of the financial crisis, is hitting Swiss banks much harder than the crisis itself. It raises three questions in particular:

- What requirements will banking institutions operating in private banking and in the offshore business have to meet in future?
- What are the implications of new regulations, especially in terms of capital and liquidity requirements and risk management?
- What strategic options do banks have in terms of the design of their business models?

Around USD 2 trillion in offshore funds

Banking secrecy is one of the keys to the structural changes taking place in the market. For many clients, discretion vis-à-vis the authorities has been a decisive reason for having their money managed in Switzerland. Banking secrecy is such a thorn in the side of foreign financial authorities – and an area where they enjoy such overwhelming public support – that it would probably have come under fire even without the financial crisis.
But the crisis massively increased the pressure on banking secrecy. Many Western states, forced to cough up hundreds of billions to avert the collapse of the financial system (estimates put government aid in the European Union alone at EUR 3 trillion) are struggling with huge budget deficits. The rescue package for Greece, to which euroland countries have contributed EUR 30 billion, and an aid package of loans and guarantees of up to EUR 500 billion for all the highly indebted countries in the eurozone, could further exacerbate their financial situation. In their search for sources of revenue, finance ministers have hit upon the untaxed money held by wealthy citizens abroad. Their suspicions are focused on Switzerland and Liechtenstein.
The amount of these undeclared assets is a subject of conjecture. According to statistics from the Swiss National Bank (SNB), at the end of 2009 total offshore funds under management, taxed



Client assets
Development of assets under management in Switzerland.
The figures are taken from PwC's study, "Private Banking in Switzerland: Benchmark Study 2010", page 39.

and untaxed, came to CHF 2.4 trillion, or 55 per cent of total assets under management.
According to some estimates, around half of these funds have not been declared. Now this does not mean that all this money is in danger of flowing out of Swiss financial institutions. It is more a case of distinguishing between assets from the European Union and the United States on the one hand, and assets from the rest of the world on the other: tax evasion is more likely to be the main reason for holding assets in Switzerland for people in neighbouring European countries and the United States than for those elsewhere. It is plausible to assume that around half of these offshore funds originate from investors resident in the EU. If estimates are correct – in other words if three quarters of these assets are not taxed – at least 20 per cent of the total assets under management are at stake. This amount, a total of CHF 900 billion in absolute terms, is what Swiss financial institutions are in danger of losing sooner or later. The planned definitive withholding tax could help limit the losses. While the new tax would lead to short-term outflows in terms of the tax base in the relevant countries, in the long run it may build trust in the financial industry. What is decisive, however, is how quickly the institutions affected will be able to respond to the changes in client requirements involved. Whether it will be possible for Switzerland to attract new money from underdeveloped jurisdictions and countries with less advanced financial infrastructures is debatable.

Tighter regulation

The pressure on financial institutions, especially in international private banking, is not just coming from foreign tax authorities and governments. Rulemaking bodies and supervisory authorities are also tightening the screw. There is no doubt that regulation will be tightened on both the national and international level. With regulation very much to the public's taste at present, the authorities responsible have a good chance of pushing new rules through.
Many issues surrounding financial market supervision are still under debate, including the controlled liquidation of systemically relevant banks. Other moves are already well under way. The Basel Committee, for example, has drawn up new proposals for bank capital and liquidity requirements. Even if the new rules are not yet in force, it is clear that the banks will have to have a more substantial cash cushion to avert problems with raising short-term funds. They will be less highly leveraged, with more conservative balance sheets and less money left over for proprietary trading.
Rules like this are aimed primarily at the big full-service banks. New guidelines from the Swiss financial market regulator FINMA could directly impact offshore banking: in cases where the law in the client's home country is violated, for example, the "guarantee of irreproachable activity on the part of the asset manager" can be called into question; if this guarantee can no longer be given, FINMA can impose drastic measures. Even though it is not laid down directly in the Swiss supervisory legislation, compliance with the relevant national laws becomes inevitable. In this context the process and reputational risks of imprudent client acquisition abroad should not be underestimated.

New business models

So what should banks be focusing on when adapting their business models to the new circumstances? The stability and financial strength of the banks is still what makes the Swiss financial industry strong; its key competitive advantages – much more important than banking secrecy – are the know-how that resides within the industry and the quality of its services. The order of importance has changed: fifteen years ago, client satisfaction and investment performance were far less crucial than banking secrecy; now these factors are key to successful client relationship management. This requires investment advisors with in-depth financial market knowledge who act responsibly and know how to assess the individual risk profiles of their clients. This is another lesson from the financial crisis: clients are only loyal if they are given competent advice.
Pressure from stakeholders is forcing the banks to act. While some areas of their business, particularly traditional commercial and retail banking, are largely unaffected by the changing environment, the greatest impact is on international private banking. This, however, is a core business of the full-service banks and, of course, of the private banks.

What strategies will these institutions need to adopt?

Big full-service banks: In future these institutions are probably going to have to focus more on onshore business, and rely retrospectively on the legalisation of untaxed offshore funds, in other words advise their clients to declare their assets. This will reduce the reputational risks, make legal action less likely, and help boost client loyalty. If the banks want to retain their European and American clients, they will have to deliver in terms of service quality and investment performance. There will be a shift from banking secrecy to the protection of privacy. This will weaken the strategic advantage over competitors abroad. So competition will intensify, and pressure on margins will remain. At the same time the costs of compliance will increase.
Banks will also have to review their market strategy. Onshore banking is not dead. Investors from emerging markets often have reasons other than tax for placing their money in Switzerland: many are seeking to safeguard their assets, and are concerned about the political and economic stability of their own country.
Private banks: Large private banks with international operations find themselves in a similar situation to the big full-service banks. Medium-sized institutions, which have earned practically all their money from cross-border private banking in the past, face a matter of life or death. But they too have various options:
1. Concentrate on the domestic market: Banks focus on business with Swiss clients. This, however, means increased competition with local players, and only leaves limited room for differentiation.
2. Expand into neighbouring countries: Like the big banks, medium-sized private banks are opening branches with a banking licence in key countries to be able to look after clients locally. There are various legal options for strengthening onshore presence, but this approach always involves a great deal of investment.
3. Restructure the client portfolio: Medium-sized private banks can also target clients from the Middle East, Asia and other emerging regions, who are mainly seeking stability and legal security. This is an opportunity to preserve the offshore business, although it does require additional investment, for example in opening alternative booking centres in Singapore or Hong Kong.
4. Merge: One private bank joins forces with another in a similar situation, or they sign a cooperation agreement to achieve a better position in the market.
5. Sell: This option is of itself unattractive, but even more so in the current market situation. While a medium-sized Swiss private bank would have fetched a high price a few years ago, these days there are few buyers interested in acquiring such risky assets.
It is hard to assess the situation of small private banks. Their strategy for the future has to focus on the composition of the onshore and offshore assets they manage.
In addition to this, banks are faced with many different regulatory requirements. FATCA (Foreign Account Tax Compliance Act) in particular, very far-reaching regulation with implications for almost all banks, will have an impact on their costs.
Regardless of their size, everyone operating in international private banking will have to adapt their business model. Simply trying to preserve the status quo is not a viable strategic option, as it involves major business risks and hardly holds great promise for the future. The fact that the assets of high net worth individuals are slated to grow 8 per cent per year globally also rules out the option of completely abandoning the offshore business. Any financial institution deciding on what strategy to adopt has to thoroughly analyse its current market position in the countries in which it operates, sound out the possible courses of action, and assess the various options. The one thing it cannot afford to do is sit back and wait.

wolfgang.rieder@ch.pwc.com

Summary
What makes the Swiss financial industry strong is the stability and financial power of the banks. The know-how that resides in the industry and the quality of the services it delivers are more important than banking secrecy. However, with regulators, tax authorities, rulemaking bodies and supervisory authorities all homing in on Switzerland, the financial crisis is having a serious indirect impact on the Swiss banks. Institutions that respond rapidly with new business models for private banking will gain the competitive edge.

Markus Nöthiger,
Sustainability

Carbon management A chance to differentiate

With the consequences of global warming affecting all areas of business, the impact of climate change has become a strategic issue. Internal carbon management is not merely about compliance with rules and regulations. It is also an opportunity to gain competitive advantage.

Climate change is right at the top of the political agenda. The report published by the UN Intergovernmental Panel on Climate Change (IPCC) in 2007 was a particularly important milestone, shaking up public opinion and showing the business and political worlds just how great the need for action was. While some of the IPCC's calculations and documentation have been put into question in recent months, resulting in a certain amount of damage to the reputation of climate researchers, few people would now dispute the basic message: emissions of greenhouse gases, particularly carbon dioxide, are warming the climate, and this climate change is due to a very large extent to the actions of human beings.

Impact of climate change at the corporate level

These days, however, the climate debate is not just taking place on the macroeconomic level. Individual organisations are addressing the implications of climate change. The impact in microeconomic terms falls into three categories: the immediate physical impact, regulatory and compliance issues, and changes in consumer behaviour.
The main physical impact of climate change affects production processes and the supply chain. Extreme weather conditions can prevent production at individual locations, or make it prohibitively expensive, and can disrupt transport and logistics. Experience shows that insurance premiums for operations in regions that are potentially affected increase dramatically in the wake of climate-related catastrophes. Added to this is the risk of local bottlenecks, for example in the water supply. All this means that any far-sighted locational policy or risk-oriented supply chain management system should also take climatic aspects into account.

New environmental regulations

The second category seems to be attracting much greater attention at the moment: environmental regulation, and the necessity of complying with environmental rules and requirements. Companies have to take account of a whole array of global rules, national laws, EU guidelines and stock exchange listing requirements. For example there is a new rule, in force since February 2010, stipulating that companies subject to supervision by the SEC in the United States even have to disclose how they assess the impact of climate change on their financial health and operational performance.
Another example is the EU Emission Trading System (EU ETS), which among other things requires that all airlines taking off and landing in the EU set up a system to monitor and report their carbon emissions. Since 2010, the companies affected must have their CO_2 emissions measured and verified, and from 2012 they will be have to acquire emission rights and steadily reduce their emissions under a cap and trade system. Airlines that break these rules could face revocation of their take-off and landing rights in the EU.
National environmental legislation has been tightened up since the signing of the Kyoto Protocol and the quantification of its climate targets for individual signatory states. For example, Switzerland's climate target is to reduce CO_2 emissions by 8 per cent versus 1990 levels between 2008 and 2012. To make this happen, Switzerland has enacted the Federal Act on the Reduction of CO_2 Emissions, which contains a mixture of voluntary measures and a CO_2 levy. The revised legislation, likely to enter into force in 2013, will contain more far-reaching rules, and foresees the integration of Swiss emissions trading with the European system. Looking further forward to 2050, scientists are talking of decarbonisation, in other words reductions in absolute carbon emissions of up to 80 per cent in developed economies. What is clear is that to achieve targets like this, a green industrial revolution is required.

Certificates business worth billions

But for companies it's not just about complying with all the relevant national and international rules and regulations. Regulation impacts many different aspects of a business, from finance and tax to accounting and reporting.
Carbon certificates are now a tradable commodity, and trading already runs into the hundreds of billions. With prices highly volatile so far, companies seeking to manage their emissions effectively face a whole series of questions. Does it make more sense to buy certificates, or adopt more environmentally friendly technologies? When is the best time to buy and sell certificates? How are certificates stated in the balance sheet, and how are they treated for tax purposes? What's the best trading and hedging strategy to follow?
One indication of how complex these questions are is the fact that some large companies have already established subsidiaries charged exclusively with trading and hedging carbon certificates. Another indication is the fact that the International Auditing and Assurance Standards Board (IAASB) is preparing global standards relating to assurance

Assurance for Swiss Post's "pro clima"

Swiss Post now offers "pro clima", a service enabling private and commercial customers to send letters, parcels and packages climate-neutrally for an extra charge. Swiss Post does this by calculating the carbon emissions involved in delivery and allotting these emissions to the individual goods delivered. The entire emissions resulting from delivery under "pro clima" are offset through the purchase of carbon certificates.

In spring 2010, PwC evaluated the CO_2 data and issued Swiss Post with assurance on the greenhouse gas inventory of its "pro clima" service. The work involved verifying the calculation of the carbon footprint relevant to deliveries, verifying the process used to capture the data used to calculate carbon emissions, and verifying the allocation of relevant emissions to letters, parcels and packages.

This assurance from an independent external party reinforces the credibility of the "pro clima" service. The assurance also includes recommendations for ongoing improvements to the process, which helps additionally boost the quality of Swiss Post's calculations and reporting.

engagements on greenhouse gas statements.

Changing consumer behaviour

The climate debate has changed the market in a number of ways. On the one hand we are seeing state incentives to promote climate-friendly technologies and renewable energy, while on the other consumers are becoming much more sensitive to climate issues in their choice of products. The combination of regulations and incentives at the political level primarily affects manufacturing processes, while the main impact of consumer behaviour is on the products themselves. Growing market awareness of climate-compatibility and sustainability is forcing companies to strategically rethink their production methods and product portfolios. Any change naturally entails a great deal of investment in research and development and technology, and also in marketing. But at the same time it gives a company a competitive edge. For example when infrastructure projects were put out for tender for the 2012 Olympics in London, carbon footprint emerged as one of the main keys to a successful bid.
Private consumers, helped in no small measure by advertising and labelling, are increasingly buying the sustainability argument. An increasing number of products ranging from white goods, detergents and cleaners to clothes, food and cars can or must be labelled with information on their environmental footprint. In some cases this labelling covers not just the end product itself, but its entire life cycle from the procurement of raw materials to disposal. It remains to be seen whether this will still be a (further) selling point, or whether consumers will also be prepared to pay for value-added of this sort. Particularly relevant in terms of corporate strategy are the energy-efficiency and sustainability of durable consumer goods representing image and status. Cars are the prime example. Already the prestige of a marque is no longer measured in terms of horsepower alone: fuel consumption is also a vital component.

Subjecting environmental performance to review

Given the growing interest in their environmental performance, large companies are increasingly opting to have their products and services reviewed by an independent agency, with the results published in the form of a label or certificate. External certification has also created opportunities for differentiation (see box page 31).
What applies to the market for products also applies to the market for labour: one very effective way for a company seeking to hire the best people to stand out is through its attitude to the environment and sustainability. These days, employees and managers increasingly demand authenticity: the company's image should be backed up by solid values and concrete action.
Most successful are organisations that manage carbon on an integrated basis rather than viewing the environment as an isolated issue, as there can be few areas of any business that remain unaffected by efforts to combat climate change. Carbon management should also be geared to seizing new business opportunities rather than simply addressing existing or future risks. Integrated carbon management not only shows that a company is a good corporate citizen, but can help ensure that it remains successful in the marketplace.

markus.noethiger@ch.pwc.com

Summary

Climate change affects companies in many different ways. Production processes and the supply chain are affected by the immediate impact of global warming on nature. Tighter regulation requires compliance with national and international rules. Greater consumer awareness forces companies to be transparent about their products and production processes. Companies seeking to integrate the impact of climate change in their strategy, develop pioneering technologies and products, participate successfully in certificate trading and meet stakeholder expectations should be aware of the vital importance of effective carbon management.

William Wright,
Swiss Retail & Consumer Industry

Consumer trends
What today's consumers want

Consumers want to follow trends without having to change their habits. They want to buy environmentally friendly products without having to spend a lot of money. They want to be able to compare offerings and prices without having to spend a lot of time on it. To put it in a nutshell: consumers want to get as much as they can for their money – and are thus posing major challenges for the sector.

As part of its "Annual Global CEO Survey 2010", PwC asked 194 CEOs from the consumer goods sector and 78 CEOs from the retail and wholesale sector for their assessment of consumer behaviour. The results of this global survey, combined with the findings of the market observations of PwC sector experts, highlighted the following trends:
Consumers are showing an increased trend toward less expensive products. 62 per cent of the wholesale and retail sector CEOs surveyed expect consumers to reduce their total shopping spending in the future. 68 per cent of these business leaders observe that consumers now attach considerable importance to retailers' social and environmental policies and that this influences where they make their purchases. The CEOs of consumer goods companies confirm this trend towards more sustainable shopping patterns, with 65 per cent of those surveyed believing that consumers give preference to companies whose manufacturing operations are socially and environmentally responsible. These CEOs also see a manufacturer's reputation for sustainable production as a source of increased value generation.
At first glance, these two trends may appear contradictory, since sustainably produced goods are generally more expensive than others. The contradiction is more apparent than real, however, since buying products which offer value for money does not necessarily mean buying those with the lowest possible price.
What constitutes value largely depends on individual preferences and also varies considerably between product categories. Empirical research carried out by PwC in the United Kingdom has shown that consumers are developing entirely new concepts of value for money. While UK consumers are keen to get a bargain, they are equally adamant in their desire for the quality of the products they buy to be of the standard to which they are accustomed. How they go about achieving these objectives is very much dependent on their economic circumstances.

Internationalisation and differentiation

These days, consumer habits are also culturally embedded. In addition to the income situation, consumers' preferences are determined by traditional habits.
This may seem surprising when one considers how similar city centres and main shopping thoroughfares the world over have now become. Closer inspection will however show that the designer brands' collections vary from city to city, indeed food

Consumer behaviour

For the "Annual Global CEO Survey 2010", PwC interviewed 272 CEOs in the consumer goods, retail and wholesale industries. More than 60 per cent of the CEOs polled see the following trends:

62%

Less spending
In future, consumers will spend less money.

68%

Greater discernment
Consumers will pay increasing attention to a company's social and environmental track record.

65%

Shift in preferences
Consumers will increasingly favour manufacturers whose production is environmentally and socially responsible.

Imperatives for the retail and consumer goods sectors

- Innovate to gain competitive edge
- Market research – to read consumer trends
- Invest in the right human resources
- Understand how consumer appreciation of value has changed
- Strip out costs that do not add value
- Respond to demographic changes
- Get closer to customers' individual needs
- Rather than look to secure more retail space – review optimisation of sites in 2010 (e.g. burdensome long-term contracts)
- Respond to market liberalisation and consolidation
- Review growth strategy – consider external growth options

retailers often adapt their product ranges from one area of a town to another, in accordance with local tastes. Thus, while retail is becoming homogenised from continent to continent, individual outlets are becoming increasingly differentiated.
New concepts of what constitutes value make it questionable whether the retail sector's traditional segmentation into luxury shops, mid-range retailers and discounters will survive. Shops at the centre of the price spectrum are coming under increasing pressure, particularly in countries where income disparity is increasing. In many countries, Germany being an example, department store chains which had flourished for decades are now fighting to keep afloat. Although the premium segment also suffered a downturn due to the recession, it is now showing signs of recovery. The entire retail industry and those supplying it are being compelled to adapt their strategy to changing consumer preferences.

In order to maintain or enhance their popularity with consumers, CEOs in the consumer goods industry plan to increase their spending on advertising and brand building by more than those in other sectors. This is particularly important for producers of branded goods, who are keen to counteract perceptions that their products are interchangeable with others.

Saving and splashing out

Consumers' resources, both in terms of money and time, are limited. The UK survey identified saving and splashing out as a new social phenomenon. To some extent, this reflects the effect of the recession on different strata of society. While lack of purchasing power forces some groups to save, others can still afford to splash out. Yet this dichotomy also now characterises the shopping habits of individuals. Many consumers see nothing contradictory in owning a luxury sports car while at the same time saving on food. Where spending is being cut and where money is being spent freely is determined by current trends in each society.
The effect of changes in demographic structure on consumer spending should not be underestimated. As the age pyramid in industrialised countries shifts, there are increasing numbers of people with less money to spend but more time to choose what they spend their money on and where they shop. Besides comparing individual retailers, they can also use the Internet to find bargains.
Other consumers use the Internet to order their shopping for delivery to their homes, mainly in order to save time. They see little benefit in devoting time to comparing the prices offered by different suppliers. It is these same consumers with limited free time who are driving the accelerating sales of convenience products and convenience stores – a trend which is particularly noticeable in Switzerland. Food which can be quickly prepared and shops which are open till late in the evening help to raise the quality of life of many people with substantial commitments to their jobs.

Factors affecting Switzerland

To a greater or lesser extent these trends can be observed in all Western industrialised countries. An additional factor which is important in Switzerland is the spending patterns of foreign consumers. The importance of the exchange rate to tourism in Switzerland – whose prices are in any case generally higher than in many other countries – should not be underestimated. A high Swiss franc exchange rate not only hurts hotels and restaurants but the retail sector as well, particularly when the economic climate is less favourable.
Migration to Switzerland by people who are highly qualified, highly paid and correspondingly liberal in their spending patterns has given a strong boost to the importance of private consumption as a component of GDP. Were this trend to be reversed, its effect on the overall economy would be felt just as keenly. This purely quantitative aspect has a qualitative corollary. As people from other countries come to work in Switzerland they bring their own consumer traditions with them, something which the Swiss retail industry was not slow to notice. In Zurich today, for example, German products are as easy to come by as Italian ones.

william.wright@ch.pwc.com

Summary

Consumers want goods that bring them value. Where this value lies depends greatly on individual preferences. These in turn are determined by international trends and traditional habits, by prices and production methods, and by economic and demographic developments.

Peter Eberli,
Audit

IFRS for SMEs
Attractive for only a few Swiss entities

Reporting in line with the International Financial Reporting Standards (IFRS) is seen as too complex and time-consuming by many medium-sized enterprises. At first glance, the new IFRS for SME standard may seem to be a viable alternative. But on closer inspection it emerges that companies traded on the Swiss stock exchange are barred from adopting the new standard. And for most other Swiss companies it makes more sense to apply full IFRS or Swiss GAAP FER.

It sounded like good news for many companies when the London-based International Accounting Standards Board (IASB) announced that it was working on an international financial reporting standard tailored to the needs and capabilities of smaller entities. After years of preparation, in July 2009 the IASB unveiled its IFRS for SMEs. The 230-page standard is a lot less bulky than full IFRS, and in many cases allows for simplified measurement and presentation, notably in relation to business combinations, financial instruments, and disclosure requirements (see box).

For Swiss companies, however, the benefits of IFRS for SMEs are limited. There are very few entities entitled to adopt them in the first place. The rules of the SIX Swiss Exchange are very clear: companies listed on the Main Standard (as the main board is now called) must report in accordance with full IFRS or US GAAP. Companies whose stocks are traded on the second board, what is now called the Domestic Standard, can also prepare their financial statements under Swiss GAAP FER. Besides these Swiss rules, the SIX does not accept any other simplified standards.

In other words, the new international standard is only an option for unlisted entities. This includes, for example, family companies with international operations that want to prepare their financial statements in line with an internationally recognised standard. This simplifies reporting as well as making the financial statements easier to understand for foreign stakeholders who are not familiar with Swiss GAAP FER.

Good standard for family offices

By contrast with countries such as Germany or Austria, however, Switzerland does not have all that many privately held companies with international operations. What it does have, however, is a great number of family offices: companies set up to manage the assets of wealthy families. Most families with a family office have a broadly diversified portfolio and seek discretion in the management of their wealth. For these family offices, IFRS for SMEs is the right standard. It gives them internationally recognised financial reporting without the effort involved in applying the full IFRS standard.

Start-up companies are another group for which IFRS for SMEs may be appropriate – provided they plan to operate internationally from the outset. However, if a young company of this type plans to eventually go public, it makes more sense to opt for the full

The three main differences between IFRS for SMEs and full IFRS

Business combinations

IFRS: Under IFRS 3 (revised), transaction costs no longer form a part of the acquisition price. Contingent considerations (payments that depend on the occurrence of future events) are measured at fair value at the time of the business combination regardless of the degree of probability of an inflow or outflow of economic benefits. Changes to contingent consideration resulting from events after the acquisition date must be recognised in profit or loss. Goodwill is not amortised, but is instead tested for impairment annually.

IFRS for SMEs: Transaction costs are included with the cost of the acquisition. Contingent considerations are included in the costs of the acquisition provided that they are probable and can be reliably measured. Future adjustments are made via goodwill. Goodwill is amortised.

Disclosure

IFRS: The full standard contains detailed disclosure requirements in relation to financial risk management, financial instruments, segments and taxes, among others.

IFRS for SMEs: The disclosure requirements are much less far-reaching; for example, no segment reporting is required.

Financial instruments

IFRS: For the purposes of measuring a financial asset, IAS 39 (financial instruments: recognition and measurement) classifies financial assets into the following four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets.

IFRS for SMEs: Two sections deal with financial instruments, one covering loans and receivables and other basic financial instruments, and one dealing with more complex financial instruments. Most basic financial instruments are measured at amortised cost using the effective interest method, while complex financial instruments are measured at fair value through profit or loss.

standard in the first place. First implementing IFRS for SMEs and then switching to IFRS only a few years later would involve additional time and expense. On the other hand the simplified IFRS standard is perfectly suitable for start-ups whose owners intend to retain their interest in the business longer-term, but still seek to do business abroad.

Suitable for subsidiaries of multinationals in individual countries

The new standard is also relevant for multinational companies, even if they are listed on the SIX Main Standard and have adopted IFRS for their group financial statements. This may seem surprising at first glance, but it makes sense when you consider the background:
It is up to legislators in individual countries to decide whether IFRS for SMEs is permitted or even prescribed. While the EU has laid down that all listed companies adopt full IFRS, it has left the decision on whether to accept IFRS for SMEs to individual member states. Opinions vary from country to country. While the UK, the Netherlands and Australia are veering towards adopting IFRS for SMEs in place of their domestic accounting standards (local GAAP), Germany, France and Italy are sceptical when it comes to replacing their local standards. The reason lies in the link between tax financial statements and commercial financial statements. To have at least some control over tax revenues, certain countries want to retain their options for regulatory intervention in financial reporting. Adopting IFRS for SMEs could have undesired fiscal consequences. In Switzerland, IFRS for SMEs could conceivably be accepted as part of the company law reform, but there is no way that the standard will be made compulsory in this country. Added to this is the fact that the standard setters were thinking less of Western European countries when they designed the new standard, and more of countries that do not have any generally accepted local accounting principles of their own. This applies to large parts of the world, including most Eastern European nations. For these places, nationwide implementation of IFRS for SMEs is an opportunity to bring their companies' financial reporting up to an internationally accepted level. However, it is still a matter of speculation as to which countries will adopt the new standard.
Precisely this, however, is the crucial question for multinational groups with subsidiaries around the globe. It is in their interests for a large number of countries to recognise IFRS for SMEs so that as many group companies as possible can report in line with the standard. This would help a great deal in terms of the transparency and comparability of reporting. We can assume that around half of the subsidiaries of a multinational with a hundred subsidiaries worldwide will be using IFRS for SMEs for their individual financial statements in three or four years' time. For this reason, the standard is also an important issue for multinational companies, including those in Switzerland, to consider – all the more so because despite its name, the standard does not contain criteria for size, meaning it could also theoretically be adopted by large entities. How widely the new standard will be accepted in Switzerland also depends on how many countries adopt IFRS for SMEs in their national legislation.

Don't forget the benefits of full IFRS

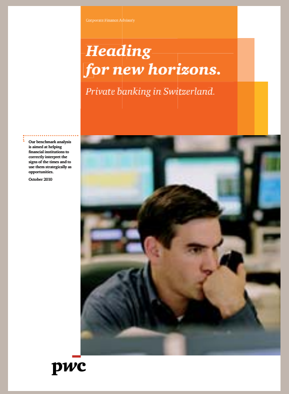
For some Swiss companies the new standard may already be an alternative to local GAAP. However, they should not lose sight of the fact that despite its complexity, full IFRS has important advantages, particularly when it comes to free access to capital markets at home and abroad. It may be that the money a company can save on raising capital far outweighs the additional costs of reporting under the full standard.

peter.eberli@ch.pwc.com

Summary

In Switzerland, listed companies are barred from adopting the new IFRS for SMEs reporting standard. The simplified international standard is relevant for two groups of entities in particular: family companies with international operations and family offices, and multinationals wanting individual subsidiaries in different countries to report under the same standard. However, entities considering introducing IFRS for SMEs should also look into the option of adopting full IFRS.

Events, publications and analyses

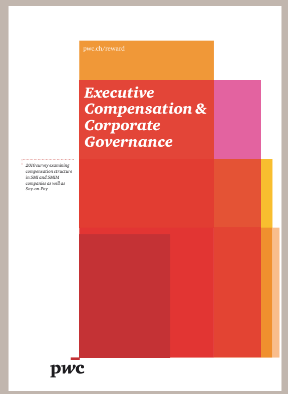


Private banking: heading for new horizons.

Swiss private banking faces far-reaching changes involving new roles and enormous challenges. PwC has published a study entitled "Private Banking in Switzerland: Benchmark Study 2010". It is designed to serve as a benchmark analysis that will help financial institutions interpret the signs of the times and systematically seize the opportunities that arise so they can continue to lead the international field in future.
You can download a PDF of the report free of charge at www.pwc.ch/pb_study.

PwC: Annual Review 2009–10.

This year, the PwC annual review once again provides information on the strategic orientation of our company and its lines of service, on the way it manages value, and on its performance.
You will find the online version of PwC Switzerland's 2009–10 annual review in English, French, German and Italian at www.pwc.ch/annualreview.



2009 upswing: Swiss managers reap the benefits.

In some cases, CEOs of large Swiss companies earned more in 2009 than in 2008, also profiting from gains on their shareholdings. On the other hand, executive pay has not yet returned to the levels of 2007 in terms of either current compensation or equity gains. Compensation paid to members of boards of directors, usually in the form of a fixed fee, has remained within a narrow, stable range in recent years. The PwC report "Executive Compensation & Corporate Governance 2010" analyses publicly disclosed salaries and compensation paid to board members and executives at 20 SMI companies and 28 SMIM companies.
You can download a free PDF copy of the report in English at www.pwc.ch/reward.

Events:

Trends in financial reporting: what does 2011 have in store?
In a series of events at the beginning of next year we will be inviting board members and executives to various locations to tell them more about the most important developments and challenges in the field of financial reporting. We will be showing practical approaches to tackling the key issues. You will find a list of venues on our website: www.pwc.ch/trends.
For information and registration: jacqueline.duss@ch.pwc.com, T 058 792 63 38.

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"Competition for good employees"

A low-cost production site would bring the benefit of lower wage costs, but in return we would have to spend substantially more on quality assurance, argues Gilbert Achermann. For the chairman of the board at Straumann, the quality label "Made in Switzerland" is a competitive advantage in the global business.

Mr Achermann, how much of a dental implant from Straumann is "Made in Switzerland"?
A substantial part. The company was established in Switzerland, the technology is Swiss and the entire research and development as well as a large percentage of the production are still in Switzerland today. Although Straumann has grown more strongly abroad than at home, the majority of the value creation is still done here.

This summer, Straumann's most important production plant, at Villeret in the Bernese Jura, celebrated its ten-year anniversary. What is special about the Villeret site?
The Villeret plant is one of the largest and most modern production sites anywhere in the industry. Historically, our innovations have developed out of the proximity to the watchmaking industry, which is why we have long had a production base in the Jura region. We went there because it has a sufficient number of specialists with precision engineering skills. Very few locations in Europe offer this ready access to qualified staff.

Gilbert Achermann
joined Straumann in 1998 as its CFO, was appointed CEO in 2002 and became chairman of the board in the spring of 2010. Previously, he worked for UBS for 13 years in the areas of corporate finance and investment banking. Achermann has a degree in management from the School of Management and Business (HWV) at the University of St. Gallen and an Executive MBA from the IMD management school in Lausanne.

80%
gross profit

Straumann
The Straumann Group, headquartered in Basle, is a global leader in the field of dental implants and oral tissue regeneration. With just under 2,200 employees, in 2009 Straumann generated a turnover of CHF 736 million, an operating profit of CHF 165 million and a net profit of CHF 146 million. The products and services of the stock exchange listed company are sold in more than 60 countries.

Everywhere, companies are complaining of a lack of qualified specialists. Why do they choose Straumann in Villeret over other companies?
We have never had any problems in finding specialists and have continually increased the workforce over the last ten years, including of course with staff from abroad. There are a number of renowned medical technology companies in the Jura region that to a certain extent compete with one another for good employees.

The high level of wages in Switzerland is causing many companies to move jobs abroad. Are you one of those companies?
We are privileged to work in an industry where the gross margin is relatively high, i.e. 80 per cent. Direct wage costs constitute a modest share of product costs. A low-cost production site would bring the benefit of lower wage costs, but in return we would have to spend substantially more on quality assurance. An implant is not a consumer good that you can buy at a low price and then throw away later. Rather, it is a medical product that patients rightly expect to last a lifetime. Consequently, we do not aspire to low costs; we want to offer high quality and precision.

Why do both global market leaders of dental implants – Straumann and Nobel Biocare – have their registered office in Switzerland?
It is indeed remarkable that two Swiss companies are the leaders in this field, and a coincidence that is linked to the invention of this form of treatment, which goes back to the 1960s and 1970s. Implantology was invented by a pair of Swedish and Swiss professors. Medical technology is one of the most important industries for Switzerland and fares outstandingly well in international comparison, even with Germany or England. New jobs are created every year.

Why is Switzerland so competitive internationally?
Swiss competitiveness is primarily due to our outstanding educational system. The Swiss Federal Institutes of Technology (ETHZ and EPFL) as well as the universities of applied sciences are extremely strong in life sciences. The vocational schools also produce excellent personnel.

At the beginning of the 1990s, Straumann expanded to the USA. Today the company employs more than 100 staff in its production facility at Andover on the east coast. How important are the Swiss origins of Straumann there?
Very important. Our US site also cooperates closely with our site in Villeret, which generates a feeling of belonging to a company with Swiss origins. I deliberately do not say a Swiss company, because we aspire to be an international company. But our understanding with regard to innovation and quality is typically Swiss throughout the company. The plant in Andover meets the same strict quality standards as the plant in Villeret.

It took many years for Straumann to establish itself in the American market and to earn money. What was so difficult?
The recruitment of qualified employees. As an unknown Swiss employer, we had a difficult position, particularly in marketing and sales, competing against established US companies. Today, we no longer have any problems in recruiting talent.

What makes you better today than before?
We have carved out a name for ourselves as a successful company and as an employer that rejects "hire and fire" methods. Of course, we are continually optimising the workforce, but in contrast to many American companies we do think twice before we carry out any restructuring.

What lessons have you learned from your entry into the American market?
You have to be a little sceptical regarding the promises made by American managers. "Underpromise and overdeliver" is a Swiss virtue; with the Americans, the opposite is frequently the case. The staying power of the workforce is also not as strong as it is here. If something doesn't work, personnel simply change employers. Finally, the challenges of entering the US market are often underestimated. You need five to ten years to reach a critical size in a market with 300 million consumers. I am constantly seeing evidence that the USA holds a great fascination for smaller companies – perhaps too great a fascination. You need a lot of time, money and stamina to achieve a breakthrough on the US market.

You have to be a little sceptical regarding the promises made by American managers. "Underpromise and overdeliver" is a Swiss virtue; with the Americans, the opposite is frequently the case.

Straumann also has production locations in the European Union – in Malmö, Sweden, and in Leipzig, Germany. What benefits would Swiss membership of the EU offer the company?
It has definitely never been a disadvantage that we are not in the EU, either in the opening up of new markets or in the procurement of personnel. I do not see any obvious benefits in a membership. We can live well with the accompanying measures to the bilateral agreements.

No negative experiences with Brussels?
We really cannot complain.

Like all export-oriented Swiss companies, Straumann is suffering from the strong franc. Some firms are reacting to this with a relocation of jobs abroad or by opting to use the euro as a basis for their balance sheet accounting. What plans have you got in place?
We are not considering either option. The ratio of our costs, which are predominantly in Swiss francs, to our revenues, which we generate in euros, has indeed been thrown out of kilter at the present time. But the cost of relocating fundamental costs to the EU is incommensurate with the benefits that such a move would bring. With regard to currency fluctuations, I do not see any problem in the long term as these will balance themselves out again over time. Consequently, we do not see any need to change our accounting.

For some years, Straumann has also been expanding in Asia and has ambitious plans, for instance in China. How does a Swiss company enter the dental implants market in China?
It is only possible via local partners. We have a competent sales partner and are the industrial partner of the International Team for Implantology (ITI), which has a branch in China. The ITI is the world's largest academic network in the sector. It makes implantology known as a treatment discipline at congresses and training courses, and we follow up commercially.

What goals are you pursuing in China?
Based on the absolute size of the business, China is still very small but has great potential. We have been there since 2003 and are the clear market leader; we are anticipating that China will be one of the top three sales markets over the next ten years. Today, these are the USA, Germany and Japan.

How important is the label "Made in Switzerland" in China?
It is a huge help. We had to promise our Chinese sales partner that the implants for the Chinese market would be produced in Switzerland and not in the USA, although they are of identical quality.

Are there plans to develop a production plant in China?
I would not want to rule it out, but there are no plans at present.

There are an increasing number of low-cost suppliers on the dental implant market. Have you considered reacting to this by offering low-cost products yourself?
We are not under the impression that there is a market shift towards low-cost suppliers and do not see any reason to launch a budget line. Low-cost suppliers are gradually noticing that the requirements for approval are increasing. Our standards have always far exceeded the requirements of the approval authorities. What is more, the range of services and our customer support are becoming ever more decisive. We offer not only a high-quality medical technology product but also appropriately high-quality customer support.

You are very positive with regard to Switzerland as an economic location. Nevertheless, isn't there something you think still needs improving?
We need to be careful that we do not jeopardise the advantages of our educational system and our tri-culturalism. After all, education is our only natural resource. Often, there is more discussion about children and teenagers being put under too much pressure than about the opportunities that arise, for instance, from multilingualism and learning foreign languages at an early age. I also do not understand why some cantons struggle with the subject of school harmonisation. It is a fact that Asian countries in particular do not stand still; they, too, have noticed that education is a fundamental factor in the creation of prosperity. —

“The economic location Switzerland is a business model for us”

For Urs Rickenbacher, CEO of the textile specialist Lantal, respect, honesty, trust, positive thinking and foresight are the five pillars on which his company is based. These values are not easily exportable.

“Self-confident, yes, but not arrogant.”

Urs Rickenbacher
has been CEO of Lantal Textiles since 2003; since September of this year, he has also been its majority shareholder, with a stake of two thirds in the company. Before joining Lantal, Rickenbacher, who received his PhD in economics from the University of St. Gallen (HSG), held various management positions at Kuoni Travel, Jelmoli and the USM Group.

Mr Rickenbacher, on a scale of 0 to 10, how would you rate Switzerland as a manufacturing location?
I would give it an 8.

Not a bad value. Why not 10?
I give it one minus point for the red tape that you have to cope with as an entrepreneur. It could be made much simpler. And another minus point for the way education is handled. In our country, know-how is the most important resource. Yet, in my opinion, it is still not given the attention it deserves. We need to invest in and focus much more on research and training. Everybody knows that the shortage of specialists will become ever more acute over the next 25 years. And what measures are being put in place here in Switzerland to cope with it? None.

Can you really not find any qualified specialists here?
We no longer have that many specialists in the textile sector in Switzerland; we recruit most of them from abroad. Our workforce of some 400 staff comprises 25 nationalities. We have our own training programmes. We cannot afford to wait for the state to train our people.

What keeps you in Switzerland?
This is where we manufacture our products. Moreover, we benefit from this country’s many advantages. The presumed disadvantage – the high location cost – has ultimately made us what we are today: a company that is easy to beat on price but virtually impossible to surpass in terms of quality. The economic location Switzerland is a business model for us, and we would like to retain it as long as possible. We would lose cachet and image if we were to abandon our Swissness. “Made in Switzerland” is still worth something in this world. Only recently, for an acquisition where we really had to stretch ourselves, we submitted a “Made in Switzerland” offer and a parallel offer of comparable quality but for a lower price from our US subsidiary. The customer placed the contract with our Swiss company, despite the higher price. That is something we experience on a regular basis.

So your customers pride themselves on their association with you?
Yes, they do.

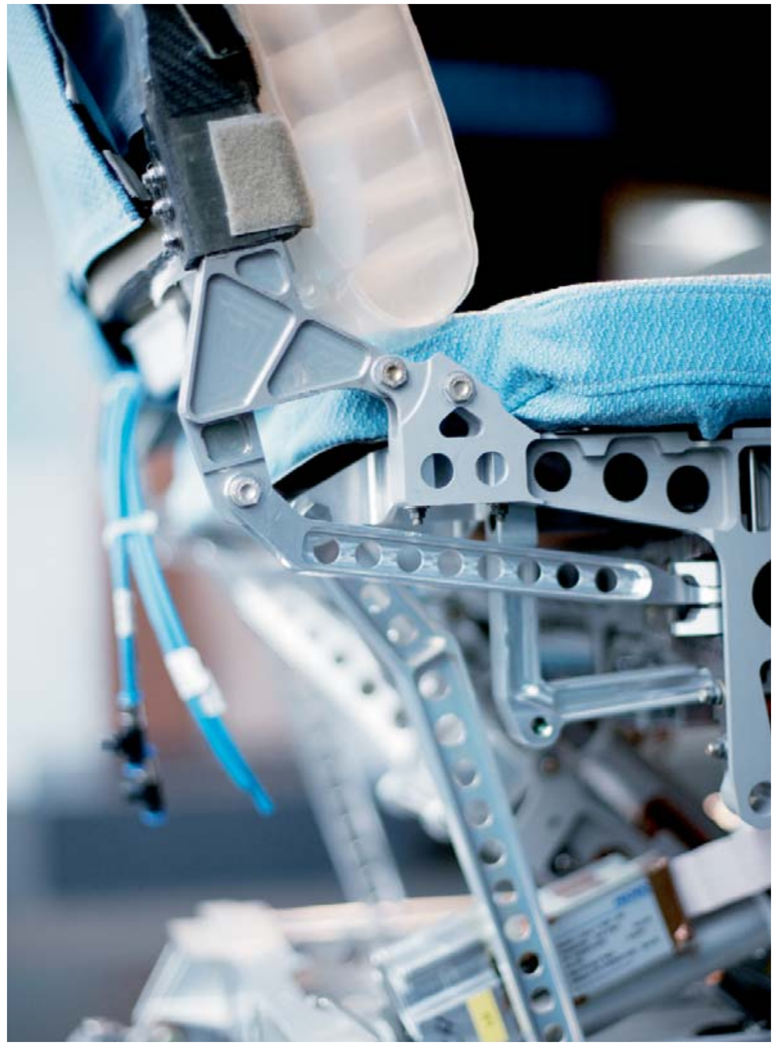
Do you also have customers in China?
The Chinese are particular fans of Lantal: we are an OEM (original equipment manufacturer) for all four Chinese airlines. Every thread, every fabric in their aeroplanes comes from Langenthal or Melchnau.

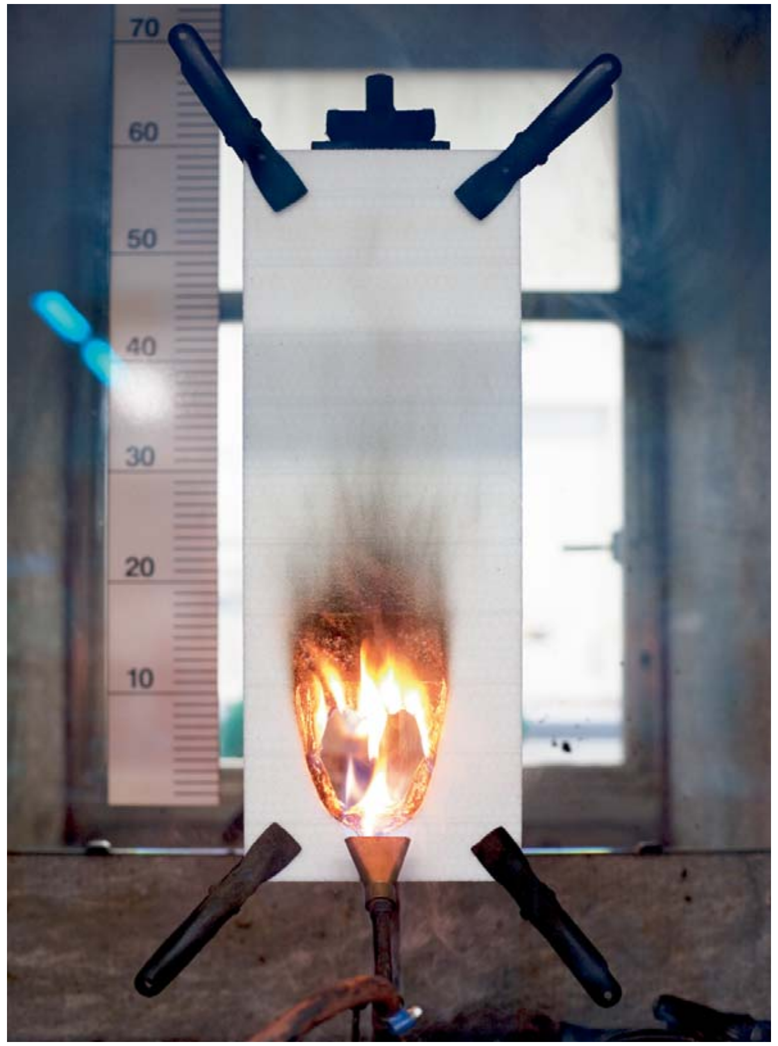
Does that mean you cannot be copied?
Oh, no. At the major industry fair in Hamburg we regularly see booths of our Asian rivals displaying products that we introduced the year before. If you go up to them and say, “Hey! That’s our product!” they respond: “Yes, yes, of course! But we can do it, too.” We thus have to launch something new on the market again the next year. This is the only way our strategy as a niche supplier can succeed. However, you have to ask when the Chinese will abandon their attraction for Swissness and discover that they have become strong enough themselves. This moment will come, and we must not miss the boat.

Would that be the moment for you to set up your own production facilities in China? Would you find the people you need there?
Without a doubt; after all, 17 million people work in the Chinese textile industry. However, there would have to be evidence that the same quality could be achieved as in Switzerland.

Then China would be an option after all as a manufacturing location for Lantal?
Relocation was not an issue until recently. But the pressure is growing all the time – and has actually increased dramatically with the currency crisis. The demand for textiles in the transport sector in China is very high. We need to think about how we can continue to supply and even expand this market in the future. We could also counter currency fluctuations. We export 94 per cent of the products we make. Currency fluctuations are especially noticeable when we invoice in dollars and euros. We are still in the comfortable position of being able to invoice around 80 per cent in Swiss francs. But this privilege is not set in stone. And for our customers, it means that we are more expensive, relatively speaking. We are therefore now also discussing switching from francs to euros.

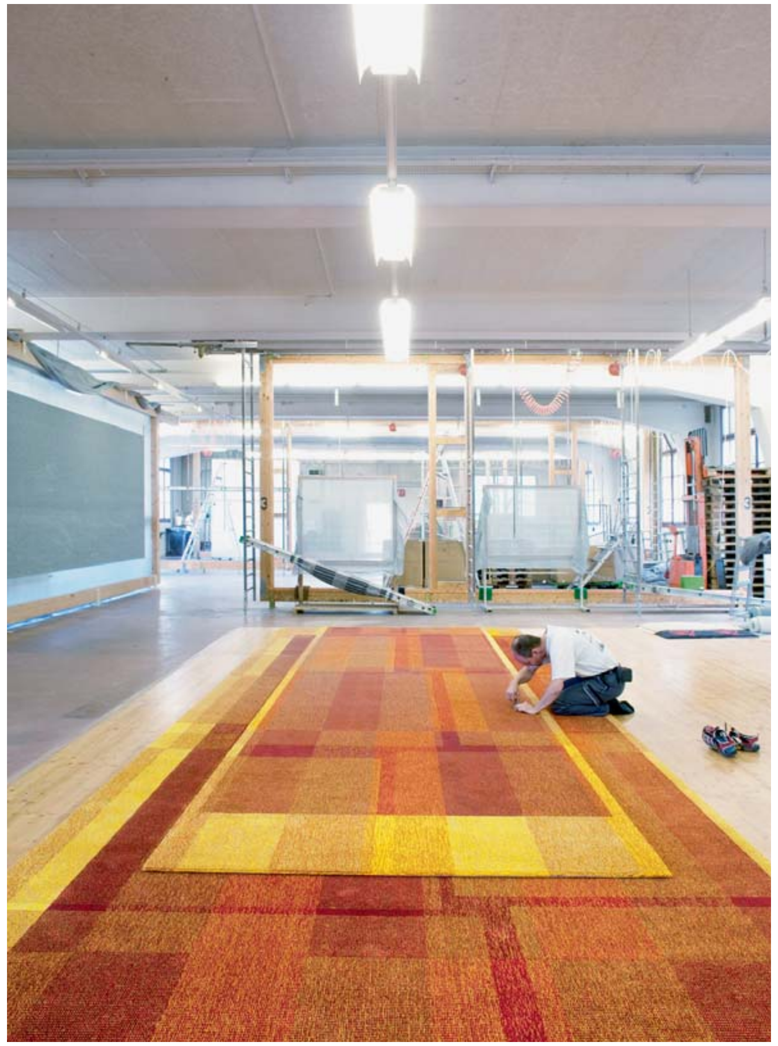
If Lantal did go to China – would you go with it?
I have moved around a lot since I graduated; I’ve lived in the Far East, Germany and now in Switzerland. China – why not? I can feel at

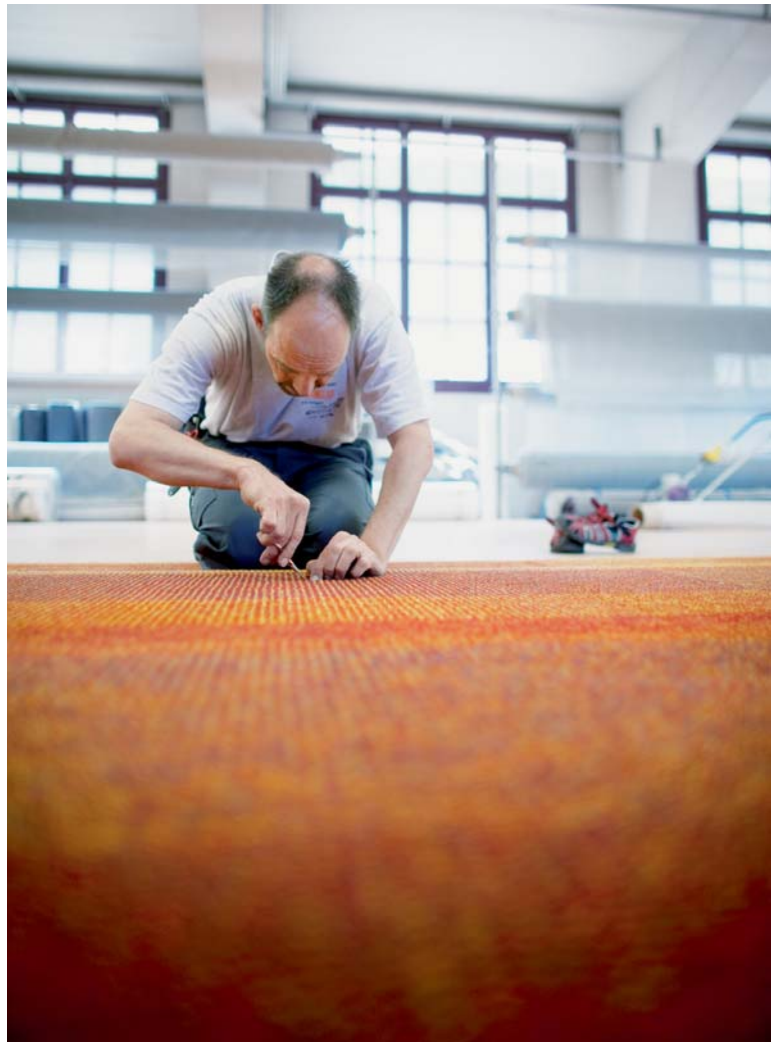




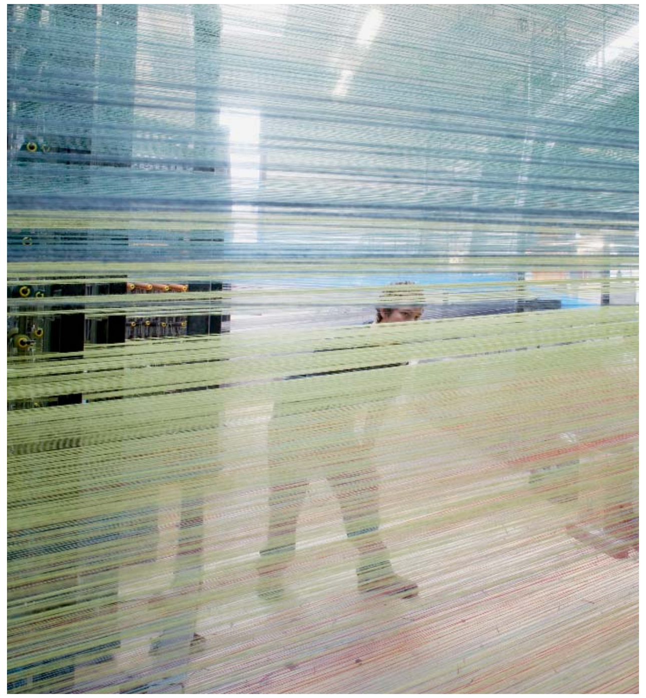
Lantal produces textiles with flame-retardant properties for international air, bus and rail transport. The company focuses on developing global innovations and simplifying production methods.

You have to ask when the Chinese will abandon their attraction for Swissness and discover that they have become strong enough themselves. This moment will come, and we must not miss the boat.





Innovation: a completely new type of carpet, a genuinely lightweight product. Up to now, a square metre of carpet weighed an average of 1,900 grams; the best, latest developments manage 1,300 grams. The carpet from Lantal, in contrast, weighs just 950 grams.



As soon as we lose our status as market leader, we, too, will only be defined by price. To ensure this does not happen, we launch one global innovation each year.

94% Export

Lantal
The company has its registered office in Langenthal, in the canton of Berne, and ranks first in the world in textiles for the international community of aircraft, railway, bus and cruise ship operators. Ninety-four per cent of the materials and carpets made in Switzerland are exported. Lantal employs 400 staff and has a turnover of CHF 86 million.

home relatively quickly anywhere. But for Lantal, we would keep the most important aspects, i.e. everything that has to do with know-how, innovation and development, in Switzerland anyway. Proximity and access to the universities and research institutes are important for us.

Would Lantal still be the same company outside of Switzerland?
We asked ourselves the same question. To find an answer, the company management put their heads together a few years ago to clarify what actually constitutes Lantal. We came up with five values that have prevailed here for decades – and should continue to prevail: respect, honesty, trust, positive thinking and foresight.

Nothing about efficiency, innovation or Switzerland?
Ultimately, that is all included. Take trust, for instance. When you are dealing with Japanese and Chinese cultures, it is very much about product and quality. Even so, a contract is only awarded when you have the customer's trust, and that can take years. But it will also last. At Singapore Airlines, for example, we are the preferred supplier. Trust is therefore a key to our business success, both externally and internally. This means that mistakes are permissible. You cannot preach to people that they should roll back boundaries and then punish them when they produce a flop in the process. Everybody here knows that – it is the foundation for our business.

How do you safeguard the market leadership of Lantal?
With a constant stream of innovations, global solutions, unrivalled services and top-class quality [laughs]. Seriously, as soon as we lose our status as market leader, we, too, will only be defined by price. To ensure this does not happen, we have defined clear goals, for instance that we must launch one global innovation each year per business division.

What are the latest innovations?
One is a pneumatic seat that is used by Swiss. Another is a completely new type of carpet, a real lightweight product. Up to now, a square metre of carpet weighed an average of 1,900 grams; the best of the latest developments manage 1,300 grams; ours, however, weighs just 950 grams.

Where do the ideas for innovations come from?
Fifty per cent come from the market; 50 per cent from within the company. We have an innovation management system with clearly defined structures and everything that this entails.

How high is the flop rate?
We cannot afford a high flop rate, and it makes no commercial sense to reinvent the wheel every time. Instead, we try to use new technologies and methods from other industry sectors. One example: Boeing approached us and said, "We want to reduce the time that we need to take out a carpet and lay a new one." In the past, this process took 26 hours; Boeing's requirement was 6 hours. We sought partners who had all the know-how that we lacked for this project. This cooperation resulted in a technology that enables us to produce a carpet that can be relaid in just 4 hours. The first 35 aeroplanes brought out by Boeing in response to the Airbus 380 are all fitted with our carpets.

Can Lantal make use of other competitive advantages apart from innovation?
Our positioning is unique. We are the only ones to offer fabrics as well as carpets and plush. If a customer wants to order everything for his machines from us, we can coordinate these in-house so that everything fits with regard to colour and timing. In the sector of seat covers for aviation, we also have a market share of around 65 per cent; the rest is shared between four or five competitors.

What about the know-how that you acquire in a customer project – does it belong to the customer or to Lantal?
Our business is dominated by Airbus and Boeing, and we have worked for both companies for years. We cannot develop something for one and exclude the other from such groundbreaking innovations. But, for instance, we grant the client exclusivity for one year.

Does success make you self-confident?
Self-confident, yes, but not arrogant. We constantly strive to show what we can do without showing off. We cannot, however, be complacent. We have a leading position to defend that we have acquired largely through active partnership. You could say that is also a form of Swissness.

"Contributing know-how at the international level"

Switzerland has a low level of public debt compared with other countries. This happy situation is linked, among other things, to its long tradition of orderly and transparent accounting, says Andreas Bergmann. The Winterthur-based economics professor presides over an international board that develops accounting standards for countries and organisations.

Professor Bergmann, you are president of the IPSASB of IFAC. What do these two acronyms stand for?
The full title of our organisation is the International Public Sector Accounting Standards Board of the International Federation of Accountants. The IFAC, the international umbrella organisation of all professional accounting associations, has taken over the patronage of the independent team of specialists, the IPSASB, which sets global accounting standards for the public sector.

You were elected chairman of this team, which consists of 18 members from different countries. Was that a great honour for you?
It was perhaps slightly surprising as I am a public – i.e. independent – member and am also not a representative of any of the large countries.

Is it an advantage or disadvantage to be a Swiss national in this position?
In a global comparison, Switzerland has long had exemplary accounting standards in the public sector. So when it comes to developing standards for countries or for international organisations, Switzerland is perceived to have a head start over many other countries in terms of experience.

Why does Switzerland have exemplary accounting standards?
The Swiss political system makes the country accountable. The electorate demand reliable facts and figures on which to base their decisions in referenda. Our direct democracy is based on transparency – which also means that the balance sheets must be in order. This obligation to provide information is longstanding in Switzerland.

Is that not the case in other countries?
In many – but not in all! Young countries like Canada, New Zealand, Australia and the USA overhauled their accounting practices early on. In the UK, it was Margaret Thatcher who began to manage the country like a commercial enterprise; for that you needed proper figures. But many other countries have some catching up to do when it comes to accounting.

So, to put it simply, these countries do not know what assets and liabilities they have on their balance sheets?
Exactly. The example of Greece is just the tip of the iceberg here. In all probability, the German government – like the Italian, French and many other governments – does not know the extent of its country's debts either. Some other countries do not even have a functioning auditing sector.

Every company commits itself to undertake proper accounting. How can countries afford irregularities?
Many countries that do not exactly know where they stand are feeling particularly uneasy right now. Wherever decision makers are requesting transparency, great efforts are being made to improve the accounting. However, governments also have a fear of precise figures as they are worried that the picture could be worse than before.

Are you saying that national balance sheets as currently published are not to be trusted?
You cannot compare them. As long as there are no common standards, you are comparing apples with oranges. The result can be uncertainties and mistrust when it comes to assessing the actual financial situation of a country.

The IPSASB, which you preside over, offers accounting standards for countries and organisations. Why are those standards simply not implemented?
Depending on the accounting practices of the respective country or organisation, the changeover requires considerable effort. Large volumes of data may have to be collected and processed, which entails some cost. This deters many decision makers.

Can you give an example of data that are not available in many countries?
A medium-sized country like Switzerland, for instance, has, let us say, approximately 100,000 properties. There are countries whose properties are not recorded – these data cannot be collected in just one afternoon. Contacting every single land registry office and drawing up a register is a costly and time-consuming matter.

Is there any political pressure to improve and standardise accounting practices?
The EU has been demanding greater transparency from its members for years. And at international organisations such as NATO and Interpol, too, there is a growing understanding that something must be done in accounting. But the changeover to new, uniform standards is still voluntary.

Why are specific standards needed? Could countries and organisations not adopt the international accounting standards for companies, i.e. the IFRS standards?
Wherever possible, the accounting standards for the public sector are based on the IFRS. But the economic situation in the public sector differs in many ways from that in the private sector. How, for instance, are tax revenues to be reported? Or pension entitlements? Another example is the handling of budgets. There is no place for budgets in the financial reporting of the private sector. Yet in the public sector, they are an important instrument of financial policy.

What is the situation with future forecasts, such as population and economic growth? Shouldn't foreseeable developments also be included in a national budget?
That is indeed a problem that we face, for instance, in terms of rising costs in the health sector or the burden of long-term interest. Future-oriented accounting tries to convey this information. This is a very innovative process; up to now, accounting was based purely on the present and the past. In future, forecasts will be included and disclosed.

Is that a completely new way of thinking?
No! Switzerland already does it. Our country is the leader in incorporating long-term perspectives in public finances. Other countries can benefit from Switzerland's know-how.

Might that be one reason why a Swiss national presides over the high-calibre international IPSASB committee?
Those who contribute knowledge and experience will find a receptive audience at the international level. The prerequisite, of course, is that you be present in the important bodies and committees. In the accounting sector, Switzerland is making a contribution. We are present and relevant. In other areas, Switzerland is all too often conspicuous by its absence.

Apart from the prestige, does a presence in international bodies have other advantages?
Of course! Universities and service companies benefit directly when their expertise is internationally recognised. Evident know-how leads to enquiries from global companies, governments and organisations. This applies in general – but also specifically for accounting. Each changeover to new standards needs to be accompanied, sometimes over years, by proven specialists. This generates long-term jobs with high value creation in the consulting industry. But even more important is that transparency in accounting contributes to worthwhile financial policy decisions and thus to macroeconomic prosperity.

What is it like for you personally to work on something that has great international resonance?
We are dealing with complex issues. The international composition of our team provides insight into different cultural, historical and economic contexts. That is very exciting and also motivates me personally. You often hear people say that accounting is not sexy. I am convinced that it is; it is about relevant topics for tomorrow's society. —

Andreas Bergmann
holds a PhD in economics. He is director and a professor at Zurich University of Applied Sciences in Winterthur as well as a visiting professor for accounting at Victoria University in Wellington, New Zealand. Since 2006, he has been a member of the IPSASB of the IFAC. This year, he became its chairman, a post he will hold until 2012.

The fascination of skis

Skis from Zai have cult status. At its premises in Disentis, the company makes ten different models from unusual materials such as granite, rubber and carbon. The ski designers combine perfection, innovation and exclusivity with the rough charm of the Grisons mountains. A cool variety of Swissness.

Simon Jacomet

The idea of building skis himself occurred to Simon Jacomet – where else? – in a ski lift.

Zai
Simon Jacomet, a qualified art lithographer, artist, skier, ski instructor and ski developer at Völkl and Salomon, founded the ski manufacturer Zai in Disentis in 2002, in collaboration with private investors. The company employs 10 staff and supplies 80 dealers in Switzerland, Germany, Austria, Spain, the Czech Republic, Poland, Canada, the USA and Japan. CEO Benedikt Germanier, a graduate in business administration and a sports instructor, headed up a financial research team in the USA until recently. Patrick Markus Aisher, Zai investor and founder of several international companies in the areas of medical technology and engineering, is a partner in a private equity company in the USA, Singapore and Vaduz and also has other international shareholdings.

Blocks of wood are stored in the glass vestibule of the factory hall. This seems functional and practical, but there is much more to it. The cedar wood exudes an intense forest fragrance, and the solid blocks are arranged artistically. The message is clear: this is a place where people work attentively and with the best natural materials. The placing of wood in the entrance hall is all part of how the ski manufacturer Zai in Disentis likes to portray itself.

"For us, aesthetics is a crucial factor," says Simon Jacomet, the founder and developer of Zai. "Although we build skis, and the work sometimes means noise and odours, our skis are beautifully crafted and unique specimens of exquisite design, quality and finish. This concern with aesthetics is reflected in every square metre of our manufacturing premises throughout the work process." The factory hall is bright and clean; the workplaces are tidy; the men at the workbenches are wearing black T-shirts with the Zai logo. A row of windows looks out onto the Disentis peaks and the Péz Ault ski region. "We deliberately planned it that way so that we can always see why we are building our skis – for the mountains, for the snow," says Jacomet.

Zai skis have cult status among insiders. The Grisons-based company is the first company worldwide to use exclusive and unusual materials, such as carbon. According to Jacomet, the microscopically small, tubelike formations of carbon are superior to other materials with regard to traction and pressure values, durability and weight. The use of Grisons granite and rubber in ski construction is undoubtedly also unique. Why this eagerness to experiment? Jacomet summarises the company's philosophy as follows: "Zai is the dream of the perfect ski. Of a ski that knows no compromise, either in its material or its construction. And consequently a ski that offers an entirely new skiing experience: easier, more enjoyable, more complete."

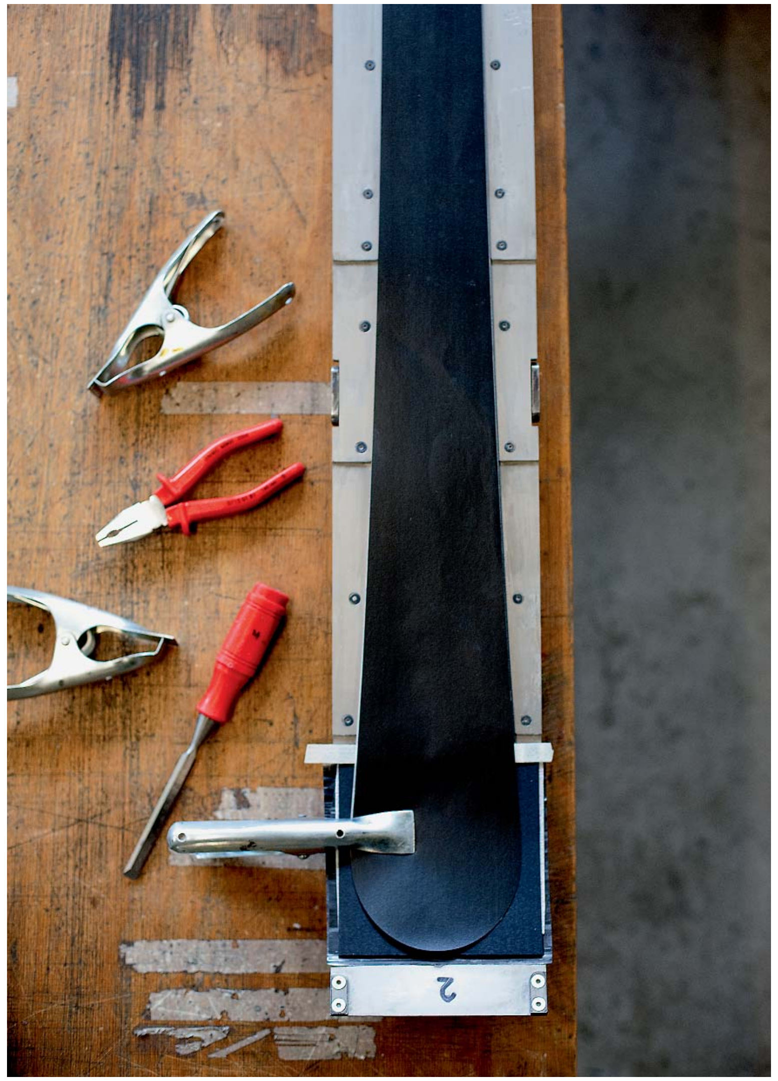
Reinventing skiing

More enjoyment from skiing is a topic that has occupied Jacomet for years. A former Disentis monastery school pupil, Jacomet studied art in Florence and earned a living as a ski instructor and trainer of ski instructors. He increasingly found himself at loggerheads with the conventional classical ski school practice which encouraged "these unnatural movements against the needs of the body and the will of the mountain". He was not the only one to voice this criticism. At the end of the 1990s, Jacomet and a few other "young wild ones" began to reinvent skiing, and thus the ski. It was the start of carving. Racing skiers were the first to show interest in the new technology; ski manufacturers were swift to join them. Without actively promoting it, Jacomet was becoming a ski developer, initially at Völkl and then at Salomon. "An incredibly exciting time," he says, looking back. "But at some point I began to get annoyed that for mass production we kept having to make compromises with regard to quality and innovation." The idea of building skis himself occurred to him – where else? – in a ski lift, during a conversation with a friend from the finance industry who helped draw up the business idea and prepare the ground for the financing.

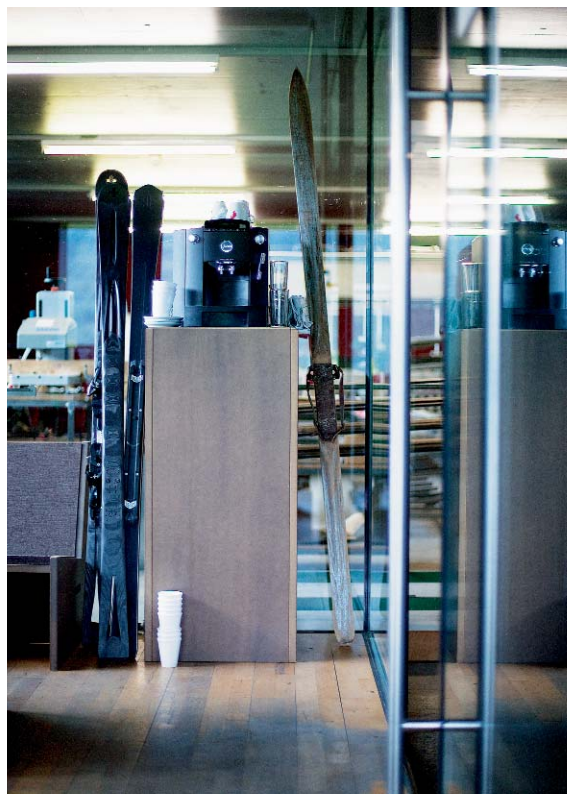
The positioning of the company was decisive for the business plan: "Six years ago, there was no segmentation in the ski industry. Skis were all similar in price and quality; most of them were produced in Eastern Europe. In our opinion, there were realistic market opportunities for a really cool brand that produces high-quality, state-of-the-art skis," says Jacomet. "Other ski manufacturers followed suit shortly afterwards, but we see that as confirmation of our idea rather than competition."

Overcoming initial difficulties

Jacomet launched Zai in 2002 with CHF 4 million in investor capital. The name says it all: Zai is a Romansh word from the Surselva region and means resistant or tough. In the first year, the company built and tested only prototypes; the next year, it sold 150 pairs of skis. After a capital write-down and capital increase, the corporate strategy was reviewed once again by the remaining investors and the management was professionalised. Today, the company is managed by an Operational Board: design engineer Jacomet; CEO Benedikt Germanier, ski instructor and former chief currency strategist at UBS



Extremely resilient and durable sports equipment. Each individual ski is measured by hand at 19 different points. After 100 days on the piste, loss of resilience registers in the single-digit percentage range. Even after 400 days, it is barely worth mentioning.



The company currently employs 10 staff. Zai manufactured 1,000 pairs of skis last winter – 10 different models, in very small, limited edition series of 100 pairs each. The brand is currently being extended to include sunglasses, helmet and golf collections.

“Somebody gave me a ring and said, ‘We can bend stones, are you interested in that?’”

Americas, and Patrick Markus Aisher, delegate of the board of directors and an experienced international entrepreneur, form the management team headed up by the CEO. Germanier is convinced that Zai will make a profit in the coming year for the first time thanks to the new structures.
Zai manufactured 1,000 pairs of skis last winter – 10 different models, in very small, limited edition series of 100 pairs each. With around 3.5 million skis produced every year worldwide, Zai does not even reach a market share in the per thousand range with that figure. However, it does have 80 dealers around the world and a clientele who are prepared to pay between CHF 3,000 and 6,000 for a pair of exclusive skis with binding and ski bag. In return, the customers receive sports equipment of extreme durability and resilience that enables them to glide through snow as if they were on rails. “We measure each individual ski by hand at 19 points and check the measurement results again after 50 days on the piste. After around 100 days, the loss in resilience is in the single-digit percentage range. Even after 400 days, it is barely worth mentioning,” says Jacomet.

The skiing world as a business network

The investors and members of the board of directors include renowned representatives from Swiss industry and well-known names from the creative world. Board president Walter Bosch, for instance, is a member of the board of directors at Swiss; the brand ambassadors include advertiser Dominique von Matt, all-rounder Dieter Meier, Lufthansa CEO Christoph Franz, and the actor Antonio Banderas. Abbot Daniel from Disentis monastery also professes to be a fan of Zai, and the ladies of the neighbouring home for the elderly knit ski hats for the start-up free of charge. What explains this wave of goodwill? For Jacomet, the answer is multifaceted. First, the company has local roots and embodies typical Grisons traits such as a strong will, stubbornness and close ties with nature. Second, many people like the uncompromising use of material, quality and innovation in combination with reduced design so much that they are prepared to commit themselves to it in some form, including financially. But the lure of skiing is also a factor that should not be underestimated, and this applies at global level too. “As a ski instructor, I meet countless CEOs and company founders all over the world who are passionate skiers for a whole variety of reasons. In the mountains, you make friends in a very special way. And you learn many different things from one another,” says Jacomet. “As a private ski instructor, I was often at the World Economic Forum in Davos; I benefited from this when I was developing the company.”
Jacomet has also benefited from the valuable international business network he developed as one of the most sought-after ski instructors in Switzerland to make new contacts for Zai. Hublot CEO Jean-Claude Biver, for example, agreed to collaborate with Jacomet. The company consequently created a ski for the watchmaker that is inspired by the monochrome concept of the Hublot classic watch Big Bang. The black ski, made of carbon fibre, glass fibre, steel, rubber and Grisons granite, was produced in a series of 111 numbered pairs. Price: CHF 8,500. Zai Bentley skis will be seen on the slopes for the first time this winter. Two hundred and fifty units were produced; they will be launched on the market for the first time from mid-January for a price of CHF 9,800.
Up to now, partnerships have also paid off with regard to innovation, for example with manufacturers who experiment with unusual materials or methods. This is how the idea of the granite core in skis arose. “Somebody gave me a ring and said, ‘We can bend stones, are you interested in that?’” Another innovation developed out of the collaboration with the watchmaking company Hublot, which uses watch straps made of rubber, a material that impresses with its durability and its finishing options. Rubber is now used as a material for the top sheet of a ski. “These are very expensive materials,” says Jacomet. “But in our price segment, we have other options when it comes to choice of material and cost. Whereas the ski industry has to calculate with cents, we can calculate with francs.”
Zai skis are produced individually and by hand from 20 to 45 different combinations of materials with the help of state-of-the-art machines. This makes it possible to specifically address customer requirements, such as personalised veneer and burnt-in initials. The hardness of the ski can also be adapted to individual requirements. “Some customers visit us to see how their skis are being built; others reserve their serial number a year in advance.” Or they bring their skis to the company themselves at the end of the season. Zai skis can be entirely reconditioned; they last a lifetime.
Jacomet and the operational board are satisfied. The company has found a niche market and has the undivided attention of experts at the international level, for instance at trade fairs. The brand is currently being extended to include sunglasses, helmet and golf collections. The only thing that annoys the Grisons developers is when Zai is referred to as a luxury brand. “How much longer can we afford the luxury of buying cheap products produced in low-wage countries?” asks Jacomet. And CEO Benedikt Germanier is convinced that values such as durability, quality and functionality will be decisive factors for a company’s success in the future – traits that foreigners frequently see as typically Swiss, supplemented by the innovative strength and the skill and loyalty of the company’s employees. “No one can copy the know-how that we have built up,” says Jacomet. “That is the real luxury.”

Personal growth: What you can learn from olive trees

Daniele Fumagalli, Legal Manager at PwC in Lugano, planted a piece of wasteland with olive trees – and discovered not only peace through nature but also lessons for his work.

Before the birth of his first child, legal expert Daniele Fumagalli felt the need to do something that would bear fruit in the long term and grow with his family. He remembered a piece of land at Rovio, on Lake Lugano, that belongs to his family. This 2,500-square-metre plot used to be a vineyard before it fell into disuse. Grass grew between the old, crumbling natural stone walls.

For Fumagalli the Mediterranean countryside, with its olive trees, is symbolic of the lifestyle and culture of southern Europe – and as a native of Ticino he feels a connection with it. He decided to plant 30 olive trees. "I soon noticed that I wasn't the only one with this idea," he recalls. "In Mendrisio it is mainly the owners of vineyards who cultivate olive groves because olives used to be grown in Ticino. There's a whole collection of old trees in Gandria."

Fumagalli's sons have now reached the ages of five and two years – and the olive trees have become part of the family. "It's been a good experience for me to grow the trees," he says. "Olive trees can live for 1,000 years! I think of them as an example of sustainability and long-term, forward-looking commitment."

The 33-year-old PwC manager prunes the branches of his olive trees twice a year: "Patiently and carefully, just as the Japanese trim their bonsai." The trees produced their first blooms after three years, and this year they bore so much fruit that he found it was worth pressing his own oil for the first time. "Not a huge amount – only about 15 litres for the family to use – but all the same." There is now a modern oil mill in Ticino, but he found an old stone mill on Lake Como where he takes his olives. "The slow, archaic process seems the right approach to me."

Fumagalli associates his work in the olive grove with passion, commitment and consistency. "And respect for the tree, which is a witness to time and will continue to bear fruit long after we've all gone." His involvement with the olive trees has had a palpable effect on his work over the years. "Taking the time to pursue long-term goals – this you can learn from the olive trees, and even how to deal with setbacks," he says. "If conditions aren't ideal, the olive trees simply grow more slowly than they do in good years. But they do grow." —

Photo: Franca Pedrazetti

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Value insights

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