What is happening with the Chinese economy is, of course, a historical event. That is why we took a careful look at this market in an earlier issue of ceo*. But a historical economic event is taking place even closer to home. Fifteen years ago, we witnessed the fall of the Iron Curtain in Europe and then forgot about it. Only now are we experiencing the regiopolitical aftershocks, and especially the economic consequences of this event: the difficulties Germany is having digesting the costs of reunification, the assimilation of living standards within the old EU, the race among the new member states to catch up to this standard as quickly as possible, and the problems that this state of affairs creates in turn for the old EU member states.

To the east of the EU lie states whose people also naturally want to live in prosperity. In this issue of ceo* Bruno Affentranger introduces Romania, Bulgaria and the Ukraine and describes their enormous contrasts. The people of these countries are ready to pay a great deal for more prosperity. It would be cynical to deny the legitimacy of this desire for a better standard of living. By the same token, it would be unwise not to consider thoroughly the consequences of this development for other European countries and their economies.

The up-and-coming European countries should not be neglected when making investments – even if comparisons predict lower returns over the short term. In the end, the question is one of strengthening the whole of Europe and preventing massive migration. Whether they involve competing for location or potential movements of people and suppliers, changes in Europe loom larger for Switzerland than changes in Asia. In Germany these forces are already being strongly felt. They will be a little slower to reach the Confederation.

We must get involved in these changes, help to influence them, play an active role. This issue of ceo* gives several examples of Swiss enterprises that have positioned themselves successfully in their industries and includes the views of well-known CEOs on the strategic question, “focus or diversify?”.

Some Swiss enterprises are much better prepared than business as a whole. In view of the young market economies in Eastern Europe, the attractiveness of Switzerland as a place to do business must be measured against new benchmarks. Tax policy is an important determinant of location policy. A contribution from our firm in this issue of ceo* makes a strong statement about Switzerland as a tax location.

Rationally speaking, in Switzerland we are well aware that the lion’s share of our prosperity is the result of exchange and good relations with our European neighbours. But in the general debate these perceptions are frequently eclipsed by two extreme beliefs. The first is that Switzerland is a global place of business, where everything depends on enterprises whose home and marketplace is the world. The second belief is that Switzerland is self-sufficient and can let developments pass by with nary a care. Both beliefs are unrealistic. What happens in Germany and France is more than a “miscellaneous” item for Switzerland. And how Switzerland organises its relations with the EU is not a subject that can be dealt with in a footnote. The fact that Swiss business has played a part in the vote on Schengen/Dublin is a sign that the country understands the economic importance of this subject. This engagement will be rewarded in the vote on the Free Movement of Persons in September.

I wish you a stimulating read.

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James J. Schiro, CEO of Zurich Financial Services: Sustainable profitable growth will be achieved best by sharply focusing on the core.

US-born James J. Schiro (59) was appointed Chief Executive Officer of Zurich Financial Services in May 2002. Under his leadership Zurich achieved a financial turnaround, pursuing a strategy of profitable growth based on a well-diversified portfolio of life and general insurance businesses.

As a relative newcomer to insurance I continue to be amazed by how much the success of our business depends on external factors. Insurers are not only exposed to catastrophes and other large-scale random events, their balance sheets – and hence their profitability – are also subject to the ups and downs of financial markets. Other challenges include regulatory scrutiny, prosecutorial attention and legislative interventions. This makes running a large insurance company with businesses in many markets and different regulatory systems a demanding exercise.

The success of our businesses depends on our resilience in dealing with such challenges. Our turnaround at Zurich was based on refocusing our operations on insurance. Asset management and banking activities were divested together with insurance businesses that did not have critical mass or meet our hurdle rates. We believe that sustainable profitable growth will ultimately come from a better understanding of our markets and customers and that this will be achieved best by sharply focusing on the core.

We have made the group not only more competitive and efficient, but also better governed. We instilled financial discipline, improved internal controls, and promoted transparency. All functions essential for the success of our businesses are now centrally coordinated. A group of our size and with our exposures must manage its risks across all boundaries on a global scale. Yet insurance regulation continues to stop at the border of each country. To be sure, regulators are talking to each other, and the European Union has established the principle of a lead regulator in dealing with entities domiciled in countries outside the EU. But the international regulatory landscape is still fragmented. This opens room for regulatory arbitrage, which undermines one of the primary purposes of regulation: the promotions of consumer protection and systemic stability. There is room for a consolidated approach to regulation, and our industry would be well advised to offer its support for the development of constructive solutions.

To be effective, regulation has to reflect the industry’s capacity for consolidation. Zurich, the largest Swiss insurer, is shifting from a fragmented to an integrated view of its business. Our local organisations used to operate autonomously. There was little interaction with resources in the various countries, and they operated in silos, a practice that caused many missed opportunities. We are now managing our businesses on a global scale while cultivating local markets at the same time. The Zurich Way, our approach based on common methodologies, standards and tools, provides a unifying culture that promotes “one Zurich” across all country and business units. It draws upon the capabilities and expertise of all employees to enhance focused performance toward one common goal. By ensuring best practices in local markets on both sides of the Atlantic, the Zurich Way enhances our position as a global player. Our recovery has been built on operational improvements. The Zurich Way is our method to ensure that these improvements are engrained in our culture and replicated around the world. No company can save itself to prosperity. It must invest in the future and work smarter. That is why our operational improvements are increasingly driven by contributions from technical areas. Our emphasis is on generating sustainable earnings, not on mere cost reductions.

In short, Zurich is leveraging scale and capabilities as a global provider to master current challenges. We are working on the core processes that deliver results, and we are changing the culture that is driving these processes. Our goal is to provide reliable shareholder returns, rewarding opportunities for our employees and the highest degree of customer satisfaction. //

Photo: Andri Pol
Giorgio Behr, CEO of Behr Bircher Cellpack: To define focusing as the basis for top performance is in principle correct. However, developing a company strategy based on focusing alone would be very risky.

Giorgio Behr (56), a lawyer and auditor, is the owner and CEO of Behr Bircher Cellpack, an industrial group with 950 employees. Today, he is honorary professor and former professor of business economics at the University of St Gallen. Behr is also chairman of the board at the Saurer Group, a member of the board of directors at Hilti AG as well as a long-time member of the board at the Bellevue Group, of which he was also a co-founder.

Focus/diversify – current teaching emphasises the importance of focus. Even so, within the financial industry, pressure is slowly building to diversify. Yet there is really no question about whether to focus or to diversify. It is just a matter of perspective. As the president of a publicly owned company, I judge things differently than I would if I were a private businessman. More about that later.

Let me start by making two points that are among the few generally valid things that can be said about the topic:

1. Applied to individual employees, focusing is always a good idea. It means that they are not dissipating their energies but directing them into what they are doing at the moment. A challenging management task!

2. From a strategic vantage, there is a lot to be said for focusing yourself on your entrepreneurial strength. A company has only one chance to become number one or number two in the relevant market. Market leadership must be the entrepreneurial goal because various surveys show that only those who hold a top position in the market also earn money in this market. The catchwords for market leadership are economies of scale in production or distribution, negotiating power and brand management.

To define focusing as the basis for top performance is in principle correct. However, developing a company strategy based on focusing alone would be very risky. Because in both the short and the long run, focused companies will find their opportunities for growth restricted. Take the example of Saurer. We operate in the “automotive” niche business, but are clearly focused on textile machines. In this sector, we are indisputably number one worldwide. The textile market, however, is no longer growing strongly. If anything, it is stagnating in the face of new technologies that are more efficient. That is why sooner or later the question will arise whether we should develop additional activities to ensure strong growth in the future and, if so, which activities. As a publicly owned company, Saurer can legitimately push forward into new business fields (diversify) only when we have exhausted the potential of our core activity, and rapid growth – even through acquisitions – is no longer possible.

A publicly owned company that is number one in the relevant market and has reached the limits of its growth has two alternatives: either it can pay back money to shareholders or it can open up a new business segment. The second alternative is reasonable only when knowledge and skills exist in the organisation that can be successfully transferred to companies from other sectors, such as process simplification, efficient relocations or innovative strength. Of course, even with expansion of business activities, market leadership is still the goal. The US group General Electric (GE) bases its corporate strategy on such considerations and has shown what successful diversification is all about. What is interesting about the GE model is that GE is a master at using its own know-how to establish additional mainstays of business. However, diversification is not the objective but “only” an accompaniment to the process of finding new growth opportunities for the entire group. The result: GE is very highly diversified but is number one or number two in each area.

For publicly owned companies, diversification for the sake of diversification is wrong. For private entrepreneurs, it is another matter. Indeed, diversification as a strategic goal is actually necessary in their case, for example to provide a buffer against economic cycles. As head of the BBC Group, I own companies from a whole range of sectors. Each one in itself is highly focused, whereas, as a businessman, I am broadly diversified.

Diversification makes a great deal of sense for small and medium-sized Swiss companies for yet another reason: some of them are so highly focused that they now only produce one genuine top product – and are thus becoming smaller and smaller. This trend can be halted with a second mainstay of business. //

Photo: Mathias Braschler
Matthew Robin, CEO of Ypsomed Holding AG: By focusing on certain markets and products, we can keep pace with the market. Failure to focus could mean missing good opportunities.

Native Englishman Matthew Robin (40) became the CEO of the Ypsomed Group in 2003. The medicinal technology company, with headquarters in Burgdorf, is a world leader in the field of self-injection solutions and currently employs more than 900 people. In the financial year 2003/2004 the company’s turnover came to around CHF 200 million.

In February of this year, the board of directors and the management board of Ypsomed AG decided to discontinue the sales and marketing of a blood-glucose-monitoring system and in future to invest in their own innovative pen systems, auto-injectors and pen needles as a priority. This strategic decision clearly reflects the philosophy of our company: by focusing on certain markets and products, we can keep pace with the market and its structures. We are convinced that if you do not focus, you risk missing good opportunities.

Currently, we are positioning ourselves with the aim of market leadership. We want to be the leading supplier in our sector. We have invested a lot of energy and resources to this end and will continue to do so in the future. Parallel to focusing, we also have a diversification within our area of specialisation: our product range for administering liquid medication is very broad, and in this area we are the only company on the market to offer the whole range of injection products. We differ from the competition in this respect.

Through our market success and growth, our company is constantly changing. We are very conscious that rapid growth must not entail any loss in quality whatsoever. In the medicinal technology industry, every product must meet the highest requirements at all times. This is why our focus is on key processes that we carry out ourselves: we install and validate machines ourselves, meaning that we verify the function and quality of the production process as well as the product. In this way we guarantee safety for our customers and patients.

We are operating in a very dynamic market: people are becoming older, and this demographic shift means age-related illnesses are on the increase. Today, the trend in pharmaceuticals is towards medication in injectable formulations – and our products give patients the possibility to inject these drugs more easily and more comfortably themselves. The pen saves the patient having to go to the doctor or to the clinic and provides a higher quality of life. The pharmaceutical industry is profiting from this trend too. The injection systems are a significant success factor and, furthermore, in an increasingly competitive market environment, an important marketing instrument to differentiate our client’s own medication from that of the competition.

At the moment, our production is oriented to therapy areas with strong growth, such as insulin and growth hormones. In future we would like to achieve broader expansion within selected markets and are looking specifically for new therapy areas with particularly good opportunities for our products – for instance, pens or auto-injectors could be used in addition to syringes in cases of rheumatoid arthritis, osteoporosis or in the treatment of cancer.

Personally, I believe that many companies want internationality and size by hook or by crook. It is not our objective to expand for the sake of expanding. Growth must have a strategic background. Only then is it effective. The last few years have also shown that company fusions that were not motivated by logical criteria and synergies failed. The cycle of fusion, fragmentation, focusing, diversification and then expansion again into a whole range of areas can well become just a waste of money. In my opinion, power and status are the issues involved here at times, and less the quality of the company. We would like to avoid this way of thinking – and the management board, board of directors and main shareholders all agree on this. There is still always the risk that we will make the wrong decisions, of course, but we are trying to consciously think of our business and not of company statistics.

Nevertheless, a time will definitely come – but not in the next one to two years – when we will think more about diversification. We will have reached a certain size that will allow us to expand without weakening the quality of growth in our core business. Then we will consider the question of whether there are related or new areas in medical technology that offer interesting opportunities for diversification. But we will very definitely not grow just for the sake of growth. //

Photo: Markus Bertschi
The secret money-making machine.

In Switzerland transactions worth an estimated CHF 2.6 billion were conducted via e-commerce in 2004. Tendency: rising sharply. There are big earnings to be made in online business.

Others can only dream of profits like these: As attested by the figures for the first quarter 2005 from Google, Yahoo and eBay, the big players of the online industry are raking in money. The search engine Google increased its profits sixfold to USD 369 million, the Internet platform Yahoo doubled its profits to 205 million and the exchange platform eBay managed to increase its profits by 28 per cent to 256.3 million.

When the dotcom bubble burst five years ago, the New Economy seemed dead and buried. But as the saying goes, the dead live longer. And Switzerland is no exception. Thomas Rudolph, professor at the Institute of Marketing and Retailing at the University of St Gallen, confirms the profitable trend: “2004 marks the turning point in online shopping. More and more companies are generating profits.” On the consumers’ side too, interest is on the rise, and users are increasingly satisfied with what they are finding. “More broadband connections and better presentation of Web offerings are making online purchasing more attractive,” says Rudolph.

Enormous growth in the e-market

E-business has now become a billion-franc market with substantial growth. The market research company Forrester calculates that last year in Switzerland, transactions were conducted online to the tune of CHF 2.6 billion – 60 per cent more than in the previous year. Admittedly, this amount represents only about 3 per cent of all retail sales, but the growth rate is enormous. A look at the World Wide Web beyond Helvetian borders turns up impressive data too. According to Forrester, in 2004, online business transactions in the so-called business-to-consumer (B2C) sector amounted to around CHF 60 billion in Europe and approximately CHF 180 billion in the USA.

And it isn’t just a question of sales revenues being generated; more and more often, online business is also making money — as with the Swiss offshoot of the online travel agency ebookers, which has been in the black for three and a half years. How black, they won’t say. But, enthuses Matthias Thürer, marketing manager at ebookers.ch, “in 2004, we doubled our turnover to the two-digit millions and should grow again by around 60 to 80 per cent in 2005.”

What makes Thürer optimistic about the next few years is an international comparison. Whereas 25 per cent of Scandinavians already book online, the Swiss are considerably more conservative, with a share of 3 per cent. Consequently, the country has a lot of potential for growth. For example, in 2005, 16.3 per cent of Swiss customers for the airline Swiss booked online. In the first two months of this year, the figure had already gone up to 19.6 per cent. The downside: If the Swiss increasingly take the online “train”, many of the 2,500 traditional travel agencies used as stations will be left by the wayside. It is no wonder that the industry leader Kuoni has strengthened its management squad with a computer science specialist, and refers to adaptation of the business model to the Internet as its “biggest challenge”.

Online makes business sense

“Doing business online reduces the cost of order processing, because here the customer does the work,” says Jörg Beer, managing director of Fleurop-Interflora Switzerland. His flower hub manages a blossoming business in the truest sense of the word, with an online turnover of around CHF 10 million per year. Last year, 169,350 bouquets were ordered online from the network of 445 flower shops. That represents 71 per cent of Fleurop direct sales and 109 per cent more than four years ago.

Thanks to a cooperative alliance with Migros, LeShop is also growing rapidly. The Swiss market leader in Internet retail achieved 50 per cent growth in the first quarter of 2005. LeShop is aiming for a turnover of CHF 45 million this year. It intends to reach the break-even point at the beginning of 2006. That would make LeShop one of the first profitable Internet supermarkets in the world, after Tesco.com in the United Kingdom. Its rival Coop Online grew by 52 per cent last year and plans to reach a turnover of between CHF 25 and 30 million this year. In two years’ time, the company wants to be in the black. The prospects are rosy, seeing as up to eight times as much is purchased in more mature Web markets than in this country.
“The online range of retailers is being extended to include non-food products. The trend is going in the direction of one-stop shopping,” explains Internet expert Rudolph. Are suppliers such as Coop and Migros cannibalising themselves in the process? Not yet, if a current survey of 3,000 LeShop customers is to be believed. According to the survey, “onliners” are increasing their overall purchases from Migros by 40 per cent, while their purchases in Migros shops are remaining stable.

Better informed thanks to the Internet

The multi-channel strategy will fundamentally change purchasing habits: those who buy in physical shops already have read up about the product on the Internet beforehand. Thomas Rudolph cites the purchase of a car as an example. Instead of visiting all the car dealers in the region, the car buyer first checks the Internet to see what is available. Suppliers who have no online presence are at a disadvantage – they will no longer reach their customers in the pre-sales phase. “The car dealers must manage to get into the group of relevant suppliers,” says Rudolph. Before the first test drive, two out of every three car buyers now read up about the car on the Net. Experts speak of “channel hopping” – using different distribution channels in the pre-sales, sales and post-sales phases. The Internet is the playground of bargain hunters, attracting both people with low incomes and price-conscious people with good salaries. Price comparison portals such as the Google service Froogle or toppreise.ch ascertain goods and price offerings at the click of a mouse. Loyalty to a local supplier is a thing of the past.

Search engine marketing

Businesspeople who want to be successful online must position themselves where consumers will look for their products. The more virtuosic their mastery of the Net claviature, the more often the till will ring. The magic words are “search engine marketing”. That is, it pays to have a position at the top in the major Internet search engines. Take a mundane example such as black socks. If you type in key words like “black socks” or “sock subscription”, there is a
Surfers are becoming e-shoppers

Professor Rudolph’s institute carries out surveys among Swiss Internet users at regular intervals. According to these surveys, the proportion of over 45-year-olds has increased from 9 per cent in 2000 to 17.4 per cent in 2004. The Internet is coming of age, and purchasing power on the Net is growing accordingly: an average of CHF 672 is what those surveyed spent online last year, 20 per cent more than two years previously. Already today, 55 per cent of people with Internet access are also e-shoppers. Senior citizens and women use the Net more often as a means of shopping. “For women, online shopping was for a long time not emotional enough. That is now changing,” Rudolph believes.

As the surveys of his institute since 2000 show, customers’ doubts about e-commerce are disappearing. Within the space of four years, general concerns about security have sunk from 18.1 to 4.9 per cent. However, recent reports about a large-scale theft of data from the US shoe dealer DSW, or the British bank HSBC’s fears for customer data supplied by the fashion chain Polo Ralph Lauren, are poison to e-commerce. So are reports about organised crime (“cybermafia”), crafty con artists, global virus attacks and blocked access caused by spam flooding. The network architects are reacting. Thanks to new data transport protocols, the Net of the future will be safer.

The Internet is fully fledged. Not only consumers, but also company business-to-business (B2B) platforms are benefiting. US companies today already process more than 15 per cent of their turnover via the Internet.

“According to the forecasts of our experts, in five years it will already be 50 per cent,” says Rieter’s chief press officer Peter Grädel. Rieter itself supplies nine platforms for automobile manufacturers and operates two B2B portals of its own. One serves the company’s 1,000 suppliers as an information platform for product specifications and quality standards, for joint developments and as a regular purchasing channel. Auctions are run via the so-called sourcing portal. Rieter places an order on the Net and waits for offers from suppliers – which can be called up according to deadline requirements at the click of the mouse. In this way, standard products can be procured at the best price. And the company’s own margin can be maintained.

In the business sector, buyers are not opting for search engines such as Google or Yahoo. Searching with these engines is generally too labour intensive. Instead, business buyers use specialised platforms such as www.wlw.ch – “wlw stands for ‘wer liefert was?’ (“who supplies what?”). Virtual “truffle pigs” like these select according to the specific industry and are thus much more efficient in searching for suppliers.

The hunt for virtual money

In global cyberspace, people do not just purchase, order, book, exchange or bargain. There are now also thousands of people around the globe who earn their money playing on the computer. How’s that? Many online computer games are designed in such a way that virtual currency, weapons or game pieces can be acquired at the click of a button. The more of these things you own, the more respected you are among gamblers. However, those who balk at spending hours playing games can acquire the objects of their desire from eBay or specialised platforms (e.g. www.ige.com) – for real money. For a lot of real money: experts such as the US economist Edward Castronova from Indiana University have calculated that the astronomical sum of USD 880 million – more than CHF 1 billion – is spent each year on virtual gaming alone. That, too, is online business.

PwC Technology Network

Global Technology Centres: The Global Technology Centres (GTCs) in Silicon Valley (USA), London and Frankfurt are part of the PwC Thought Leadership Team. They are leaders in the research and analysis of trends in the technology industry and the effects of these trends on the market and on customers. The GTCs work closely with the technology teams of the individual countries, and their services are also directly available to our customers. This ensures a consistent understanding and interpretation of future technologies.

In addition, the GTCs produce Thought Leadership publications such as the Technology Forecast White Papers (www.pwc.com/tech-forecast). They are also responsible for the continuous education and training of our technology teams (www.tech.centrefr.us.com.frankfurt).

Network Switzerland: In addition to its service lines, PwC is also oriented to industries. Employees are assigned to an industry and work primarily for customers in that industry. Peter Wittwer is the responsible partner for the Technology, InfoComm and Entertainment (TICE) sector. The PwC technology team provides industry-specific services on a daily basis in the areas of auditing, taxation/law and consulting. This network structure and PwC’s industry expertise ensure that the organisation can meet the most varied of customer requirements, from business plans for start-ups to the “going global” phase of large companies listed on the stock exchange. Contact: peter.wittwer@ch.pwc.com

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CEO: Monika Henzinger, you have been with Google from the start. Are you still fascinated by it?

Google is an exceptional employer. But Google has changed too. When we had less than a hundred people, I knew everybody and could have my say in a lot of things. That has changed, of course. In the Zurich research and development centre, however, this atmosphere still exists. Here everything is still being developed...

As a researcher, one of the problems you work on is the speed of Internet searches. Why do search engines need to become faster and faster?

Faster algorithms make it possible to carry out more searches with the same number of computers and to index a greater number of pages.

You are also working on making search algorithms better and better, is that right? I love algorithms! For example, I am currently looking at search algorithms that filter out pages with identical content. Google still has room for improvement there.

What is the benefit of Google’s research for users?

Just to give one example, we are continually working to improve search quality. At the moment, it is still possible for site operators to influence the results of a search and to ensure that their pages appear first in rankings. We are becoming increasingly successful at combating these manipulations.

Last year, Google caused an uproar in the USA with its e-mail service Gmail. Although the service is appealing, users have to put up with Google sifting through their electronic mail and presenting them with targeted advertisements.

This criticism was actually based on a misunderstanding. Every mail service does exactly the same with its spam filters. These filters scan e-mail messages for specific key terms. People are not reading other people’s e-mails, either with these services or with Gmail. These are just software programs that ascertain whether an advertisement matches the content of e-mails. Indeed, we managed to clear up a few misconceptions, which helped to allay people’s fears.

Google in figures:

Around USD 2 billion of the estimated USD 10 billion that is spent on Internet advertising ends up at Google. The Google system for advertising functions in accordance with the principle of dynamic rates: the market determines the price. If there is only one prospective customer, the minimum tariff of 5 cents per click applies. In industries in which online business is well established, such as the hotel and insurance industries, tariffs can quickly rise to EUR 1 per click. Since the flotation of Google in August 2004, its market capitalisation has doubled to USD 50 billion. The US company now employs 3,000 staff and has a fast-growing research and development centre in Zurich.

Monika Henzinger (38) was born in Germany and earned a doctorate from Princeton University. She recently moved to Lausanne, where she will take up a professorship at the Swiss Federal Institute of Technology in October. She will also continue to work for Google.

Photo: Roberto Ceccarelli
internet report. eBay

Trade global, think local.

eBay offers access to an online trading place with 147 million registered users worldwide. In Switzerland, Managing Director Anton von Rüden intends to become the market leader by satisfying local demands.

Photo: Roberto Ceccarelli

Red, blue, yellow, green: the offices of eBay at their venerable address in Berne exude the bright colours of a créche. Inside the building in the old part of the city, walls and columns are lit in the four colours of the eBay logo. Managing Director Anton von Rüden definitely has a feel for effects. The 29-year-old German is sitting in the open-plan office just like all the other staff and is organising meetings and trips himself. “eBay is an economic democracy. Nobody has privileges here,” is how von Rüden explains the absence of leather chairs and a secretary. This unconventional structure has the advantage that you can concentrate fully on the matter at hand, he says. Which appears to be paying off. The rooms, which are designed to hold 100 employees, will soon reach capacity, so rapid is the pace of growth at the online trading house in Switzerland. Currently, some half a million Swiss Internet users roam the pages of eBay.ch every month – if you include eBay.de and eBay.com, the figure is actually around one million. In the Swiss marketplace, a collector’s item is sold every two minutes, a DVD or CD every three minutes, an item of clothing every five minutes and a computer every twelve minutes.

The site is only two years old. eBay established its international headquarters in Berne in 1999, and the Swiss business has been in operation with its own marketing team since the summer of 2003. “In Berne, eBay has found an excellent environment for operating an international business,” says von Rüden. Multilingualism, a central location, quality of life – these are some of the attractions Berne has to offer. Furthermore, Swiss authorities were generous in issuing work permits – an important advantage considering that the employees come from 16 countries.

Involving quintessentially Swiss partners

When von Rüden opened up the Swiss market from Berne in the summer of 2003, he did it by taking into account the local mentality. “Listening to what the customers want” is one of eBay’s recipes for success, and “schweizweit-weltnah!” (“close to the world all over Switzerland!”) is the slogan the company came up with. Local products and services were systematically developed.
and extended. In so doing, von Rüden cleverly involved quintessentially Swiss partners in his business model: Swiss Post, Migros and the SBB (Swiss Federal Railways). Together with Swiss Post, eBay set up a distribution centre on the Internet that provides information about services, costs and conditions of shipment. Further services such as a price calculator, shipment tracker and the capability to print out address labels are intended to make sending parcels easier.

To facilitate access to the biggest virtual marketplace for Swiss consumers, eBay developed a course together with the Migros Club School. Since autumn 2004, Internet users have been able to hone their skills in searching and handling deals in the course “Buying and Selling on eBay”. The programme extends from an initial course for beginners to a “Power-Selling Seminar” for professionals.

The Migros Club School was also present when eBay organised the “eBay Switzerland Days” last autumn. The motto of the event was “Luege, lose, (ver)chaufe!” (“Look, listen, buy or sell!”). The focus was on the “eBay University”, which offers seminars for beginners, advanced learners and professionals. Parallel workshops were held for entrepreneurs who want to start their own businesses trading via eBay or who want to open up additional sales channels on eBay. 1,500 participants poured into the Maag Event Hall in Zurich – many more than von Rüden expected. The boss of the Swiss subsidiary was present himself to get a feel for the needs of the Swiss “community”.

Satisfying local customer demands

Customers were also at the heart of the SBB project. At the Internet forums, von Rüden had noticed that in this country, buyers and sellers prefer to meet at railway stations to hand over the goods. He soon had special eBay meeting places set up at stations, at the very spot where great throngs of commuters pass by. Von Rüden is convinced that “this way we are satisfying a thoroughly Swiss need.” At seven main stations, columns displaying the colourful logo have already been raised. And if the idea of the exchange points catches on, it will be exported to other countries. In the virtual marketplace, too, services are being enhanced at frequent intervals. One innovation is that Swiss customers do not see articles shown just on the Swiss page but also all goods that can be sent from anywhere in the German-speaking world to Switzerland. That has increased the number of available products in one go from 40,000 to more than a million.

“eBay Suchanzeige” is the name of another service from eBay, similar to the “Want It Now!” service on ebay.com. Until very recently, buyers typed in their queries and selected from listings that appeared on the screen. Now, users can type in objects they are looking for and receive an offer from potential sellers who sift through the want ads. “After making supply transparent, we are now ensuring that demand is also transparent,” says von Rüden. For him, “a new level of economic democracy” has been achieved.

Recently, eBay opened up a new business segment in classified ads. The role model is the successful American Craigslist.com, in which eBay has acquired a financial stake. Under the names Kijiji.com and Kijiji.ch, eBay launched a free-of-charge classified ad service in the spring that for the time being will be limited to major cities. All these activities aim at a single objective: market leadership. The main competitor, Ricardo.ch, is still ahead of eBay.ch. However, Ricardo has been in business for three years and is restricted to Switzerland. In contrast, eBay provides access to a worldwide trading place with a customer base of 147 million registered users. For von Rüden this is the distinct advantage that will help eBay achieve market leadership over the next two years. His goal: “We want to establish a market that suits the Swiss people to a T.” //

eBay in figures:

With 147 million users, eBay is the largest online marketplace in the world. Approximately 50 million offers, 5 million of which are new every day, can be traded by all registered sellers and buyers. The operations of the US company have been profitable since the company’s foundation. In fiscal year 2004, the turnover increased by more than 51 per cent to USD 3.3 billion, and profit by 44 per cent to USD 778 million. eBay is active in 33 countries around the world and has had its own marketing team in Switzerland since 2003.
trend. open innovation

Professor Georg von Krogh on sharing knowledge with customers, suppliers and even competitors – to gain long-term benefits.

It’s good to protect ideas. But you can also give them away!

Interview: Giselle Weiss

CEO: The survival of any business depends on its ability to innovate – to keep the flow of good, new ideas coming in. Are we witnessing a change in how companies generate new ideas?

Georg von Krogh: Traditionally, companies have been seen as the principal engine of innovation. Do everything yourself, bring in the best engineers and scientists, make those engineers and scientists generate ideas, work on new products and new technologies, and then put those products and technologies out into the marketplace. But increasingly it is the case that companies profit strongly from sharing knowledge and ideas rather than, by default, protecting them through restrictive patents and licensing. That is the lead idea behind so-called open innovation that has caught on so rapidly in business over the last two years.

How does sharing contribute to innovation?
Companies are starting to have more permeable boundaries with the environment. They consult customers and suppliers earlier in the innovation process, and they use those ideas in bringing products to the market. The bottom line is that by opening up innovation to the outside, you can reduce R&D costs, create breakthrough products and speed up the introduction of new products.

Can you trace the origins of this trend?
One driver is certainly the open-source software movement. In the 1960s and 1970s, scientists and engineers developing computer software in government, academia and industry began voluntarily to collaborate with each other to move the technology forward. As the Internet took shape, such collaborations multiplied. The practice was so popular and so productive that in the 1980s a legal mechanism was put into place to ensure that software code developed in this way remained in the public domain.

In other words…?
People could download the software for free, use it, modify it and redistribute it at no cost. This “free-software” movement later became known as the open-source movement, and today it is a huge economic and social phenomenon. Not least among its achievements, the open-source movement produced GNU/Linux, an operating system, and the Web server software Apache. Apache runs almost 70 per cent of the world’s Web servers. Open source is a model for sharing.

Patents and trademark protection arose as a way of making sure inventors could realise the material rewards of their inventions. What is the point in giving innovations away for free?
There are definitely things that should not be shared in order for your business to maintain its competitive advantage, such as core technologies underpinning your most important products. But patents, for example, are often used simply to block other companies from coming in and innovating around certain technologies. Once you start to use patents defensively, people become much more obsessed with restricting competitive movements rather than innovating.

So you advocate some sort of middle ground?
Yes, I favour what I call a “compound innovation” model. What I mean by that is that you don’t throw all your patents into the wastebasket. Intellectual property rights protection is a very important incentive for

1Norwegian-born Georg von Krogh studied both engineering and organisational science before taking on academic positions first, in 1990, at the University of Bocconi in Milan, and in 1991 at the Norwegian School of Management. Since 1994, he has been professor of management at the University of St Gallen, where he is also currently director of the Institute of Management.
companies to innovate. But companies have more ideas and technologies than they can normally manage. So fine, why not give some of them away and still benefit? For example, users who pick up these ideas might turn them into products. You might distribute these products, use them in a more complete offering to the client and create demand for new services.

Aside from open-source software, what other examples illustrate the idea of open innovation?
Well, companies are starting to open up their innovation process to suppliers and customers and consumers and partners. For example the Japanese bicycle manufacturer NBIC allows consumers to use NBIC tools to design their own mass-customised bicycle. NBIC in turn uses innovations generated by customers to improve the bicycles that they have on the market. Of course, a comparatively small number of mass-customised bicycles are sold to the marketplace compared with the huge number of mass-produced bicycles. But it’s the learning effect that matters.

How do you foster sharing?
Encourage people working in marketing and sales, R&D and manufacturing to search actively for ideas outside. Take some of the intellectual property that you have and consider providing it to somebody who can benefit from it. For example, just a couple of months ago IBM gave 500 software patents out for free to the open-source software community. That kind of gift is going to mean a lot to the open-source community and leads to a lot of goodwill for IBM. And it is very, very likely to boost innovation in areas which IBM finds are very important to their hardware and software business.

Next?
Consider joining forces strategically with suppliers, customers and even competitors to create new products, minimise risk and increase the speed to market of new products. Review the alliances that you have, go through the list of items that characterise the alliance and then ask, “Do we really explore and exploit each other’s R&D capabilities? Do we really do something to bring joint products to the market?”

And finally?
You have to sit together with your partners and ask, “If we were to work together, what are the business opportunities that we could actually exploit jointly and hopefully develop into products to meet these particular opportunities?”

Will open innovation work in a country like Switzerland?
Switzerland might be a fantastic place for this new way of working. We have a lot of process industry companies that typically have been forced to learn with customers. We have a very strong financial services industry that can support innovative activity. We have very, very strong technical universities that produce knowledge which is publicly available. And that means that you can benefit from this knowledge by either starting up new companies or using the knowledge to innovate within existing companies. So I think Switzerland is a very fertile ground for this type of innovation. But, we need to continue to build stronger bridges between universities and companies for ideas to flow more seamlessly.

How hard is it going to be to change the way people think?
Very often it starts with the top. That sends a signal to the rest of the organisation that it pays or it’s interesting or it’s fun to look outside for ideas. //
The ultimate finish.

sia Abrasives, in Frauenfeld, provides tailor-made surfaces for products that run the gamut from stylish clocks to the Airbus A380. The number three in the global market for flexible abrasives favours leadership in technology.
The sia Abrasives factory in Frauenfeld: Rows upon rows of industrial buildings occupy an area of 150,000 square metres. The adhesive manufacturer’s 60,000-item product line benefits from a highly efficient assembly process.
Communication is a top-level concern for Peter A. Schifferle. The CEO and member of the board of directors at sia Abrasives takes us through the extensive company premises in Frauenfeld himself. The 61-year-old has something to show: an area of 150,000 square metres boasts rows upon rows of industrial buildings – factory premises replete with odours and the sounds of clattering and hammering. People are busy working here, on highly efficient production lines, in the high-rack storage area with its huge jumbo rollers and in the shipping department for the 60,000 items from the adhesive systems manufacturer’s range of products. The factory buildings are spotless, but that is not the only notable feature: wherever the boss goes, he greets employees personally. Schifferle knows many of his 650 employees at the headquarters by name. sia Abrasives employs a good 1,000 people worldwide. “Usually, I am in the production department twice a week. I want to stay connected with my company and the people in it.” Only just recently, he assembled the management team together and gave them a presentation of the quoted company, just as he does in front of analysts: “Everybody should know why we are good, where our challenges lie. This creates a feeling of ‘us’.”

**Abrasive systems for major customers**

Can mundane substances such as abrasives really generate enthusiasm? Schifferle has no doubt: “We finish products. This does not always involve perfectly gleaming surfaces such as with a clock or the body of a car.” Much more frequently, a component has to be specially sanded to achieve a defined surface structure. That is the challenge: to develop abrasive systems for tailor-made surfaces. The company’s list of customers includes names such as Jaguar, Rolex, Black & Decker, Lamborghini, Caran d’Ache, Caterpillar and Atomic Ski. The outer skin of the Airbus A380, which made its virgin flight in May, was also given its final finish by flexible abrasive wheels from Frauenfeld.

sia Abrasives develops and assembles abrasives for wood, metal and plastic. An attractive display piece is on view in the company’s reception area – the model of a bobsleigh with the yellow and black company logo on its nose. sia Abrasives sands the runners of the Swiss racing bobs and every year as sponsor invests several hundred thousand francs in these high-speed advertisements. The advertising effect for the company is an estimated CHF 2 million. Expressed in these terms, it is a worthwhile expense. Schifferle has been associated with bobsleighbing for more than three decades.

**A start as a troubleshooter**

Hurtling along down a channel of ice is a good metaphor for the turbulent last few years of the company. When Schifferle started as CEO at sia Abrasives in 1991, the company was in dire straits. Cash flow and equity were practically non-existent, the shares were worthless and the banks were very nervous. The new boss got the ailing company back on the right track: a year later, the company was already in the black. sia Abrasives, which had produced almost exclusively flexible abrasives for wood, diversified into abrasives for metal. Soon the company was so successful that the owners wanted to cash in their investment and sell up.

For Schifferle, this strategy smacked not of industrial logic but of risk of collapse, and in 1997, management bought the company out. Schifferle organised private equity funds and went into debt himself. Today, management holds around 3 per cent of the company’s shares. In 1999, sia Abrasives was floated on the stock exchange and has been quoted on the SWX Swiss Exchange ever since. At the time, happy with the way his career was going, Schifferle concentrated on his roles as chairman of the management board and member of the board of directors. However, opinions differed over his designated successor as CEO. The new CEO had brought his own people to Frauenfeld, and they did not blend in well with the existing crew. The entire business, from supply performance to product quality, suffered from this difficult and messy situation. At the beginning of 2004, Schifferle brought the matter to an abrupt resolution: 17 people were dismissed, among them four members of the executive committee and five management employees. The departures were completed without fuss or public airing of grievances. According to the company’s 2004 annual report, “trust and motivation are delicate

Some CHF 40 million have been invested in cutting-edge technologies in Frauenfeld, allowing almost all the manufacturing to be carried out in Switzerland.
sia Abrasives develops and assembles abrasives for wood, metal and plastic. CEO Peter A. Schifferle is in the production department twice a week.
Work does not always involve perfectly gleaming surfaces such as those of a clock or the body of a car. Much more frequently, a component has to be sanded to achieve a defined surface structure. Developing abrasives for tailor-made surfaces is the company's objective.
assets that need to be treated with care." Schifferle assumed operational responsibility once again, combining several functions at the same time. The radical restructuring was difficult for him. But, he says, it is the duty of a businessman to make unpleasant decisions too. In hindsight, the figures justify Schifferle’s actions. Higher turnover and an increase in operating profit for 2004 of 51 per cent, due in part to lower wage costs, have helped to allay employees’ and shareholders’ fears. Still, the company has lost time and has a way to go to reach its goal of growing three times faster than the market. For 2005, the target has been set at 4 to 6 per cent, a rate that is already ambitious given the sluggish, unstable global economic climate. Its annual turnover of CHF 252 million places sia Abrasives third in the global sector of flexible abrasive systems. The top two positions are occupied by 3M, with a turnover of approximately CHF 1.2 billion, and Saint-Gobain, with around CHF 0.6 billion. The overall market volume is about CHF 5.5 billion. With differences like these, isn’t Schifferle worried about being swallowed? No, he says. He is banking on both internal and external growth. Already in the last few years, the smaller companies Weck and Capco were acquired and integrated. With an equity ratio of 55 per cent, sia Abrasives is in a comfortable financial position for making further acquisitions.

Composite plastics pose a particular challenge for producers of abrasive systems. These composites are plastics combined with conventional materials that are used, for example, in fibreglass-reinforced boats, a variety of sports equipment, vehicles and even windmills. The market for these materials is huge. But because new composites often have different characteristics, surfaces and fusion points during abrasion, they require high initial investment in R&D. For Schifferle, however, the way is clear: “This is where we want to expand.” Expansion means partnering with other companies. For instance, a special fabric was developed with AG Cilander, the textile finishing company, to serve as a backing for abrasives. Both companies are hoping for lower costs and simplified logistics. Cooperation with the speciality chemicals company Sika AG in Baar is also being strengthened after success in the Italian test market with a systems solution for the car and body industry. Bundling know-how helps to generate competitive advantage. Over the last few years, around CHF 40 million have been invested in the Frauenfeld location where, with the exception of non-woven abrasives, all the company’s manufacturing and 70 per cent of the assembly are carried out. And, according to Schifferle, the factory will remain here. His credo: “In the long run, you cannot have your research facilities in Switzerland and your manufacturing facilities in the Far East. Otherwise, it is just a question of time before you lose your technological leadership too.” The question of a successor is still unresolved. Schifferle knows that: “I will not make the mistake again of test-running my successor in the company. He needs to be competent already as a CEO and to fit in with the corporate culture.” //

Innovation and systems solutions as a recipe for success

That said, the company intends to grow primarily through innovation and technology leadership. One example of this is its TopTec technology, introduced at the end of 2004, for a dust-free abrasion process. The new abrasive belts are particularly suitable for processing wood and for other materials that have a static charge, such as plastics and mineral materials. Carbon fibres are integrated into the bonds of the abrasive belts, and these dissipate and neutralise electrostatic charges. In this way, all the dust is drawn off, protecting employees as well as the machines and abrasive belts. At the same time, the tear resistance of the belts has been improved with TopTec. Furthermore, the abrasive grains are distributed consistently, thanks to a method of controlled spreading. The belt thus sands evenly across its whole width.

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Every employee should know why we are good, where our challenges lie. This creates a feeling of ‘us’.”

sia Abrasives in figures:
The company employs around 1,000 people worldwide and, in 2004, achieved a turnover of CHF 252.1 million and an operating income of CHF 24.7 million. sia Abrasives Holding AG is officially listed on the SWX Swiss Exchange and generates more than 90 per cent of its turnover outside Switzerland. In the 2004 financial year, the corporate group increased its net sales by 4.7 per cent to CHF 252.1 million. Earnings before interest and taxes (EBIT) increased by 51 per cent and net income by 46 per cent.
Traditionally, the tax burden in Switzerland both for individuals and legal entities has been relatively low compared with other states. In addition, attractive solutions were on offer for holding and domicile companies to the advantage of Switzerland as a business location. A further locational advantage was the constructive understanding between Swiss taxpayers and the Swiss tax authorities, characterised by mutual trust and pragmatism, rather than suspicion and formalism.

The last few years have seen significant changes in the fiscal landscape. Former high-tax countries have introduced new fiscal laws, in some cases with massively lower tax rates or new solutions that are conceptually attractive. Today, Switzerland is only one of several competitors in the field. Moreover, international comparisons are always somewhat distorted because the costs of the AHV (to the extent it is a pure pay-as-you-go system) and of health insurance are not included in the Swiss fiscal quota, as they are in many other countries. Reason enough, therefore, to review the developments of the last few years and to critically assess the status quo.

Recent developments

In 1995, Switzerland made the change from a turnover tax to a value-added tax. The move was the right one. But overly strict application of the policy by the VAT authorities, as practised during the last 10 years, has been a mistake. As a result, a variety of parliamentary initiatives culminated in the appointment of a consultative committee composed of representatives of various organisations that is expected to critically evaluate developments in the VAT on an ongoing basis. It is difficult to imagine a more obvious withdrawal of confidence in the administration by business. Unfortunately, not all representatives of the authorities concerned seem to have grasped the problem. Application of the VAT will continue to be characterised by a high degree of inflexibility, suspicion and lack of objectivity. Much work remains to be done before it is implemented sensibly.

Positive developments worthy of mention in the last few years are the Corporate Tax Reform I law of 1997 and the Merger Law of 2004. Corporate Tax Reform I Law was forced through in the face of intense resistance from the tax authorities in Parliament and – thanks to tax reductions – has contributed significantly to an increase in the Swiss tax substrate. In passing the reform, Switzerland established a modern concept for taxing holding companies which led many major holding companies to settle in Switzerland, thus creating jobs. The investment in tax reductions also paid off: new companies have set up shop in Switzerland and overall have paid more tax.

The Merger Law governs reorganisations from the vantage of civil law and happened to coincide with revisions being made to fiscal law. In what can be described as an exemplary process, the administration, academia and business collaborated closely and efficiently to develop a flexible solution satisfactory to all and beneficial for Switzerland.

In contrast, the tax package laid before Parliament in May 2004 was unsuccessful. It covered three elements: taxation of residential property, family taxation and stamp duties. The failure of the 2004 tax package was most likely due to the taxation of residential property.

What can the legislature do now?

Switzerland is suffering from weak growth. Everything possible must be done to overcome this situation. Although this opinion is shared by all major political groupings, there
is still disagreement about how to find a solution. The pending review of the Stamp Duty Law needs to be finalised, which means turning provisional law into definitive law. The motivation and objective of this revision is to keep jobs in the financial industry in Switzerland. If this fiscal law is not passed, jobs will be relocated abroad, and in the long run there will be only losers. It is encouraging to note that there is no sizeable opposition to the draft of this law.

Forthcoming revisions and reforms

Revision of family taxation continues as a latent project. The present tax system discriminates against married couples compared with singles. Such a system is unconstitutional and should be abolished. Violation of the constitution is most pronounced in the direct federal tax; in the cantons, the situation varies. Either corrections need to be made to the rates or new deductions must be created. Another option is to change the system fundamentally, away from family tax to tax on individuals. Additional questions related to family tax include deductions for children, and the deductability of education and training costs. A final matter under discussion is whether tax credits for taxpayers with very low incomes should be introduced. But such credits would replace other state contributions and support payments. Still presently in the development stage is the Corporate Tax Reform II. This review is of crucial importance to any stimulus for growth, a consideration that has been confirmed by studies made within the administration. Corporate Tax Reform II deals primarily with reducing the double taxation of company profits and dividends, that is, the moderation of economic double taxation. At present, profits are retained in companies for tax reasons. But economically such a policy represents a less than optimal allocation of capital. It has been shown that eliminating this fiscal obstacle by reducing the tax on dividends in the hands of shareholders would stimulate growth.
The Federal Council recently sketched out its version of the main elements of Corporate Tax Reform II. According to this version, dividends in the hands of private shareholders would be taxed 80 per cent; dividends and capital gains on shares held among business assets would be taxed at 60 per cent. In addition, the nominal value principle would be abandoned in favour of the contributed capital principle. This step is urgently needed, since surely only dividends earned by a company should be taxable – not what has previously been contributed by shareholders. Furthermore, the cantons are to be given the opportunity to credit the capital tax paid by legal entities against their income tax.

The current investment deduction for dividend income of legal entities should be defined more generously.

In addition, certain tax incentives should be created for partnerships. This question relates particularly to liquidation taxation and the transfer of real property from business assets to private assets.

Unsolved problems, pending projects

Finally, several problems have yet to be addressed. These include transposition, indirect partial liquidation and professional dealing in securities. With its judgement of 11 June 2004, the Federal Court has created an impossible situation by extending application of the theory of indirect partial liquidation to such a degree that now only a sensible new legal approach can provide relief. The Federal Council is toying with the “full wallet” concept: if a company possesses distributable assets not required for its operations, the private seller of a qualifying investment should realise not a tax-free capital gain, but taxable investment income. Such a concept would be broader than the policy followed either before or after the most recent Federal Court judgement – but in many respects also narrower. The proposal is interesting, but needs to be analysed more thoroughly.

Concerning professional dealing in securities, clear criteria are needed in order to set certain limits to the Federal Court’s practice, which here, too, is getting out of hand. Other pending projects include the new salary certificate, the introduction of which is presently being hotly debated; revision of the fiscal provisions concerning the BVG, which will considerably restrict the room to manoeuvre of many pension funds; a tax amnesty, the supporters and rationale for which are unknown; overall simplification of the tax system and in particular of the VAT, which is badly needed but in the present constellation likely to long remain a pipe dream. Last but not least, a major issue for economic policy is the elimination of taxation at source on dividends, interest and royalties between Switzerland and the member states of the European Union, which is dealt with in the Agreement on the Taxation of Interest and is therefore part of the Bilateral Agreements 2.

To sum up, the existing need for reform from the perspective of Switzerland can be prioritised as follows:
- Corporate Tax Reform II
- Taxation of families
- Maintaining a friendly tax climate
- Further targeted tax relief for businesses

To be avoided in particular are:
- Material tax harmonisation
- Tax increases without simultaneous compensating tax relief
- More restrictive practices

Conclusion

Switzerland is well advised to preserve its traditional low tax rates and friendly tax climate. This includes taking note of rapidly changing conditions and adapting to them. The tax base is becoming ever more flexible; it is searching for the most favourable location and will find it either here in Switzerland or elsewhere. It would be a genuine pity if it were elsewhere.
Enterprise value: A new method helps bring it to the fore.

The simulation software Decision Programming Language (DPL) uses multidimensional analysis to show how changes to critical assumptions and key value drivers impact the value of assets.

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Over the past few decades methods for valuing enterprises have advanced significantly. One important aspect is the transition from the accounting to the capital market perspective, which is reflected in the selection of valuation methods. Whereas earlier net asset, yield and average value methods predominated, today increasingly the – theoretically correct – investment approach is followed. According to this approach, enterprise value corresponds to the investor’s expected net revenues, which have to be discounted based on the present value of cash flow and risk.

In practice, as an approximation of this amount, the expected free cash flow is taken as the base and then discounted to the present value using the discounted cash flow method (DCF) and the cost of capital (weighted average cost of capital, WACC). By free cash flow is meant the so-called gross cash flow, less investments in fixed and current assets. The cost of capital is determined from the costs of equity and debt, whereby the equity cost is derived from the capital market using the capital asset pricing model (CAPM). In order to discover the operating enterprise value, the sum of the discounted future free cash flow and the residual value is taken, whereby the latter represents the assumption of the going-concern valuation. Adding non-operating assets and deducting interest-bearing debt allows one to derive the equity value from a capital market perspective.

**DCF – valuation based on the business plan does not go far enough**

The problem with the DCF method is that the value of a company is determined on the basis of a defined business plan. In practice, however, it is unlikely that the expectations included in the business plan about the development of value drivers and therefore of the future free cash flow will be completely fulfilled. In order to demonstrate the fluctuations in company valuation as value drivers change, under the DCF method frequently one- or two-dimensional sensitivity analyses are performed. The significance of these sensitivity analyses is, however, limited, because in the real world individual value drivers seldom change in isolation – usually they are mutually dependent.

Consequently, a comprehensive approach must be taken in which allowance can be made both for the interdependencies between individual value drivers and for future alternative actions in the sense of real options for a company. Neither aspect is taken into account by the traditional DCF method.

**DPL – rapid reaction thanks to simulation technology**

In order to provide this comprehensive approach, in the last few years PricewaterhouseCoopers has developed a simulation technology, Decision Programming Language (DPL). By means of multidimensional analyses DPL makes it possible to highlight the sensitivity of the enterprise value to changes in critical assumptions and key value drivers. In addition, users can include the value of future alternative actions in the estimate of enterprise value. In doing so, potential future influence and control of variables by management can be taken into account depending on how internal and external factors develop. These realistic features include the ability to redefine and adapt strategy at a later date and can be valued with the help of the option pricing theory.

The basis for DPL simulations remains the DCF method. However, in terms of combinatorial analysis, a number of enterprise values are calculated – i.e. every possible change in the value drivers is combined with every other. To each resulting enterprise value a certain probability of occurrence is assigned. In this way a risk profile can be drawn up for the enterprise value, which makes it possible to represent the impact of known risks on the value calculat-
ed and to estimate the limits and significance of the value determined.

DPL simulation is a valuable tool for testing a business plan for plausibility. For the business plan – and therefore the forecast of future free cash flow – is the critical amount in valuing a company. Many valuations made over the last few years, which as a result of economic developments today are irreproducible, were the result of false estimates of the future (e.g. over-optimistic forecasts), not of wrong methods. DPL now permits review and plausibility testing of the business plan, including probabilities and multidimensional sensitivity analyses.

The use of DPL can be illustrated by the following example. An investor would like to invest in a company. Two alternatives are available that at first glance seem comparable because, according to the DCF analysis, both companies have the same expected value. The diagram above illustrates the risk profiles of the two companies. Here it can be seen that for Enterprise 2 the probability of a negative enterprise value is substantially lower (for Enterprise 1 it is 60 per cent, for Enterprise 2 10 per cent). This perception is based on the simulation of various business plans and considerably extends the decision base for the investor. In this case a preference for Enterprise 2 over Enterprise 1 can clearly be recommended on the basis of the risk profile.

Summary

Today, company valuation increasingly concentrates on considering uncertainties in future corporate development, for example by linking the DCF method with multidimensional sensitivities and valuation of real options. This results in a multitude of advantages and new possibilities for gathering information as a basis for the decision process. On the other hand, the complexity involved in the valuation work increases.

With DPL, PwC has developed an instrument that has all the advantages of the most up-to-date theoretical knowledge, but at the same time is simple to apply and remains comprehensible and communicable – a decisive aspect in creating real added value for the client.
Our blueprint for success is based on partnership.*

We congratulate our ten colleagues who have recently been accepted into the partnership:

Hans Geene, Tax and Legal, Lausanne
Bruno Gmüür, Assurance, Zurich
Mark J. Humphreys, Assurance, Zurich
Markus Koch, Advisory, Zurich
Roger Kunz-Brenner, Advisory, Zurich
Miguel Perry, Assurance, Lausanne
Rolf P. Schatzmann, Advisory, Zurich
Christian Soguel, Advisory, Geneva
Philippe Tzaud, Assurance, Geneva
Jürg Wyser, Advisory, Zurich

Our ten new colleagues mean that there are now 152 people working for the success of our customers in their role as partners at PricewaterhouseCoopers. For partnership is also at the forefront for us in our relationship with our customers. Incidentally, we are delighted that PricewaterhouseCoopers has continued its success of the last five years by being identified once again as the most popular employer in Switzerland among the assurance and advisory companies in the 2005 Universum Graduate Survey.

*connectedthinking
Money market: Do you know your creditors?

Debt trading is becoming more important in Switzerland. Loan agreements concluded today should consider the opportunities and risks of debt trading.

Changes in negotiating partners also cause delays in negotiations. These delays must be minimised. In addition, cultural differences among partners need to be taken into account. All these circumstances and multiple interests at the negotiating table increase the complexity of restructurings.

Accordingly, preparation for negotiations has to be thorough. The situation should be evaluated from the vantage both of an investment bank and a financial investor as possible purchasers of the debt. The rules of the game for restructuring negotiations are established in part with the conclusion of the loan agreement. The “Wall Street Journal” wrote in January 2004: “Investors discover that the rules change fundamentally when it is a matter of restructuring a firm in financial difficulties.”

Profit opportunities for investors, tax risks for borrowers

But debt trading has consequences that go beyond restructuring. In principle, the exit strategies of the purchaser (distressed-debt investor) also affect possibilities for refinancing by the borrower. If, for example, a distressed-debt investor purchases a receivable for 40 per cent, he can offer the borrower up to 50 per cent. The investor makes a profit of 25 per cent within a short period. At this level the borrower may be able to find a new bank.

Distressed-debt trading also implies tax risks for the borrower: If more than ten non-banks participate in a loan, the loans in question are deemed to be a bond subject to withholding tax. In most cases, contracts require borrowers to pay the full interest before tax under all circumstances. As a consequence they pay an additional 54 per
Energy industry in merger fever

Electricity and gas suppliers are faced worldwide by a strategic change of direction. After the restraint in 2003 their M&A activities are approaching a new record. The aggregate amount of the 459 transactions (2003: 398) in the past year was USD 123 billion (2003: USD 43 billion). With a total value of USD 57.2 billion (2003: USD 17 billion) cross-border transactions reached the level of the years 1998 to 2002. In 2004, increasingly enterprises from outside the industry were involved in M&A transactions. New issue activity is introducing a new variable into the valuation of transactions and will also in future affect M&A activities. These are the results of the study “PwC Power Deals – Annual Review 2004”, for which PricewaterhouseCoopers investigates annually all mergers and takeovers by electricity and gas enterprises.

www.pwc.ch/press

New cars under price pressure

In Switzerland, retail prices for new cars increased within the 12 months ended December 2004 by 2.0 per cent (2003: 2.7 per cent). This marginal increase in the price of new cars in Switzerland in 2004 presages a difficult environment for future pricing in the car industry. The average retail prices in western Europe rose by 2.4 per cent in 2004 (2003: 4.6 per cent). This development is the result of a fall in demand and is now triggering greater price competition. This is shown by the survey “European Index of New Car Prices, Winter 2004” by PricewaterhouseCoopers and eurocarprice.com.

www.pwc.ch/press

Transparency in tsunami relief

As part of their broader effort to boost transparency and accountability and guard against mismanagement and corruption, the United Nations have announced a pioneering agreement with the accounting firm PricewaterhouseCoopers for 8,000 hours of pro bono advisory services in the form of loaned professional expertise for tsunami-specific UN projects. PwC will make the agreed resources available to carry out work under the direction of the UN’s management team with regard to the tsunami relief fund of nearly USD 1 billion. The UN expects to direct most of these services towards following up on credible allegations of misuse of the funds. Although the UN has other agreements with the private sector, this is the first agreement of its kind in the field of transparency and accountability. This is part of the UN’s broader effort to boost transparency and accountability and guard against mismanagement and corruption.

www.pwc.ch/press

Danger of overregulation

According to the “PwC CEO Survey 2005” 31 per cent of the CEOs in Europe are expecting an increase in turnover and are investing more. As was already the case last year, overregulation is the greatest concern of the European CEOs. 72 per cent of them consider Corporate Governance, risk management and compliance to be value drivers and a source of competitive advantage. 46 per cent are of the opinion that current labour legislation makes Europe an unattractive employment location.

www.pwc.ch/press

Retail trade in upheaval

In Asia, central and eastern Europe and Russia growing price sensitivity in the retail market is promoting the development of own labels. The expansion of retail businesses from the major cities into smaller towns is growing. The development of “Shoppingtainment” in shopping centres with related leisure activities is expanding. These are the findings of the study “From Beijing to Budapest: New Retail & Consumer Growth Patterns in Transitional Economies”, for which PricewaterhouseCoopers examined growth prospects in 14 countries. Six of these countries are recommended for investment: China, India, Turkey, Thailand, Malaysia and Hungary.

www.pwc.ch/press
Advantages and disadvantages of distressed-debt trading

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To what extent such clauses make sense. After all, equity markets provide only summary control over who purchases shares and therefore who has voting rights. From the macroeconomic perspective, an efficient debt-trading market is to be viewed positively since debt trading opens up new opportunities in the debt market. But in contrast to equity trading, debt trading is (still) lightly regulated.

The Swiss debt market is becoming more professional

The Anglo-Saxon market is very competitive. Purchasers of distressed bank debt are therefore not only moving to smaller countries but also switching to smaller debt amounts. In the last few years the Swiss debt market has expanded to include investment banks as well as financial investors (private equity investors, hedge funds and financial institutions). Trading in sub-participations in syndicated loans has been common in Switzerland for some time, as well as the occasional sale of larger, distressed individual loans by lending banks. As a result of pressure from abroad the Swiss secondary market for distressed debt is becoming more professional.

Two developments merit special attention:

1. The systematisation of distressed-debt trading
   A number of investment banks publish lists of quotations with bid and ask prices that cover several hundred items and also regularly include debt of Swiss firms. In some cases trading begins at amounts in the order of CHF 10 million.
   2. The boom in debt derivatives such as the credit default swap market
      Credit default swaps are equivalent to insuring the loan amount by separate transfer of the credit risks. Accordingly, it is not debts but only their risks that are traded.

According to a Credit Derivatives Survey by the British Bankers’ Association, from 2001 to 2004 the credit default swap market exploded at an annual rate of 59 per cent, to USD 4,799 billion (in 1999 the volume was still less than USD 300 billion). Swiss banks – both big banks and the larger cantonal banks – are also very active in this market.

**Conclusion**

Borrowers and lenders face an extended debt market. The trend is likely to continue and reach other areas of this market. Loan agreements concluded today should consider the opportunities and risks of distressed-debt trading.

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1 Syndicated loans are loans issued by several banks as a consortium. This simplifies loan structuring and enables banks to diversify their risks.
New laws: Donating will be somewhat more attractive.

The revised Law of Foundations increases the tax deductibility of donations and the possibility of subsequently changing the purpose of the foundation.

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After at times intensive discussion – mainly about the tax effects – Parliament has put together a package of civil and fiscal law measures, the purpose of which is to increase the attractiveness of charitable foundations and enhance their transparency. The revision of the Law of Foundations got under way thanks to a parliamentary initiative by State Councillor Fritz Schiesser in December 2000 and came to a conclusion with the vote in the autumn session 2004.

The revised Law of Foundations is designed to create incentives to set up new private foundations, but also to strengthen confidence in those already in existence. To achieve these objectives, the legal changes concern mainly tax deductibility, the possibility of changing the purpose of the foundation, and accounting and audit requirements.

**The most important changes in brief:**

1. The deductibility of donations to charitable institutions allowable for Direct Federal Tax will be increased from 10 per cent at present to, in future, 20 per cent of net income or of net profit.

2. For constitutional reasons (fiscal sovereignty) the cantons are free to establish the amount of the deduction for donations. They must, however, without fail revise their tax laws in respect of the deductibility of donations to comply analogously with the provisions of the Direct Federal Tax. In future, in general, not only cash payments but also transfers of assets (e.g. real property) and donations to the Federation, cantons and communities and their institutions (e.g. universities) will be deductible.

3. The current value-added tax practice, under which already merely acknowledging contributions could lead to a tax charge, has been corrected. In future, the public naming of donors and sponsors will no longer represent a taxable consideration.

4. Based on the revised law, the founder will in future have the possibility under certain circumstances to subsequently change the purpose of the foundation. However, such a change requires in particular a reservation as to the change of purpose in the foundation deed. In addition, at least ten years must have elapsed since the establishment of the foundation or the last change of purpose. The purpose is changed by the competent authority on application of the founder or on the basis of a testamentary disposition (will or inheritance contract).

5. In future, the foundation is required to keep accounts and also to appoint an auditor. The supervisory authority can exempt (small) foundations from the audit requirements. The Federal Council will set out in an ordinance the conditions for this exception and other implementing regulations. Consultation on this subject is currently in progress. As at present, family and church foundations do not have to appoint an auditor.

**Motivation for potential founders**

Although the revision of the tax provisions has turned out to be less far-reaching than in the original initiative, it should nonetheless be seen as an incentive to release private funds for charitable purposes. By simplifying and making more flexible the possibilities for changing the purpose, potential founders can be motivated to provide private funds to undertake responsibilities for the benefit of the general good. Whether the revision will bring about an increase in “foundation popularity” in Switzerland, remains to be seen in the next few years. The cantons have the opportunity, thanks to their fiscal sovereignty, to make foundations with a public or charitable purpose attractive and to allow a donation deduction of up to 100 per cent. The revised provisions and the implementing ordinances are expected to come into force on 1 January 2006.
Events, publications and research.

Publications:

**Sustainability Yearbook 2005**
The “Sustainability Yearbook” is the internationally most comprehensive annual publication on sustainability trends and advances in sustainability in enterprises in a total of 60 sectors. In 2005, SAM and PwC have again jointly published the results of annual evaluation in more than 1,400 enterprises worldwide and present PwC’s reporting model ValueReporting. The annual is divided into the following sections:
- Overview of the methodology of SAM Research’s sustainability evaluation
- Sustainability trends and challenges faced by the enterprises
- Statistical material on the individual sectors and presentation of topical sustainability issues based on the Sustainability Analysis 2004
- Structure of PwC’s reporting model ValueReporting with examples

An extract from the annual can be downloaded free of charge from the Internet (www.pwc.ch/sustainability05). The 114-page annual is in English and can be ordered from thomas.scheiwiller@ch.pwc.com for CHF 350.

**Current developments for audit committees**
The 2005 issue of PricewaterhouseCoopers’ “Current developments for audit committees” informs audit committee members about relevant new developments in the field and about current legal provisions. Of particular interest is the first year of reporting under Section 404 of the Sarbanes-Oxley Act. The publication also throws light on other changes for audit committees and boards of directors in the area of Corporate Governance – for example new New York Stock Exchange rules, new regulations issued by the US stock exchange regulator SEC, new requirements for the auditors, rules for foreign issuers in the USA, etc. “Current developments for audit committees 2005” is in English and can be ordered free of charge from sonja.jau@ch.pwc.com.

**Event:**

**Key Success Factors in Private Banking**
PricewaterhouseCoopers has surveyed asset managers in the USA, Europe and Asia on trends, current problems and peculiarities in their respective countries and combined the results in the traditional “Global Private Banking/Wealth Management Survey 2005”. At the “Key Success Factors in Private Banking” event we will present the most important results. How they affect the Swiss market will then be discussed by well-known representatives of leading banks.

**Date:**
25 August 2005, Hotel Baur au Lac, Zurich

**Further information and registration:**
elisabeth.roggli@ch.pwc.com

**Reader service:**
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Address: PricewaterhouseCoopers, ceo Magazin, Stampfenbachstrasse 73, 8035 Zurich, Switzerland.
New markets in the East:

Sometimes nations become modern overnight.
Bulgaria, Romania, Ukraine – the new old countries of Europe. Or: The fringe is becoming the centre. From 1 January 2007, when Romania and Bulgaria become members of the European Union, it will be obvious to everyone.
Romania, Bulgaria and Ukraine: largely unknown, yet of great interest to investors, these three countries are breaking away from the fringe of Europe to assume the central position to which they have long been historically entitled. To wit, in terms of cultural history and ideas, the three nations have always formed an epicentre of European intelligence. Even geographically, the region up to the Black Sea coast is much less remote from, say, Berlin than commonly assumed: Kiev, capital of Ukraine, the erstwhile granary of Europe, is closer than Paris when viewed from Potsdam Square. However, in Western European minds, the second biggest country on the continent today plays an attractive, yet secondary role – an attitude that has not changed since Brussels promised Romania and Bulgaria accession to the EU for 1 January 2007. The current economic and socio-political circumstances in Romania, Bulgaria and Ukraine make an assessment of these countries’ compatibility with Europe very difficult and would seem to call for careful consideration. From the vantage of economics much has improved in the last two years, but the countries still do not measure up to the 25 EU nations. Anyone studying the key figures of the three countries notices straight off that they all have an essential problem, one that makes even the bravest of investors tread carefully – and that is the prevalence of widespread corruption. In the latest ranking published by Transparency International, Bulgaria finds itself at position 54, together with countries such as Mauritius and Namibia. Romania occupies position 87, on a level with the Dominican Republic and Iran, and Ukraine is in 85th place – not a very flattering result in view of the 146 countries evaluated.

The message has been heard loud and clear. In Romania, Prime Minister Calin Popescu Tariceanu’s new cabinet, in power since last November, is doing everything to make up for lost time in the schedule of EU integration. Following the period generally known as the lost decade since the fall of the Ceaucescu regime in 1989, the democratic, liberal alliance under President Traian Basescu is now trying to clear up all the inherited woes. For almost a decade, the Socialists under Adrian Nastase procured themselves good jobs and shares in pri-

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1 Bruno Affentranger is deputy chief editor of the Swiss business paper “CASH” and a long-time specialist in Central and Eastern European countries.
vatised state companies and promoted a society based on favouritism born of the former secret police, the Securitate. This large Latin country has a lot of catching up to do. Its poor roads are often impassable when it rains, and even the capital, Bucharest, cannot hide enormous social differences. The “Financial Times” recently wrote rather harshly of Bucharest as a city that is no longer the “Paris of the East” but rather the “New Delhi of the West”. Thirty per cent of the population of approximately 22 million live in poverty. The average income of a Romanian is less than CHF 200. Yet along the way from the Bucharest city centre to the airport, a gated millionaires’ community has recently sprung up. “The gap between rich and poor is enormous,” says Silvia Lepiarczyk, an executive of the Swiss media concern Ringier, which has been active in Romania for almost ten years. The head of East European business praises the Romanian workers as being very well educated, willing and motivated. “Everyone wants to achieve everything asap here. That can be positive, but it also aggravates the social differences.”

It is a picture that requires some getting used to. Romania is a country of stark contrasts, like all states in this region. On the one hand, a large market and low costs attract foreign investors and a few good small and medium-sized businesses from Switzerland. A technically skilled, well-educated labour force is readily available here. In Timisoara, for instance, Siemens employs 800 software engineers, and in the Dacia factories, several thousand people are working on a new Renault economy car that will be sold in Eastern Europe, Asia and Latin America. On the other hand, 40 per cent of the Romanian labour force still earn...
their meagre wages in agriculture, a sector which contributes a mere 14 per cent to the gross domestic product. Since very little has gone as well as it should in Bucharest during the last ten years – with only the last two years showing any kind of an upwards trend – the International Monetary Fund (IMF) has now intervened and is keeping a very watchful eye on the new government to avoid repetition of the same mistakes. The brand new flat rate tax (16 per cent; 13 per cent in the Ukraine!) pleases the IMF; yet, at the same time, concern is mounting over growing shortfalls in tax revenues. For this reason, the IMF wants to see taxes increased. Furthermore, Romania is expected to halve its budget deficit (2004: 1.2 per cent of GDP) and to reduce the trade deficit (6 per cent). This is a Herculean task for a country that may well be making progress, but still trails far behind EU standards.

Visible progress in Bulgaria

NATO member Bulgaria has made much greater headway in its attempts at harmonisation with the EU. James Pardew, the US ambassador in Sofia and former special envoy of the USA in the Macedonian conflict, is full of praise: “Bulgaria could well be the showcase for the countries of the region.” Progress is visible. In Sofia, Western influences characterise the urban landscape. The first section of the underground has been open since 1998. For the first time in ages this country of emigrants is confronted with the phenomenon of immigration. According to reports, lately it has been Bulgaria’s Slavic Macedonian neighbours clamouring to enter the country, which today has a population of 7.9 million inhabitants. Yet, Bulgaria, too, remains largely agricultural and is struggling to rise up from under. On the largely deserted expanses between Sofia and the Black Sea, you are more likely to see horses and carts than cars. As in Romania, undeclared work is widespread. According to an EU Commission study (“Undeclared Work in an Enlarged Union”), about 30 per cent of the workforce are illegally employed, a figure which sets a European record. With such low average wages, it’s no wonder: teachers and public officials earn just CHF 220 (285 leva) per month. That may well be more than last year, but is still very little in comparison with the rest of Europe. The judiciary system presents a further problem, with the key word being corruption: Like any western country, Bulgaria is no stranger to laws and has been cooperating closely with the USA and Great Britain for some years on combating crime. However, enforcement of judicial decisions is a major weakness. By no means does conviction automatically imply that a sentence will ever be carried out. On this point, the EU is demanding action. The Bulgarian government under Simeon Saksoburggotski, which

Continued page 45
"We are helping to rebuild an entire country."

With its roots in Switzerland, Energy Holding is the largest private energy supplier in Romania. The company’s history reflects the transformation of the country at large.

"This is where our greenhouses will stand – all with the latest technology, with computer-controlled irrigation!" Roy A. Maybud points across a field, perhaps the size of ten football pitches, in the endless expanse of Wallachia in the south of Romania. His vision of state-of-the-art vegetable cultivation under glass contrasts oddly with the present situation: behind us, a farmer with a horse and cart rumbles leisurely past on his way to the nearby village of Grindu. However, Maybud is no dreamer. Rather, he is a seasoned businessman and senior executive vice-president of Energy Holding, the largest private electricity supplier in Romania. Is it because of his Dutch origins that Maybud is interested in greenhouses? "I just find it absurd that the large supermarkets in Bucharest sell aubergines and tomatoes from Holland in the winter when Romania itself can produce excellent vegetables," says the manager, whose place of residence is Fribourg in Switzerland.

Sustainability as a policy for the future

The planned greenhouses in Grindu are not part of the core business of Energy Holding. "Our competence is in the energy sector. We know nothing about agriculture," emphasises Maybud. The excursion into agriculture has a personal connection: the family of Maybud’s driver originates from the village. "He took me home with him once, and I understood how very much agriculture has suffered since the collapse of the collective farms. I just had to do something!" Since then, a Dutch businessman has been found who will build the greenhouses. All of the planning is designed so that at some stage, the villagers can secure their livelihood on their own and in a sustainable way. Some of them have been to Holland on
Energy market, Romania:
“Our centre for electric power consumption is designed in such a way that it can be integrated into the European trading system once the market is opened.”

an information trip. Energy Holding – a member of the World Business Council for Sustainable Development – is backing sustainable development in Romania and is sponsoring the project: “Perhaps we will be able to enjoy the first vegetables from our greenhouses as early as next winter,” is how Maybud describes the return on investment, with a twinkle in his eye.

As an executive he is fully occupied professionally with the rapid growth of Energy Holding. Energy Holding originated in Switzerland at Energy Consult S.A. in Fribourg. In 1997, Energy Consult founded a subsidiary in Bucharest to advise foreign builders of power plants in Romania. Energy Holding developed out of this effort. With the opening up of the Romanian electricity market, the company expanded its activities. Today, large industrial consumers can freely choose from whom they wish to purchase their electricity. “The market is more open than in many an EU country,” says Maybud. “That is why it was natural for us to enter the electricity trade ourselves in addition to providing consulting services. Today we have a market share of 8 per cent and 75 employees, making us the largest private supplier of electricity in Romania.”

Only a few power stations have been privatised. In Romania, electricity is still almost exclusively produced by state companies. Since the end of 2004, Energy Holding has owned five small hydropower stations. Additional power stations will presumably be privatised by the end of this year. If the conditions are right, Energy Holding will use the opportunity to expand. “Thanks to our consulting activities, we have close ties to producers of turbines and generators. We therefore are able to modernise our power stations on favourable terms and are able to offer purchasers more than other interested parties,” is how Maybud describes the interfaces between the various business areas of Energy Holding.

Serious deficits in marketing

“This country is full of opportunities. Western Europeans should revise their idea that everything is old and backward in Romania,” says Maybud. One example: “General Turbo, one of our business partners, is building turbines under its own name primarily for the local market. At the same time, the company is supplying Western turbine manufacturers with important components. However, on the turbine there is a European or American designation of origin because nobody in the West trusts a Romanian turbine.” Maybud ascribes this image problem primarily to problems in Romanian marketing: “The local companies do not know how to market themselves and their products. That was something that did not exist in the socialist system.” The deputy managing director of General Turbo, Adrian Zamfirescu, adds laconically: “Our task was to work, not to sell.”

Today, Energy Holding is developing the sales and marketing of General Turbo products in a variety of countries. “We provide General Turbo with our many years of business experience in the energy sector primarily in Asia and in the Near and Middle East,” specifies Maybud and explains why one activity in Romania always appears to lead to another: “The people here have a Latin mentality. This is where personal relationships are even more important than elsewhere.” Adrian Zamfirescu explains how this characteristic affects General Turbo: “General Turbo was part of an industrial complex which was divided up into different companies when it was privatised. When our engineers need, say, a turbine shaft, they turn to their former work colleagues. They worked with them for years in the same offices. There everyone knows what the other one needs.” Furthermore, as the companies are on the same premises, the transport costs are practically non-existent.

Open gateway to Europe

The future promises Energy Holding new opportunities. At the beginning of 2007, 2008 at the latest, Romania will become a member of the European Union. For Energy Holding, EU membership means the chance to participate in the liberalised European electricity market. For this reason, the company has built the most modern monitoring centre for electric power consumption in Romania: on wall-high screens in the administration building, managers can see which customer is using how much electricity at any given moment. In this way, more precise forecasts can be drawn up and the resources used more efficiently. “Our centre is designed in such a way that it can be integrated into the European trading system once the market is opened,” enthuses Maybud.

Romania – a country full of opportunities. But what about the risks? Corruption, for example. In Transparency International’s latest ranking of least corrupt states, Romania comes in 87th – far behind all the EU states. “A great problem,” confirms Maybud. “Corruption has been a tradition at all levels of society for decades. If you want to pass an examination, you take paid private lessons with your teacher. If you want to receive better treatment in hospital, you make the payment under the table.” If you consider that teachers and doctors officially earn between EUR 200 and 300 a month, it is not surprising that they exploit their positions to earn a bit more. “Most people cannot survive on their lousy wages,” says Maybud. He thinks it is still too early to judge the new government that has been in office since December. “At least the initial signs are very encouraging. But I do not have any illusions: it will take a lot of time until the state machinery is really free of corruption.”

Overall, Maybud draws a positive picture of his stay (most of the last two years) in Romania. When it became clear that he was going to spend more and more time at Energy Holding, his wife and daughter decided to go with him for 18 months. “Bucharest offers everything that an expat and his family could wish for,” says Maybud. “The cultural offering is amazing. The American school that my daughter attends is of a high standard. And the criminality rate is lower than in many Western cities.” Does he sometimes yearn for the ordered life in Switzerland? “Yes and no,” concludes Maybud. “Switzerland is the ideal world which I need once in a while. However, Romania is definitely a more exciting place to work. Here, we are not only investing in our business, we are also helping to rebuild an entire country. That gives me great satisfaction.”
has been subject to unfair criticism domestically and could be voted out of office, is vowing rapid improvement.

Passport to a new life

Despite this drawback, and among the three countries, Bulgaria is seen as the one most prepared for EU accession. The key economic figures are highly promising. The enthusiasm of an emerging country is palpable. Milen Velchev, the young minister of finance and former investment banker in London, says: "There is a great deal of enthusiasm for the EU. People view membership as a passport to a new life." In the harsh reality of the EU, however, this euphoria could very quickly turn into disappointment and later give way to gloom. It is worthwhile taking a look here at some of the newest EU countries, such as Slovakia, the Czech Republic and Hungary, where heightened expectations among the general population were initially disappointed. These countries are suffering from a well-known economic phenomenon: although economic revival may seize the imagination, it is not necessarily reflected in the average person’s wallet. “Europe won’t come to sweep our streets,” was European Affairs Minister Meglena Kuneva’s warning to her compatriots in a recent interview. The same message could well be broadcast in Ukraine, a country of 47 million people that still lags far behind and of which very little is known – but that nevertheless has become very fashionable and even managed to create a temporary furore in the West last December, thanks to its “Orange Revolution” and the consequent media attention. Yet that is nothing new. On 13 December 1920, Joseph Roth, the great flâneur, feature writer and Galician man of letters, born in the one-horse Ukrainian town of Brody, was already writing in the “12-Uhr Blatt” of the “Neue Berliner Zeitung”: “Sometimes a nation becomes modern. Greeks and Poles and Russians were for a while. Now the Ukrainians are – the Ukrainians, about whom we and other Westerners know nothing, other than that they live somewhere between the Caucasian and Carpathian Mountains, in a country with steppes and swamps.” Incidentally, Brody is situated at the outermost western end of the Ukraine. Since Roth’s time, people have known that this is where the centre of Europe lies. //

Ukraine
Surface area: 603,700 km².
Population: 47.5 million.
Biggest city: Kiev, 2.6 million inhabitants.
Inflation: 5.2% (2003), 8.3% (2004), 8.1% (2005).
Unemployment rate: 8.7% (2003), 8.6% (2004), no information (2005).

Kiev, capital of Ukraine, the erstwhile granary of Europe, is closer than Paris when viewed from Potsdam Square, Berlin.
On the ball.

How a small village in Valais is winning the popularity contest with golf pros and sponsors. And how everyone is profiting from it.

Text: Kaspar Meuli
Photos: Nick Spoerri

The evening before the Omega European Masters in Crans-Montana is sacred to golf pros. No obligations, no fuss – just sitting together, relaxing. The meeting place is the Memphis Bar in the centre of the village. A jazz trio is providing the atmosphere, and the tournament organisers are ensuring that the players are not disturbed. On this evening, the players on the golfing circuit are made to feel just like one big family. And if there is any place in the world where this feeling is justified, it is here in Valais, believes Yves Mittaz. The dynamic vice-president of the sports marketing agency IMG in Neuchâtel is one of the two organisational heads of the big event. He is convinced: “There is no other place on earth where you can see the international golf stars frolicking around with their kids in the playground the afternoon before the tournament.”

Country air and village life as a recipe for success

Players, visitors and golf journalists all agree that the European Masters in Crans is primarily characterised by one thing: its unique atmosphere. There is the panorama of the assembled 4,000-metre-high mountains of Valais, orchestrated by the tinkling of cowbells that rings out from across the surrounding meadows. Most of all, there is the direct proximity of venue and golf course. This much quality of life is a rarity on the European Professional Tour. At the Open de France in Paris, for instance, the players are driven to their hotels in a bus, a journey that takes three-quarters of an hour. There, the family prefers to stay at home. “On the high plateau of Crans, though,” enthuses the South African star golfer Ernie Els, “a holiday atmosphere reigns.” It is no wonder that the number two player in the world rankings came with his wife, Samantha, and their children, Liezl and Ben, last year.

The organisers of the European Masters skilfully promote the impression that the trip into the Swiss mountains is in actual fact just an extension of the summer holidays, starting with the date of the tournament at the beginning of September, through the excursions for relatives, to touristy highlights, to the crèche. “Crans has to be the place where players like to play,” says Mittaz. It is not exceptional opportunities for gain that should make crack athletes go for the tournament but rather the pleasant memories. It is a strategy that seems to work. In terms of prize money, the tournament was ranked among the top five in Europe ten years ago. Now, with prize money of EUR 1.6 million last year, Crans is only average. However, this middling position has not lessened the numbers of world-class golfers. Quite the opposite: in 2004, there were more golfing VIPs here than ever before. “Only Tiger Woods is missing now”, ran a headline in the “Berner Zeitung”. Crans is also attractive for visitors. “The integration in the village is of great importance for the prestige of the tournament,” says Iso Niedermann, chief editor of the golfing magazine “Drive”. “In Crans, the spectators are together with the players for four days – that is the real trademark of the tournament.” It is a symbiosis that brings money into the coffers of the former farming village. IMG has calculated that the event nets Crans between CHF 12 and 14 million a year. In addition, thanks to the reverberations in the international media, the holiday
destination profits from free advertising to the tune of several million.

President, manager and advertiser in one

The driving force behind the European Masters for decades has been Gaston Barras, the doyen of Swiss golfing, who is now 74 years old. How does he explain the success of the tournament, which is taking place for the 59th time this year? His retorts roll off the tongue, one after the other: “You have to be motivated!”, “We have the dedication that others lack!” and: “We are a team which is perfectly used to working together – three, four people, you don’t need any lengthy meetings here!”

To a certain extent, the jovial president of the organisation committee of the European Masters personifies the success of the tournament. Along with his real estate agency, the self-made Barras made it big in the boom of the 1960s and 1970s. At that time, the rural high plateau was setting new standards with the “Super Crans”, a 17-storey concrete tower that became the “in” destination of the jet set. Though he speaks no foreign languages, Barras is a gifted charmer with limitless contacts around the world, and together with his brother was tireless in his drum beating for Crans. For example, in Saudi Arabia Barras persuaded the former oil minister Sheikh Jamani, among others, to settle in Crans.

The persuasive skills of the real estate dealer, which must certainly include tax considerations, have been effective in the golfing milieu as well. Thanks to Barras’ mediating, several top players have bought holiday apartments in Crans in the last few years, for example the young Australian millionaire Adam Scott and the Spanish star Sergio García, who reportedly had a brief relationship with Martina Hingis. Barras appears to have a special talent for putting together business deals that benefit everybody: if some of the world’s best players have a close association with Crans, the tournament obviously profits from it too.

Event marketing – professionals are running the show

From a financial perspective, the European Masters is one of the biggest sports events in Switzerland. It also stands for highly professional sports sponsoring. Barras and the Crans-sur-Sierre Golf Club both hold 25 per cent each of the rights to the tournament. The other half is held by the international marketing agency IMG, a pioneer in the fusion of sport and business. Founded by Mark McCormack, the legendary “godfather of sports marketing”, IMG employs 2,000 people around the world. Fifteen of them work in Switzerland, where they not only manage the European Masters but also other major events such as the Tour de Suisse. Sports marketer Yves Mittaz declines to give any turnover figures but states that the budget for the golf tournament in Crans is CHF 8.5 million, 70 per cent of which is managed by IMG. “The most difficult aspect of sports sponsoring is estimating how much an event is really worth,” says Mittaz. “You need to find the point at which the sponsor receives exactly what he expects for the price he has paid.” It serves the interests of IMG to play for the maximum wherever possible, because the agency has a financial stake in the sponsoring money that it acquires on behalf of the tournament.

The profits the European Masters generates are invested in the infrastructure. With a golf club that will be celebrating its 10th birthday next year, there is a lot to do. In 1997 the course was completely redesigned. The task was undertaken by golfing legend Severiano Ballesteros, a friend of Barras’s.

Involving the village is important for the prestige of the tournament. In Crans, spectators and players mingle for four days.
and a multiple winner at Crans. The course now bears the name of the man who rebuilt it and who in 1993 performed the most famous shot in the history of the tournament: coaxing a ball out of a hopeless position over the wall of the swimming pool onto the 18th green. Today, the place where the ball lay on the wall is marked by a memorial stone and an inscription.

In this environment, nobody does anything for nothing

Players such as Ballesteros, whose charisma extends outside the group of golf aficionados, are rare. Consequently, organisers have to do a fair amount of wooing. The nice view and the family atmosphere are not enough to ensure that the crowd pullers turn up, even in Crans. "In this environment," says Barras, "nobody does anything for nothing." Which means that although it is banned by the Professional Golfers' Association (PGA), the organisers pay large sums of money just for the players to appear. In Crans, this comes to between CHF 400,000 and CHF 1 million per tournament. Strategist Mittaz says: "We do not advertise. The money that we save there we prefer to invest in a few well-known players – then the press will automatically write about the tournament."

Since 2001, the title sponsor of the event has been Omega. The watch company brought with it substantial investments: sponsoring contracts with the two stars Els and Garcia, so of course the highly paid advertising ambassadors also had to turn up for the Omega European Masters. From next year onwards, however, this fortuitous situation can no longer be taken for granted, because Omega is withdrawing from Crans. In 2006, the subsidiary of the Swatch Group will be backing only the Olympics in the area of sports sponsoring. Other sponsors of the European Masters, such as PricewaterhouseCoopers and Credit Suisse, are primarily interested in playing a host role in Crans. They exploit the opportunity to invite important customers, most of whom are enthusiastic golfers, and to offer them exclusive experiences. "Our event is a unique opportunity to maintain relations," says Mittaz.

The organisers know very well how attractive their tournament is as a marketing instrument for building customer loyalty. That is probably why they appear to be unperturbed by the departure of their biggest sponsor, Omega. And if the Omega contract players do decide to stay away in future, the organisers would probably survive: "We have made Crans into an event which is not just to do with golf," emphasises Mittaz. "The spectator figures have continued to grow, no matter which big names happened to be on the programme."

It remains to be seen whether Crans really can retain its attraction if, in future, the hand-picked golf stars stay away. But exclusive sports events certainly are continuing to have a magnetic effect. According to industry estimates, between CHF 300 and 400 million are invested in sponsoring in Switzerland every year. Around 70 per cent of that is invested in sport. And this is probably just the beginning. In the USA, it has long been the case that more money is spent in the event and sponsoring sectors than in the classical advertising channels of newspapers and television. It is a development that has yet to take place in Switzerland. //

The two organisational heads at Crans: event marketing specialist Yves Mittaz (left) and Gaston Barras, real estate agent and doyen of Swiss golfing.

A skill for orchestrating business deals that benefit everybody.
The HIV/AIDS epidemic among Moldova's four million people was late to start but quick to take hold. While the first cases of infection were not reported until after the mid-1990s, prevalence escalated by nearly 10 per cent between 2001 and 2003. Today 0.2 per cent of the adult population are affected. Tuberculosis also claimed victims in Moldova: 2002 saw some 98.1 notified cases and 15.6 mortalities per 100,000 inhabitants.

To combat these two diseases, Moldova decided to introduce free anti-retroviral therapy. In addition, programmes for examination, counselling and prevention were initiated for vulnerable sections of the population. This small country between the Ukraine and Romania was thus the first successor country to the former Soviet Union to support free treatment and targeted prevention. The programmes were assisted with funds from the Global Fund that were approved in March 2003. And successfully too: thus far 408,738 people have been reached with counselling and HIV examinations alone.

A specially equipped coordination, management and monitoring centre in the Moldovan Ministry of Health distributes the funds and coordinates the programmes. In the last two years, around USD 5 million has been spent directly on the fight against HIV/AIDS and tuberculosis.

The coordination centre is also encouraging the country’s efforts to proceed with an even broader campaign against HIV/AIDS. For instance, the tasks of the coordination centre include managing the World Bank’s AIDS programme (USD 5.5 million) as well as a USAID tuberculosis project (USD 4 million). Expansion of laboratory capacity is also facilitating a more effective fight against HIV/AIDS and tuberculosis: to date, a total of 57 microscopy centres and four reference laboratories have been set up. This development has significantly increased the number of new cases of tuberculosis detected early on, from under 1 per cent in 2000 to more than 50 per cent last year.

To ensure that the monies of the Global Fund end up in the right channels and that financial transactions are appropriately monitored and documented, stewards – Local Fund Agents (LFAs) – have been contracted all around the world. PricewaterhouseCoopers has taken on this task in many countries, Moldova among them. //

Global partnership: Free treatment and targeted prevention in Moldova.

Moldova is the first successor country to the former Soviet Union to combat HIV/AIDS and tuberculosis with free anti-retroviral therapy and prevention.
ceo*
James J. Schiro  
“Our turnaround at Zurich was based on refocusing our operations on insurance.”

06

Giorgio Behr  
“From a strategic vantage, there is a lot to be said for focusing on your entrepreneurial strength.”

08

Matthew Robin  
“By focusing on certain markets and products, we can keep pace with the market and its structures.”

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