

# St. Gallen Business Review

## The transformation of traditional insurers

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**Dr. Manfred Knof**  
CEO, Allianz Deutschland AG

## Neutral Switzerland Building bridges in a globalised world

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**Didier Burkhalter**  
Bundesrat, Swiss Federal Department of Foreign Affairs

## Modest bunnies Interview with...

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**Christoph M. Pachler**  
Executive Vice President and CFO, Playboy Enterprises

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## Beloved readers,

The word 'tradition' originates from latin traditio which means as much as transfer or deliverance. The transfer of convictions, customs and language across generations has indeed led to creations as meaningful as entire cultures. In today's fast changing, globalising and digitalising world, however, the place for tradition calls for a fresh reflection.

With this issue, the St. Gallen Business Review celebrates its 20th anniversary. The completion of the first two decades of the Review's existence makes for a proper occasion to devote an entire issue to the question of tradition. We asked what value tradition still engenders for a society that hails disruption and innovation? Does the insistence on the need to cherish one's tradition nowadays rather pose challenges than it offers advantages? Or is there perhaps a way to reconcile tradition and innovation in our time? We have invited an illustrious group of leaders coming from family business, DAX listed corporations and public institutions alike, one managing gastronomy, another leading a country's foreign politics, to share their views on these questions with us. As always, establishing such a platform for multi-faceted discussion has been a delight for this Review's editorial team and we are confident that our readers will draw inspiration from knowing the different perspectives on the question of 'tradition'.

In order to keep flourishing in the future, the St. Gallen Business Review is determined to build on the tradition it has accumulated. But as our distinguished contributors suggest, tradition need not stand in the way of advancement. In this spirit, do make sure to visit our digital home [www.stgallenbusinessreview.com](http://www.stgallenbusinessreview.com) where extended content awaits, including exclusive interviews to be published every two weeks. The SGBR promises continuously to strive for reinvention in order to stimulate lively interest among its dear readership.

Enjoy!

**Johanna & Maximilian**  
Editors-in-chief



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# To trust the past

## *Laus vituperatioque traditionis* *Praise and Reprimand of Tradition*

**E**very now and again, a noisy crowd in strange disguises meanders through towns in the middle of Europe, leading a straw figure on a chain. There is music, and the straw figure brawls. People shout, “Long live the Bear”, or something to this effect, even though there is no bear in sight anywhere. Sometimes, this is followed by a sort of trial during which all the hardships of the past year are retold and the monster blamed for each and every one of them. Finally, it is executed, and everybody rejoices and dances.

In case you should ever witness this event: You are not dealing with a bunch of lunatics but with an ancient European tradition.

Whenever we shake hands in greeting (rather than rubbing our noses or showing our tongues), we adhere to a tradition that reaches at least as far back as the days of the Apostle Paul.

Tradition, in short, is what we do because our ancestors have done it before us. Sometimes, we follow it consciously and intentionally; most of the time, however, we do it unwittingly, based on a vague assumption that whatever has worked for them will work for us, too. **Tradition – as it were – is to trust the past.**

Tradition is a vast domain that resides somewhere between God and the world. We cannot help but being traditional. Whenever we use a handkerchief, put on a hat, build a house, or simply chew a stick of gum, scores of tradition surround us. We cannot even eat eggs for breakfast and read the newspaper without carrying on a tradition, perhaps one our fathers picked up from their grandfathers.



However, it would be a mistake to believe that traditions are simply social mores passed down through generations, comparable to money we earned and that we turn over to those who themselves have earned it from us.

Tradition is nothing abstract, and while we continue it, we also alter it. The straw monster being chased through European streets in 2016 is totally different from the “scapebear” of identical appearance that helped our ancestors to cope with their fears centuries ago.

*Traduttore/traditore*<sup>1</sup> says a proverb that can be traced back to the critiques of early French translations of Divina Commedia. Such is the course of cultures: tradizione/traduzione/tradimento. No generation starts at zero, and none leaves everything unaltered.

Sometimes, traditions are simply lost. The straw monster – even though it can still be seen every once in a while – is an empty shell, a ritual that has lost its significance. Sometimes, traditions are not passed on because their benefits are no longer obvious or because they are even considered harmful; just think of the history of medicine and quackery. **A tradition that does not engender continued confidence has outlived its use.**

Cultures also have discontinuities or emerge anew, such as in North America, where fragments of Native American, European, African and Asian traditions coexist and blend. North America does not define itself via its own traditions, but rather by their absence, by the political *tabula rasa*<sup>2</sup> which it was when it was founded: the few traditions that do exist are mostly recent (the Superbowl) or commercial (the Macy parade), or both.

Europe is the reverse; the fascination with tradition seems to be particularly strong. Where else would one find a political unit that forms the foundation of cultural identity and is based upon an uninterrupted tradition of more than two thousand years and which has been passed on from person to person, from generation to generation, and which leader is simply called papa by everybody? Where else have many of the most renowned scholars dedicated their lives to the research and recovery of lost traditions? Where else does a language that has been nearly extinct for 1500 years play a similar role as Latin does in the Vatican, in seminaries, law, medical and even high schools throughout Europe? YLE, the Finnish public broadcaster, has a weekly Latin news broadcast, the Nuntii Latini – and Finland never had a Roman soldier anywhere near its soil.

In Japan or China, traditions are passed on through the millennia. In Europe, if needed, we just reinvent a tradition, if necessary even centuries later. In order to understand this intriguing bond with tradition, one has to take a brief look into the historical origin of this culture and

<sup>1</sup> Ital.: Translator/Traitor

<sup>2</sup> Lat.: Empty, clean slate. The expression can be traced back to Greek Antiquity.

turn to Central and Western Europe's 8th and 9th centuries. The Arnulfs usurp the throne of the Merovingians and attempt – because the sacred Kingdom of the Franks is hereditary and Merovingian heirs do exist – to establish their legitimation by drawing on the culture of the former occupiers of the country, the Romans – although that culture had declined and crumbled some 500 years earlier.

An institution that outlasted the fall of the Roman Empire, namely Latin Christianity and the Bishop of Rome, is supposed to secure the way back to the past and beyond the decline.

After the forced abdication of the Merovingians, Pippin the Younger not only gets himself elected king by the Franks, but also appoints himself protector of the *Patrimonium Petri*<sup>3</sup> and, in return, is anointed king by the Pope. Pippin's son, Charlemagne, the "Founder of Europe", exploits this design even further: He massively promotes the Christianisation of the realm, he expands the powers of the clergy and sets forth a comprehensive and elaborate Latinisation of his kingdom, the so-called Carolingian Renaissance that is meant to establish a cultural connection with the old empire. And he has himself crowned Caesar by the Pope in Rome – to seal the *translatio imperii*<sup>4</sup> across the centuries during which the Roman culture had been lost.

Since then, Europeans have been struggling with an extinct culture like no other culture ever has. And the struggle continues until today.

However, this is merely one side, and everything has two of them (which – of course – is nonsense, but tradition wants it so), because the Europe of today also emerged from breaks with tradition that were as singular and unique as they were radical and momentous: the Renaissance, Humanism, Reformation, Enlightenment, the revolution in the natural sciences, the Industrial, the French, as well as other revolutions. We broke with the "Dark Ages" and defeated the lack of education that characterised Feudal societies. We shattered the images of Christian tradition and replaced tradition with interpretation – even of the word of God handed down to us through the ages. We have become used to verifying everything by measuring it and – above all – not to believe when we also have the ability to know.

Paradoxically, one of the most important reasons for these historical ruptures turned out to be Europe's increased dependency on tradition. The Renaissance and Humanism were fighting against a distorted tradition, but also the Protestant movement endeavours to revert to Christianity's early roots. Even the Enlightenment emerges in the name of tradition: Kant summarises its very nature with a quotation from Antiquity, reverting to Horace: *Sapere aude*<sup>5</sup> – as if tradition could only be overcome by tradition itself. Dog's hair cures dog's bite, as Pliny the Elder already knew<sup>6</sup>.

3 Lat.: Heritage of Peter: the Pope's possessions

4 Lat.: Transfer of the Empire

5 Lat.: Dare to Know ("What is Enlightenment?", 1784)

6 Historia Naturalis, Liber XXIX, 32





Other political upheavals, too, are part of these Janus-faced appeals to tradition. For modern tastes, the French Revolution's admiration of Roman Antiquity, for instance, oscillates between theatrics and ridicule. We continue to call our form of government a democracy although it bears hardly any resemblance to the Athenian *demokratía* of two and a half millennia ago – which no one would want to revive anyway.

**T**here are, of course, other reasons for these upheavals as well, the most important one being the media, or, more precisely, the print media. The invention of the printing press supported tradition at first. Gutenbergs's very first publication – and this almost goes without saying – was the Bible. For the inventor, the new technology enabled a much better, cheaper, and more reliable distribution of what was meant to be THE BOOK all along.

The consequences, however, were as dramatic as they were unexpected. The wide availability of printed material promoted literacy in Europe at an enormous scale and led the way from the Bible of Catholicism that is read to the congregation to the Bible of Protestantism that is read by the congregation. Printed material became a powerful means of intellectual advancement unparalleled in history, leading to the concept of public information. Luther successfully utilised pamphlets as a means for mass communication; during the Thirty Years' War, flyers were used to disseminate political news. Immediately after the end of that war, in the late 1640s, the first newspapers emerged.

Information is the opposite of tradition. She who possesses knowledge no longer has to face an impenetrable and almost overpowering torrent of events and mysticism, but can judge developments for herself. Newspapers make the world accessible to their readers, thereby putting tradition to the test.

And it was only one small but ever so critical step – one that took Europe about four generations – from assessing developments to realizing that it is possible to change them.

The states of modern Europe were aware of the fundamental significance of newspapers. A state that is founded upon the premise that the majority of its citizens has the right to cast a vote is a state where citizens want to be informed about politics. That is why the French Revolution marks the true birth of the modern newspaper (within a few years of the storming of the Bastille, the number of political newspapers in France increases from single digits to a total of 1,600). This is also why the press comes to be seen as the fourth estate – alongside the legislative, the executive, and the judiciary powers.

Such was the result. The road to it, however, proved to be very difficult for the newspapers as they, quite understandably, were considered a threat to the status quo. After Napoleon seized power, for example, he reduced the number of newspapers in France back down to four.



In his recent book, Urs Hafner analysed the early years of the *Zürcher Zeitung* (founded nine years prior to the French Revolution).<sup>7</sup> The newspaper – committed to the ideas of the Enlightenment – was heavily censored, was not allowed to report on domestic issues at all and on allies of Zurich only in a restricted manner; furthermore, it was forbidden to publish articles on religion and the Church altogether.

Sanctions included printing bans, fines, and the burning of printed work; the editors could end up in the gaol, be expelled from the country, or even be executed (as was the case for Zurich pastor Johann Heinrich Waser during the newspaper's first year. In German papers, Waser had published statistics about the Zurich population numbers and land prices which, at the time, were considered to be top secret).

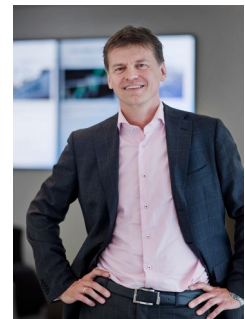
The newspaper's first four editors all hailed from Germany; they escaped from their Catholic upbringing and got into trouble with the Protestant Church in Zurich. Johann Kaspar Riesbeck, the paper's first editor, was dismissed due to pressure from the Council of Zurich because he ridiculed nobility; he died, lonely and impoverished, at the age of 32. His successor, Johann Michael Armbruster, was incarcerated and committed suicide a few years later. Peter Philipp Wolf – who held on as editor for ten years – survived his time in Zurich unscathed, despite his unwavering support of the French Revolution. Franz Xaver Bronner got into trouble with the censorship board over his reports on Napoleon's triumphs. After three years, he was dismissed because he spoke out against the tithe in a lecture, incarcerated and banished for life.

These four destinies are representative for the struggle for information that jeopardises tradition, a struggle that continued until press freedom was legislated in 1829 in Zurich.

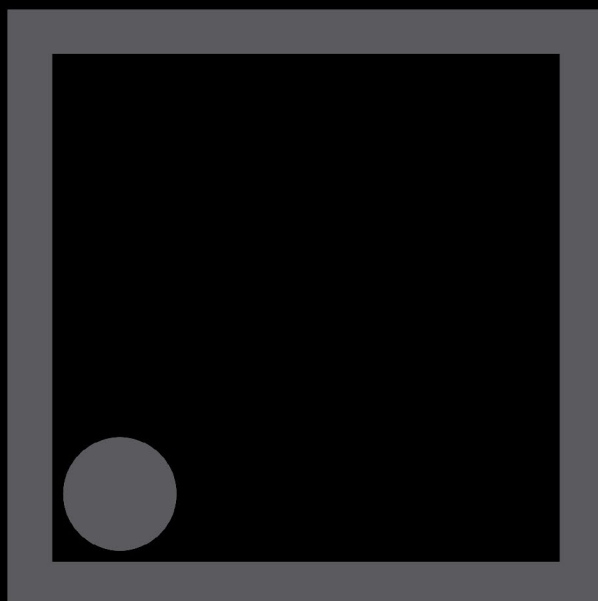
The *Neue Zürcher Zeitung* has long since assumed the aura of an "old lady" with a tradition of her own. Ever since the emergence of the new media, she – along with the entire printing industry – has been at risk of becoming obsolete in the digital age. We are working to ensure that its shapes and content will adapt to new media through continued development and integration in such a way that it can fulfil its mission for decades to come – to put the entire world within reach and suffuse the relentless "chatter" of events with meaning. ♦

7 Subversion: The Turbulent Beginnings of the *Neue Zürcher Zeitung* (1780 – 1798), Verlag *Neue Zürcher Zeitung*, 2015.

## Veit V. Dengler CEO, NZZ-Group



**Veit V. Dengler** grew up in Austria, Hungary and Finland. The Austrian native has attained academic degrees from the Kennedy School of Government of Harvard University and from Vienna University of Economics and Business. After time at Procter & Gamble he held several leading positions at McKinsey, T-Mobile and Dell. During his seven year at the worldwide leading technology provider Dell, he was responsible for business operations of 32 countries across eastern and central Europe. 2012 he worked as Senior Vice President of the international business operations of Groupon. Veit V. Dengler is CEO of the NZZ-Mediengruppe since October 2013.



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# **The internet of things and cognitive systems as driving forces of the future:**

**Implications for the  
further development of  
current business models**

**D**ata volume on the Internet of Things (IoT) is increasing twice as fast as that of social networks. By 2020 the number of connected devices will grow to 29 billion from 13 billion today. Nine years from now the value of the data generated by these devices will be around \$11 billion. Around 70 percent of this increase in value due to the IoT will be a result of greater efficiency in factories and connected value chains. Increasingly often, these developments will lead at the same time to massive changes in the context of established business models. That is how corporations themselves see it. According to a recently published IBM study, one company in two in Germany is expecting its business model to be attacked by competitors from outside its industry. Internationally, the story is much the same. Over 80 percent of decision makers in corporations around the world expect the growing influence of the IoT to have strategic or transformative effects on their company. As the IoT is still in its early days, active use is currently only made of around 12 percent of data generated on factory floors and in value chains. This enormous gap must be closed with regard to boosting the productivity, flexibility, and agility of companies, to establishing new business models, to taking innovations forward and to satisfying customer needs better.

## Creating the Right Preconditions

If these objectives are to be achieved, however, a number of preconditions must first be created – seamless access to data from management and business systems and to production systems in manufacturing, for example. That is the only way in which highly individualized products can be manufactured in mass production conditions. This is also known as Lot Size One, which is a central claim for the use of the IoT in digital transformation or Industry 4.0 projects. In addition, data recorded via the IoT must be collected and, as far as possible, evaluated smartly. That is much easier to do than a few years ago, due mainly to three developments:

- Many modern machines already collect data or are relatively easy to upgrade with additional sensors. They are connected with each other or with central IT systems using industry communication standards.
- Even large amounts of data can be processed in real time. Furthermore, these data volumes are relatively inexpensive to store in, say, the cloud.
- Current software analysis solutions enable evaluation to be embedded directly in production processes so that direct use can be made of knowledge generated from data.

## From Theory to Practice

An as yet fictional example combining traditional manufacturing and 3D printing makes it clear what is theoretically possible on this basis. 3D printing, much like the digital factory itself, presents totally new opportunities with strongly disruptive tendencies. In the future, for example, motor vehicle manufacturers could allow authorized dealers to print out plastic and metal parts independently while themselves only producing the technically advanced components at their factories. That would make it possible to transfer parts of production swiftly and flexibly straight to the sales markets and, moreover, to adapt them to specific markets and market requirements. Servicing and repairs also stand to benefit because defective parts could then also be printed out on site. An approach of this kind would correspond to the Lot Size One ideal and also deliver important benefits for the spare parts business, such as lower storage costs for parts that are less frequently required or shorter waiting times for the repair itself.

The ski manufacturer Blizzard demonstrates what is possible in practice today. It uses a so-called “near-real time” production management system that is linked directly to its ERP system. On the basis of sensor data collected and evaluated along the manufacturing process it identifies problems at an early stage and helps to solve them. Production flow times and inventory costs could each be reduced by about half. In addition, the system puts in place the preconditions for even more flexible production geared to demand by taking external data such as latest market analyses into account.

Another example is a pilot project – still in its early days – with John Deere, one of the world’s oldest and most successful tractor manufacturers, under way at the company’s largest European production site in Mannheim. Jointly with partners a new platform was developed that provides both production line workers and production planning and optimization with important assistance, decision-making criteria and automation opportunities. The platform’s most important feature is its ability to process different data protocols and thereby controlling production processes centrally.

## From Airplane Engine to Smart Home: New Service Models

On the factory floor the main aim is to ensure an unlimited communication capability between machines, but a further focus of the IoT or the Industrial Internet is on connecting and monitoring machinery and equipment beyond the bounds of one’s own factory workshops.

This data also helps to shape new business models. Its focus is on developing new services and operating models. Interesting options result, for example, from combining services with leasing or rental models. They range from coffee machines and painting systems to turbines. The plant and machinery remain the property of the manufacturer, but payment is based on performance and availability, such as the coffee consumption, the number of car bodies painted or the flying hours logged. This may not be fundamentally new but fundamentally improved access to operating data, in real time if need be, offers enormous advantages, such as in respect of timely delivery of new coffee beans or of predictive maintenance of airplane engines.



Aero engine manufacturers like Rolls-Royce use solutions of this kind already. On the customer's behalf the condition of engines is monitored at service centers that are manned around the clock. To enable this to be done, analysis programs plow through terabytes of data in flight, covering dozens of parameters such as temperatures, pressures, vibrations, or rev counts, and highlight the outliers. In certain in-flight phases this irregular data is then sent bundled via satellite to the service centers for evaluation. It forms the basis for engine health monitoring or for predictive maintenance and enables maintenance to be optimized and parts that may be required to be shipped to the airport before the plane has even landed. Nobody can do that better than the manufacturer who knows his engines and has the largest quantity of data. That is how Rolls-Royce ensures the best possible availability of the engines and thereby of the airplanes themselves.

The Smart Home will also benefit from the IoT. Issues such as predictive maintenance, software updates from the internet, management, remote diagnosis and troubleshooting in real time – everything that is undertaken already in many factories – have yet to be solved. But Diehl Controls aims to change that. The manufacturer of smart sensors and control technology has developed a cloud platform jointly with us on which, for the first time, data from connected devices made by different manufacturers can be collected, monitored, evaluated and analyzed. And not only that: new service models will enable manufacturers or suppliers to provide or arrange for services directly online.

### **Cognitive Computing: Bringing more Knowledge to Decisions and Processes**

A further step in the development of business models is the integration of cognitive applications – self-learning IT systems that communicate with people and other computer systems in real time, remember previous interactions and independently draw conclusions. In so doing, they take their environment into account and rapidly process large quantities of data from highly diverse sources. Cognitive computing brings technology a step closer to humans by supporting them in their decision making in numerous areas of life and work. A learning system, such as IBM Watson, is able to read millions of text documents in seconds. In doing so it follows the principles of understanding, learning, and evaluating. These systems thereby model our thought processes to a certain extent. Almost all industries could benefit from the use of this technology, be it healthcare or finance, manufacturing industry or commerce.

These new systems are capable of doing more than calculating what they have been programmed for. They can learn and try to understand humans, their intentions and wishes. They register nuances in human semantics and interact with people. Moreover, these boundaries are continuously shifted further. For example, a system like Watson will soon be able to interpret data that cannot even be detected by the human senses, such as infrared radiation or sonar. And so it goes on. IBM scientists are already testing new materials beyond silicon to lay the technological groundwork for even more processing power so that data processing limits faced by these developments are less restrictive.

## Learning in context

Cognitive systems interpret data in order to recognize patterns and connections and to gain new knowledge. They can do this faster than any person or group. But to be able to evaluate this content correctly, they need additional training – by subject matter experts who help with the classification. And in exactly the same way as the human experts, they use a cognitive frame of reference for a specific topic or a defined specialist field and develop their expertise on this basis – at inconceivable speed. This is where the decisive difference lies. While the programming of conventional computer systems is based on rules and logic subject to a rigid decision tree, the cognitive system follows another approach that is similar to the human thought process.

## Expanding the knowledge

In medicine, knowledge about illnesses, new therapies and treatments is growing by the day. Learning systems can help doctors to access, analyze and evaluate all possible sources. Amongst these sources are current findings of examinations and diagnostic tools, treatment guidelines, electronic health records, research results, clinical studies, articles in medical journals, and much more. In this way a more precise diagnosis can be achieved or a complex medical decision can be made faster. Yet the final decision remains with the physician.

Another relevant example from real life is the employment of the Watson cognitive system by Swiss Re. Here too, cognitive technologies combined with human experience support and improve risk calculations as well as helping them to be more precise. The system supports Swiss Re by, but not only by, identifying patterns and establishing links so that information can be interpreted in the right context.

So a new course is being set, and the tools for it exist. The frequently used slogan for it is Industry 4.0, a synonym for the fourth industrial revolution, which is in full swing. With creativity and delight in innovation, with a modicum of readiness to run risks, and with willingness to forge new alliances traditional companies also stand a chance of holding their own successfully in times of economic upheaval. ♦





**Martina Koederitz**  
**General Manager,**  
**IBM Germany, Austria and Switzerland**



**Martina Koederitz** has been General Manager of IBM Germany since May 2011. Since April 2013, she is also responsible for the DACH region. Previously, she had been member of the board and Vice President Sales IBM Germany.

Martina Koederitz started her career at IBM in 1987 as system consultant and was appointed to Sales Manager in Financial Services Sector after having held several positions in systems consultancy and sales management within IBM. In 2003, Martina Koederitz was appointed to Vice President of IBM zSeries Sales EMEA. After that, she worked as a Client Advocacy Executive in the office of then IBM CEO Sam Palmisano in Armonk, New York. From 2009 to 2010, she worked as Vice President General Business & Channel, IMT Germany, which comprises hardware, software and services solutions and the collaboration with business partners.

Martina Koederitz holds a degree in Business Administration (BA). In September 2015 she was honored with the Mestemacher Award Manager of the Year.



# Beständigkeit im Unternehmen schaffen:

Wie soziale Verantwortung  
und wirtschaftlicher Erfolg  
sich vereinen lassen

## Interview mit Wolfgang Grupp



Nach seinem Abitur 1961 am Jesuiten-Kolleg St. Blasien studierte **Wolfgang Grupp** Betriebswirtschaft an der Universität Köln und trat 1969 in die grossväterliche Firma Gebr. Mayer KG ein. Dort baute er den Geschäftsbereich Sport- und Freizeitbekleidung unter der Marke TRIGEMA auf. 1972 übernahm er die alleinige Geschäftsführung des Unternehmens. Seither gilt er als Verfechter des Unternehmensstandort Deutschland. Im Jahr 2015 beschäftigte Trigema 1'196 Mitarbeiter, produzierte ausschliesslich in Baden-Württemberg und konnte zudem eine Wertschöpfung von 78 Prozent im eigenen Unternehmen aufzeigen. Grupp ist verheiratet und hat zwei Kinder, die voraussichtlich das Familienunternehmen weiterführen werden.



Sie haben seit 1969 dem Unternehmen Trigema nicht nur zu nachhaltigem Erfolg verholfen, sondern dieses auch geprägt. Gibt es trotzdem noch Herausforderungen, denen sie tagtäglich begegnen und wenn ja welche?



Herausforderungen gibt es konstant. Meine Aufgabe ist es nicht, die einzelnen Maschinen zu bedienen, sondern den Zusammenhang aller Abteilungen zu koordinieren. Damit geht in erster Linie einher, den Wandel der Zeit rechtzeitig zu erkennen und das Unternehmen diesem anzupassen. Beispielsweise haben wir vor 40 Jahren Versandhausketten beliefert, bis deren Schwäche dazu führte, dass sie die Preise heruntersetzten. Diesem Preisdruck konnte und wollte ich nicht nachgeben, da dies natürlich auch die Auslagerung von Arbeitsplätzen impliziert hätte. Stattdessen war ich gezwungen, einen neuen Kundenkreis zu finden. Dies setzte sich immer weiter fort: auf die Selbstbedienungs-Warenhäuser folgten die Discounter und als diese schliesslich ebenso vor weiteren Preisreduktionen nicht mehr zurückschreckten, durfte ich die Notwendigkeit von eigenen, unabhängig von Grosskunden gestellten Geschäften erkennen.

Analog könnte man auch das Internet und das immense Potential eines damit verbundenen Online-Vertriebs als zu erkennenden Wandel aufführen. Meine Herausforderung besteht dementsprechend darin, frühzeitig das Unternehmen an solche veränderten Rahmenbedingungen anzupassen und das rechtzeitig!

Sie betonen vielfach die notwendige Verantwortung, die ein Manager für ein Unternehmen tragen muss. Warum ist dies so wichtig? Was gibt es für Negativebeispiele, wenn Manager sich der Verantwortung entziehen?



Schauen Sie sich die Entwicklung der verschiedenen Gesellschaftsformen von Unternehmen im Laufe der Geschichte an. Das Wirtschaftswunder wurde von diversen persönlich haftenden Unternehmern geschaffen. Begingen die Verantwortlichen einen Fehler, würden sie persönlich in der Haftung stehen. Demzufolge wurde jede Entscheidung sorgfältig geprüft, anstatt einem

möglichen Grössenwahn nachzugeben. Mittlerweile hat sich dies stark verändert. Die Haftung ist weg und damit auch die verantwortliche Geschäftsführung. Dies ist für mich indiskutabel! Verantwortung heisst, Risiko selbst zu tragen. Die Beispiele sind zahlreich. Selbst die angeblich persönlich haftende Firma Schlecker hat sich noch aus der Affäre ziehen können. Wenn die Familie zum Schluss dem Insolvenzverwalter in einem Deal noch 10 Millionen Euro zahlen kann, dann sollte man nachfragen, ob sie die 10 Millionen im Lotto gewonnen haben oder ob sie diese vorher aus der Firma rausgezogen haben. So ist es mit allen Insolvenzen. Ich habe noch nie einen Unternehmer gesehen, der Insolvenz gemacht hat und anschliessend Hartz IV beziehen musste. Die sind alle zurück in ihren Villen, aber die ehemals beschäftigten Mitarbeiter fallen in die Arbeitslosigkeit.



**Trigema wirbt dagegen vor allem mit sozialem und ökologischem Engagement. Was sind Beispiele hierfür?**



Ich möchte mich mit Trigema nicht ins Rampenlicht stellen, aber der angesprochene Wandel der Zeit erfordert auch unsere heutige Ressourcenknappheit zu erkennen. Das wurde bereits in den 70er Jahren offensichtlich und trotzdem hat sich nicht viel verändert. Wir können nicht sagen «Nach mir die Sintflut!». Ich bin verpflichtet, auch den nachkommenden Generationen etwas weitergeben zu können. Die Nachhaltigkeit muss in den Vordergrund gerückt werden, dass was wir zum Beispiel bei textilen Produkten mit Credit to Credit gemacht haben.

**Gleichzeitig garantieren Sie 1200 Arbeitsplätze und damit auch den Kindern der derzeitigen Arbeitnehmer. Wie funktioniert dies? Gerade während Rezessionen und Finanzkrisen?**



Das ist für mich sowohl eine Pflicht als auch eine Selbstverständlichkeit, weil ich Mitarbeitern, die 20 Jahre bei mir sind nicht plötzlich sagen kann, dass ich sie entlassen muss, um weiter Geld zu verdienen. Das wäre menschlich für mich nicht haltbar. Man kann dies auch auf die Familie



übertragen: In schwierigen Zeiten kann ich dort auch nicht sagen, ich esse mich satt und wenn etwas übrig bleibt, bekommen das meine Frau und meine Kinder. Es ist notwendig, zu teilen. In schwierigen Zeiten bin ich ebenso meinen Mitarbeitern verpflichtet, rechtzeitig Sorge zu tragen. Dazu gehört auch, in guten Zeiten keine unnötigen Kapazitäten aufzubauen, die in normaler Lage nicht mehr bedient werden können. Es ist alles machbar, wenn entsprechend vorrausschauend und ein bisschen fürsorglich vorgegangen und der Betrieb verantwortlich geführt wird. So sind selbst Krisen zu bewältigen.

**Trigema ist 100% «Made in Germany»: Wie kann der Unternehmensstandort in Deutschland erhalten werden, wo doch ein Grossteil der bekannten deutschen Firmen sich dem Standortwettbewerb beugen und das billigere Ausland in die Wertschöpfungskette integrieren?**



Ich kenne keinen ursprünglich in Deutschland ansässigen Textilunternehmer, der durch Auslagerung von Arbeitsplätzen reicher geworden ist. Natürlich produziert man im Ausland billiger, aber dort gibt es andere Probleme. Wenn ich entsprechend unserem Standort angepasste Produkte fertige, können unsere Probleme hier dagegen gemeistert werden. Ich kann aber nicht einem Discounter nachlaufen und für ihn die Billigware produzieren. Meine Aufgabe ist es, innovative Produkte zu produzieren, die auch den Lohn in Deutschland rechtfertigen. Das meint die Herstellung hochwertiger Produkte, innovativer Produkte und nicht Massenprodukte. Denn das machen bereits meine Kollegen in Indien, Bangladesch oder China. Die Produkte müssen dem Standard des Landes angepasst sein. Wenn ich die letzten 48 Jahre betrachte, dann habe ich vor 30 Jahren noch 5000 weisse T-Shirts geliefert. Diesen Auftrag bekomme ich heute nicht mehr und will dies auch gar nicht. Ich müsste den halben Preis verlangen. Es ist natürlich möglich, dass ein Einkäufer 5000 T-Shirts bei uns in einem Jahr kauft, aber dann ist dieser Auftrag gestaffelt. Heute verlangt er 50 Lieferungen und morgen 87. Just-in-time liefern, was gebraucht wird, das ist unsere Aufgabe und nicht einen Massenauftrag anzunehmen, der dann entsprechend nur über den Preis zu realisieren ist.



Sie betonen oft, dass Wachstum nicht das Mass aller Dinge sei. Im gegenwärtigen Wirtschaftsumfeld können wir allerdings eine gegenteilige Entwicklung beobachten. Wie sieht die Antwort von Trigema auf so ein kompetitives Umfeld aus?



Generell verstehe ich Wachstum anders. Wachstum heisst in der Regel, dass aus einem Umsatz von 100 morgen 110 realisiert werden müssen, also quantitatives Wachstum. Ich sehe das Wachstum nicht in der Quantität, sondern in der Qualität. Seit 1999 haben wir die Produktion nicht mehr erweitert, weil ich gesagt habe, der Bedarf in Europa ist gedeckt in meiner Branche. Ich kann nicht ewig immer mehr produzieren. Dies könnte ich ansonsten nur über den Preis verkaufen, was wiederum in einem Hochlohnland, wie Deutschland, tödlich wäre. Ich sehe Wachstum in der Innovation. Wir fahren die Produktion einfacher Produkte zurück. Dafür müssen wir innovative Produkte oben angliedern. Das können funktionale T-Shirts sein, eine modische Farbe oder speziell an den Kunden angepasste Eigenschaften.

Die von Ihnen gelebte unternehmerische Verantwortung ist natürlich auch werbewirksam. Sie schlagen einen anderen Weg ein als andere Manager und rücken Ihre persönliche Verantwortung in den Vordergrund. So wurden auch Wechsel in der rechtlichen Form des Unternehmens zwischen GmbH und unbeschränkter Haftung vorgenommen. Brauchen die Menschen in unserer heutigen diffusen Gesellschaft mehr Vertrauen, Persönlichkeit und Nachhaltigkeit? Oder geht es auch ohne?



Ohne wird es nicht gehen. Das Problem liegt nicht an den Managern, sondern das Problem liegt an den Eigentümern, Unternehmern und Familienunternehmern. Wenn ich mein Unternehmen morgen an einen amerikanischen Konzern verkaufe, dann habe ich verantwortet, dass meine bisher gelebten Werte keine Rolle mehr spielen. Der Inhaber in Amerika ist am Profit interessiert, die Beschäftigung der deutschen Arbeitnehmer wird irrelevant. Wir brauchen kleinere Einheiten, die persönlich von Familienunternehmern oder Inhabern geführt werden. Diese müssen erhalten werden und nicht durch nach Grösse und immer höheren Gewinnen strebende DAX-Konzerne ersetzt werden. Dann wird es zum Spiel und das wäre fatal.

Gerade auf dem Bekleidungsmarkt boomt der E-Commerce. Kann Trigema seinen Online-Shop erfolgreich nutzen? Welche Rolle nimmt dieser ein und wie wird sich dies möglicherweise in Zukunft entwickeln?



Der Onlineshop hat das stärkste Wachstum. Letztes Jahr konnten wir eine Steigerung von 15-20 Prozent verzeichnen. Wir haben 10 Millionen, also gut 10% unseres Gesamtumsatzes, online erwirtschaftet. Diese Entwicklung ist sehr positiv und räumt uns weiterhin Autarkie ein.

Wie sehen Sie die Zukunft des Unternehmens? Zunächst noch in ihrer Ära und dann darüber hinaus? Ihre Kinder werden Ihre Nachfolge antreten. Wird es schwierig angesichts dessen, dass die Firma sehr stark an Sie als Persönlichkeit gebunden ist?



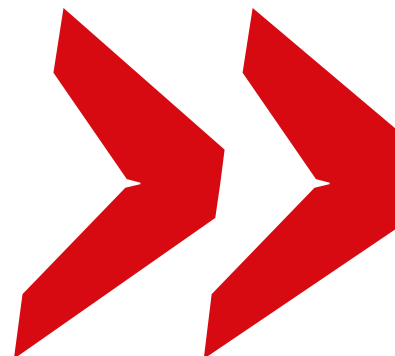
Jedes Unternehmen ist vom Kopf abhängig – genauso wie jede Regierung. Wenn der Kopf in Ordnung ist, wird die Regierung wiedergewählt. Meine Kinder werden das sicherlich problemlos übernehmen. Sie sind bereits seit gut 2 Jahren im Unternehmen und wir haben einige Entscheidungen gemeinsam getroffen. Ich habe vollkommenes Vertrauen, dass sie Trigema positiv nach vorne bringen werden.



An der Universität St. Gallen wie an weiteren führenden Universitäten Europas werden die Führungskräfte von Morgen ausgebildet, <Management> erlernen steht auf dem Programm: Was würden Sie diesen Menschen auf ihren Weg mitgeben?



Da würde ich mich nicht als den richtigen Ansprechpartner bezeichnen. Wenn ich von meiner Familie absehe, haben wir nicht die klassischen Akademiker im Unternehmen. Alle führenden Positionen sind bei uns von ehemaligen Lehrlingen besetzt, die auch von uns ausgebildet wurden. Diese haben 10 bis 20 Jahre Berufserfahrung. Ich persönlich bevorzuge diese gegenüber einem frischen Universitätsabgänger, der meint, meinen Laden nun durcheinander bringen zu müssen. Wir brauchen die Ausbildung lediglich, damit das Denken und das Erkennen von Problemen schneller vollzogen wird. Ich bleibe auf dem Boden und betone klar meine Meinung. Wir müssen vorwärts kommen und deshalb löse ich die Probleme und diskutiere sie nicht ewig. Dazu müssen die Probleme, die ganz klein auf uns zukommen, sofort erledigt werden. Dann entstehen gar keine grossen Probleme, die Akademiker mit irgendwelchen Seminaren meinen, erkennen zu müssen.





# **The transformation of traditional insurers (in the digital age)**



## The slow wheels of change in the insurance industry

**I**nsurance companies have played a key role in economic and social life for centuries. By spreading risks over a collective body of policyholders and over time, insurance companies helped laying the foundation for the then-fledgling concept of world trade, for industrialization and, in the modern age, for prosperity, social security and economic growth.

Despite this crucial role, insurance is an industry in which the wheels of change and innovation tend to turn very slowly. Electricity or, later on the information technology forced other sectors to completely reinvent themselves. To the contrary, the insurance industry – while more than willing to insure the new risks associated with these nascent industries – has never made any major changes to its basic model.

This applies to the business with corporate and retail customers alike. From a customer's perspective, insurance cover has often been perceived as a necessary evil. In addition, agents and brokers were the ones responsible for the main customer interface function. Complex policies, low service-orientation and an experienced lack of empathy were redeemed by the close personal relationships customers enjoyed with their intermediaries. This created a certain degree of distance between customers and their insurers. Last but not least, regulations (that were not repealed in Germany until 1994) led to standardization of insurance products and prices.

However, the landscape we have been familiar with to date is currently undergoing a radical transformation – creating a considerable need for change.

## Change in customer behavior

This transformation is not so much affecting the fundamental model of risk equalization, but rather changing the customer's interaction with their insurer, including the research for information on insurance, taking out policies and claim reporting.

Digitalization is now shaping our day-to-day lives to such an extent that things have become a matter of course in the digital world. Simplicity, customizability, availability and service quality have become the gold standard for all industries with customer interaction – including insurance.

Anyone who uses Spotify to compile a customized music collection, checks Holiday-check for information on holiday destinations, consults various book reviews on Amazon or buys an underground train ticket at the touch of a button has distinct expectations of what his/her insurer should offer in terms of sales and service.

As a consequence, the sector must react to these changing demands – not only to secure its existing business but also to exploit new growth potential.

Are the upcoming (expected) changes comparable to the situation around fifteen years ago, when the first direct insurers entered the market?

I do not think so. In most markets – including in Germany, Austria and Switzerland – direct insurers still have limited clout.

In contrast, digitalization already has significant impact. All sections of society have embraced and are using constantly the internet and, in particular, mobile devices, which

offer the highest level of performance and have become so affordable. The following examples illustrate this: More than 100,000 visitors view our Allianz Deutschland website every day. More than 75% of policies are taken out by customers, who sought information online before making their decision.

## Implications for the insurance industry

The most common response to this challenge among insurers has been, and indeed still is, to offer policies that can be taken out and managed directly online. The question is, whether this will be enough. The successful business models in the digital world tend to go much further than simply shifting products and services from the offline to the online world.

If we look at customer behavior in the digital world as a whole and strive to fully understand the expectations that other sectors have raised, then there is no doubt that we will have to change a lot more if we want to secure growth and profits for the future, too. I believe that there are four key areas for action: 1. Customer centricity, 2. Product customization, 3. Adaptive product ranges, 4. Change in culture.

### Customer centricity as the cornerstone

As I have already mentioned, insurance companies focused in the past on their main purpose, namely the assumption of risk. The complexity inherent in the business model, running through policies, terms and conditions and forms, created even more distance between companies and their customers. There was always an unspoken rule that agents and brokers were the ones responsible for ensuring satisfied customers.

Customer centricity must become a focal point of each and every activity. Minimum requirements for products are transparency and simplicity. The same applies to forms and documents, which should ideally also highlight the customers and risks that the product is designed for. Processes have to be defined in such a way that customer queries can be resolved quickly and finally. This includes telephone availability – especially during evenings and weekends. There are now economic arguments to back up investments in customer centricity as well: our own experience has shown that satisfied customers take out more policies, remain more loyal to their insurer and are more likely to recommend the products to others.

### Product customization

Based on their experience in different sectors, customers are now accustomed to assemble individual products to create a customized package. The customers experience products and services that are tailored to meet specific needs, as well as pay-per-use contracts (customers only pay if they actually use the service in question).

The number of sectors in which conventional “one size fits all” solutions still do the job is dwindling.

Insurers react by offering modular products allowing customers to choose certain components to reflect their personal risks. The rapid growth in modular auto or P&C insurance policies at Allianz Deutschland proves the success of these products.

The next step involves the development of variable products, e.g. allowing that cover is switched on and off or providing different terms of amount (e.g. somebody, who only takes to the slopes once a year, is not willing to take out an annual ski policy).

This creates major challenges for insurers, because it is more difficult to spread such risks over the collective body of policyholders.

## Adaptive product ranges

The insurance industry used to make, and implement, plans over long cycles. This approach certainly makes sense in a line of business in which contractual relationships tend to last decades. However, it is essential to ensure that long-term thinking does not impede a company's ability to react promptly to changes in customer behavior.

The aim has to be to follow the example set by other industries, as well as learn from our customers, so that we can align products and processes. This requires an in-depth understanding of the customer needs, flexible product architecture and a front-end IT environment that can be tweaked at short notice to meet new demands. At the same time, however, insurers have to ensure that earlier rate generations can be efficiently managed in the back-end systems.

## Change in culture

To meet the requirements set out above, we need to make our decision-making and implementation processes much faster. This calls for a completely different form of collaboration. It is difficult to achieve customer centricity, customization and adaptive product ranges in an organization governed by hierarchy, in which instructions are passed from the top to the bottom. So our industry, which has traditionally been a very hierarchical one, faces the challenge to create a more cross-divisional, interactive and agile culture.

This sort of culture can only be “imposed” on the organization to a certain degree. Change management strategies have to be used to support the process. In particular, our leaders at the top need to act as role models.

Partnerships with companies from more customer-oriented sectors or with founders from the digital world will act as a crucial lever in this process of cultural change – these collaboration initiatives will not only promote the development of new skills or access to new customers, but will also set examples of a more dynamic approach that employees in the insurance sector can learn from.

## Conclusion

Economic history is peppered with countless examples of companies who failed to react quickly enough to changes in the overall environment and ultimately – after a slow demise – shared the fate of the dinosaurs. This can only be avoided by taking resolute action. I am looking forward to seeing just how far traditional insurers go in making the necessary changes and, in doing so, ensuring that they can rise to this challenge. ♦

### **Dr. Manfred Knof** **CEO,** **Allianz Deutschland**



*Manfred Knof* is CEO of Allianz Deutschland AG, Germany's leading insurer with about 20 million customers, revenues of around EUR 30 billion in 2015 and ~ 30,000 employees.

Before Manfred Knof assumed his current position in 2015, he headed up Allianz' Central and Eastern European business from 2014 onwards. Prior to that, he was the Allianz Germany Board member responsible for Operations and Claims, most recently as Chief Operating Officer. From 2006 to 2011, he was CEO of Allianz Suisse.

Manfred Knof holds a doctorate of law from the University of Cologne and completed his MBA at New York University, as well as the Advanced Management Program at Harvard Business School.

# Bei uns hat **Wachstum Tradition.** ESPRIT St.Gallen Seit 1988.

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**ESPRIT St.Gallen – Die studentische Unternehmensberatung an der HSG.**

Seit 1988 haben wir über 250 Beratungsprojekte erfolgreich abgeschlossen. Unsere massgeschneiderten Lösungen reichen von Marketingkonzepten über Umfragen bis hin zu Wettbewerbsanalysen für eine neue Wachstumsstrategie. [www.espritsg.ch](http://www.espritsg.ch) [info@espritsg.ch](mailto:info@espritsg.ch)



# Success through tradition

## Interview with *Andreas Wyss*



**Andreas Wyss** apprenticed as cook at the Zunfthaus zum Waag in Zurich. Afterwards he continued his career at the Hotel-Suvretta House in St. Moritz and subsequently studied at the Kurhaus Passugg, the SSTH Swiss School of Tourism and Hospitality. Before joining the Kronenhalle, Mr. Wyss managed the Zunfthaus zur Zimmerleuten for twelve years.

The Hulda-und- Gustav-Zumsteg Foundation has led the Kronenhalle since 2005, one of its first actions was to elect Andreas Wyss as new Director. Since January 2016, Wyss also sits on the board of the Foundation. The Kronenhalle restaurant and its legendary bar has garnered fame all over the world. Hulda and Gottlieb Zumsteg opened the Kronenhalle in 1924. It soon became a meeting point for artists including: James Joyce, Pablo Picasso, Max Frisch and Yves Saint Laurent.



You have been a successful manager of the Kronenhalle for the past 10 years. What was your vision for the Kronenhalle when you started in 2005?



My vision was the retention of a famous Institution. This was also the task set by the owners, the Hulda and Gustav Zumsteg Foundation.

I knew from the beginning, though, that the task would not be easy. But considering my previous work experience I did not expect this to be a problem.

You led Zimmerleuten, another traditional Restaurant, before the Kronenhalle what motivated you to choose positions in Swiss 'Tradition' Restaurants?



My roots are in traditional gastronomy. The apprenticeship as a cook in the Zunfthaus zur Waag, at the Münsterhof in Zurich was also in the service industry. After this I was in training at the Hotel Suvretta House in St. Moritz and subsequently at Kurhaus Passugg. My career was built on Swiss tradition Restaurants.





The Kronenhalle operates since 1924 at the top of the Swiss gastronomy with constant retention of the ideals of the Zumsteg Family? What does the presentation of tradition and quality mean to you?

« Mrs Zumsteg set the cornerstones of the success of the Kronenhalle of today's time, during the many years in which she lead the restaurant, especially during the hard times of the war. If a concept, like hers, was so successful, then it can only be adjusted little by little. Quality has always been conditional for successful management in my life. This restaurant cannot be run without very high quality standards.

Art continues to be an important aspect of the Kronenhalle. In what ways does art qualifier the Kronenhalle today?

« Many of our guests appreciate our art; such beautiful paintings can otherwise only be admired in museums. Herr Zumsteg has stipulated that the paintings should stay in their place in future and should otherwise not be supplemented.

The Swiss economy has had to adapt significantly since the central bank has altered its policy of a fixed exchange rate. Did you adapt your business model in the last months as well?

« The business model has remained the same. The Kronenhalle has been just as successful during the financial crisis as it was before and afterwards. Zurich and particularly the Kronenhalle have been subject to very little change throughout economic shocks and shifts. This is due in particular to the quality of the service and food. If the team is aware of this, then it will continue to succeed. The guests of the Kronenhalle know what they can expect from our restaurant.





**What is your opinion on new trends in gastronomy and life-style, such as foodblogging or superfoods? Have these trends impacted the Kronenhalle?**



I believe that, if traditional gastronomy sets itself clearly above the average, it will be able to continue its success. Everything does come at a price, but the entire performance has to be 'right'. Therefore a cost-covering price can and should be justified. It is important that the market will be objected closely in future, to ensure that the time will not be missed to make necessary subtle adjustments.

**What are your objectives for the future of the Kronenhalle?**



The future can only be one in which we continue to offer the full service package to our guests, incomparable to what is provided elsewhere. There are almost no comparable restaurants in the greater Zurich area. The price-performance ratio has to be right. Quality must stand above all else. Individual treatment ensures the guests sense of wellbeing. Employees have to be facilitated to understand and implement our credo.

#### Our Credo

We treat every customer with the same diligence and attention. We respond to the wishes of every individual guest. As an employee we feel an obligation to the great legacy of the Kronenhalle. In keeping with the ideals of the Hulda and Gustav Zumsteg foundation, we lead our establishment socially and sustainably. The traditions that define the Kronenhalle are still lived and practiced today. We want to uphold and develop the lively and unique atmosphere, coined by Hulda and Gustav Zumsteg as hosts, every day anew.

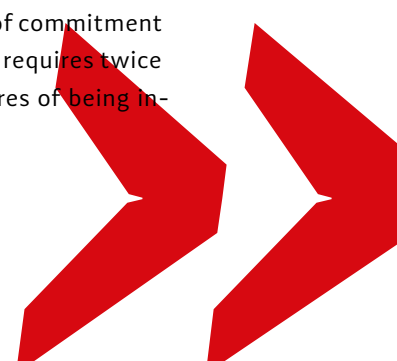
#### Our Team Spirit

We continue to follow the legacy of Gustav and Hulda Zumsteg as a team und lead the Kronenhalle in their spirit further. Our 85 staff members contribute equally to the unique experience in our restaurant. A familiar atmosphere continues to shape the Kronenhalle at present, thanks to the longstanding loyalty of many of our employees.

**Many of our student readers are interested in joining the Business World at some point in the future. What is your advice to students, especially with regards to gastronomy?**



Never stop learning. Also, be prepared to live by the word "Serving". To have a willingness to make sacrifices, that is to say, to look for a job that is not an 8-hour a day job. The 10-12 hour working day should of course today be a thing of the past. Still, leading an independent business, for gastronomy just as much as for other professions, requires the corresponding level of commitment. The gastronomy industry does not require academic qualifications; in its place it requires twice the amount of enthusiasm and passion for the service. The financial expenditures of being independent are relatively high and require very sound entrepreneurial thinking.



A stylized globe with a dark blue background and light blue continents, centered behind the main title.

**Dr. Simone Bagel-Trah**

**Chairwoman of the Supervisory Board and of the Shareholders' committee of Henkel**

# **The best of both worlds**

**Since Henkel went public in 1985, total revenue has nearly quadrupled and the workforce has grown from 31,000 to about 50,000 employees worldwide. The concept that underpins the company's success is to combine the professionalism of a DAX-listed corporation with the culture of the founding family who is committed to Henkel beyond its own interests as a long-term majority shareholder.**

**F**amily-owned businesses are a driving force in German society: 91 percent of all non-public companies in Germany are family-owned. They employ well over half of the working population (56 percent) and generate about 50 percent of overall revenues<sup>1</sup>. The family businesses are also the ones who helped Germany weather the financial and economic crisis better than other countries. They even play a significant role on the capital market: About half of all German companies listed on the stock exchange are controlled by a family, making up approximately one third of the market capitalization<sup>2</sup>.

Henkel, which is based in Düsseldorf, is one of the family-influenced companies that is currently listed on the DAX 30. As a traditional company, that presents us with a special challenge that is also the recipe for our success: being a family business and a listed company at the same time. On the one hand, Henkel has an obligation towards the family who owns the majority of its shares. On the other hand, it also has a responsibility towards the private shareholders of institutional investors and private small investors who buy into the company over the stock exchange – and it has been mastering this challenge successfully for over 30 years.

## Exponential growth with the flotation

The representative function of family-owned businesses is often greater than that of other companies and is perceived more acutely by the public. Whoever fills this role should do so without any vanity and with great respect for their company's tradition and its employees' services. At Henkel, this has been the family's attitude towards the workforce and towards the company from the very beginning – ever since Fritz Henkel founded the business in 1876.

Henkel's path, from the washing soda manufacturer it started out as to the global player it has become today, has been and continues to be a story of constant change and development. Henkel shares were traded on the stock exchange for the very first time in October 1985, allowing investors unrelated to the family to buy shares in the company. Preferred shares were chosen as an issuance vehicle to preserve the company's family ownership quality. The ordinary shares initially remained entirely with the family. To this day, about 61 percent of these shares are held by members of the widely ramified Henkel family and permanently tied together in a common share-pooling agreement.

The flotation has paid off for the company. Since 1985, total revenue in the three business areas Laundry & Home Care, Beauty Care and Adhesive Technologies – in which Henkel is now the global market leader – has increased from the equivalent of 4.7 billion euros to 18.1 billion euros in the 2015 financial year. The value of its preferred shares has increased seventeenfold and the preferred shares are among the eighteen biggest DAX stocks today (as of December 31, 2015). Henkel now generates more than 85 percent of its revenue outside of its home country, and is thus among the most international companies in Germany.

Since their listing, Henkel preferred shares have consistently offered an attractive return to investors. With the exception of the treasury shares, all shares are now

<sup>1</sup> 2013 study "Stiftung Familienunternehmen": [www.familienunternehmen.de/media/public/pdf/publikationen-studien/studien/Studie\\_Stiftung\\_Familienunternehmen\\_Volkswirtschaftliche-Bedeutung\\_Berichtsband.pdf](http://www.familienunternehmen.de/media/public/pdf/publikationen-studien/studien/Studie_Stiftung_Familienunternehmen_Volkswirtschaftliche-Bedeutung_Berichtsband.pdf)

<sup>2</sup> Comparison [www.familienunternehmen.de/de/daten-fakten-zahlen](http://www.familienunternehmen.de/de/daten-fakten-zahlen): Family-owned companies listed on the stock exchange in Germany

entirely in free float. A large majority of the approximately 178 million shares is owned by institutional investors whose portfolios are usually broadly distributed internationally. Aside from the significant increase in the share price, Henkel's reliable dividend policy is another important factor here. Henkel is among the few companies in Germany that have paid a dividend every year since going public, usually increasing it, or at least keeping it constant year-on-year. Shareholders who purchased Henkel preferred shares and reinvested the dividends (without deduction of tax) in the stock have enjoyed an average yield of 12.1 percent per year. The total market capitalization of Henkel preferred and ordinary shares amounts to more than 41 billion euros.

## Family business and global player

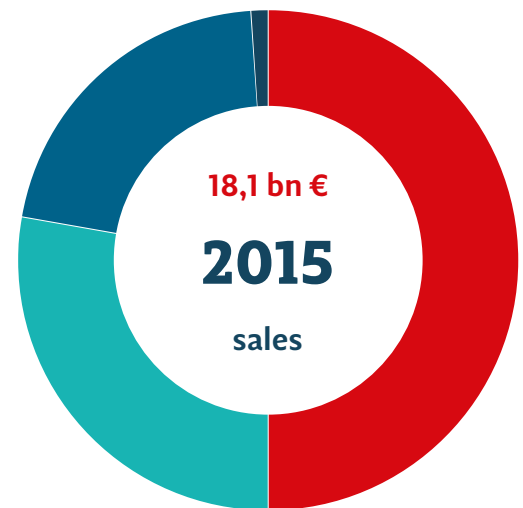
The company culture – we also call it the “Henkel spirit” – namely the way the company, family and employees interact based on a given set of values, was always very important to the owner family. Of course, companies and the economic environment change over time – this applies to Henkel, too. We have held fast to our fundamental values, however, as these have been a recurring theme throughout many, very different decades of company history. Founder Fritz Henkel already placed his customers at the heart of all business decisions, and was equally conscious of the company's responsibility toward its employees and of its duty to pursue sustainable economic development. The significance of the family is also expressed in one of our corporate values: “We build our future on our family business foundation.”

In these times of globalization, digitalization and international teams, I think consciously weighting our corporate values and further developing them is vital. Tradition isn't just about conserving what already exists, but also about adapting it. Tradition means further developing that which is essential. Our five values are binding across all business units and countries at Henkel.

## Achieving more with fewer resources

What defines Henkel as a family business is its long-term development perspective based on sustainable, entrepreneurial thinking and robust financing. This is in no way opposed to targeted profit seeking. On the contrary, our success in business is underpinned by a clear corporate strategy that we implement consistently. Responsible business practices and success go hand in hand. That's why it's important for companies nowadays to conduct business sustainably throughout the entire value creation chain.

At Henkel, therefore, we don't just have a corporate strategy with financial goals, but also a sustainability strategy with measurable and ambitious goals. The core of our sustainability strategy is the ambition to triple the value we generate as it relates to the footprint of our



**50%** **Adhesive Technologies**  
Number 1 adhesives producer worldwide

**28%** **Laundry & Home Care**  
25 bn wash loads using Henkel detergents every year

**21%** **Beauty Care**  
20 hair colorants from Henkel sold every second



products and services over the next 15 years. We call it the “factor of 3”. There are different ways for us to achieve this: We can reduce our consumption of raw materials to just a third of its current level while keeping production constant, or we can triple the value created with the same amount of resources. In many cases, we will pursue our goal using both approaches – namely by reducing our consumption of raw materials and simultaneously increasing the value we create. Whichever path we end up following, our goal is to use just a third of the resources we need today for each euro we generate by 2030. We will focus particularly on the areas of safety and health, social progress, energy and climate, water, materials and waste.

## The family as a shareholder: between continuity and flexibility

Like many other entrepreneurial families, we walk the line between being rational investors and being emotional owners. Contrary to the early days, however, when Henkel was founded and there were probably not many boundaries between business and family matters, we now maintain a clear separation between the company and the family. We see ourselves as a rationally thinking shareholder, and we follow the principle that “the firm comes before the family.” Of course, as the Henkel family, we are very closely tied to the company. We follow its development with pride and enthusiasm, and as shareholders, sustainable value enhancement is our priority.

We are united as a family and we stand by the company’s orientation and strategy. In 2012 we ratified a strategy for the period from 2013 to 2016. However, we also have long-term plans for the company, as shown by the share-pooling agreement we extended two years ago. The agreement can now only be terminated as of 2033 at the earliest. The shares that are tied together in this agreement cannot be sold by the respective family members.

## Our strategy

### Outperform

*Leverage potential in categories*

### Globalize

*Focus on regions with high potential*



### Simplify

*Drive operational excellence*

### Inspire

*Strengthen our global team*

## Structures of the family organization

Since going public 30 years ago, we have been working very intensively on the topics of family governance and corporate governance. Konrad Henkel (1915 to 1999) laid the foundations for this. He was the last member of the Henkel family to run the company himself. During his time, important decisions like the IPO and the preservation of the family's majority vote were made – including the decision to hand the management over to external managers and limit family members to functions in supervisory and advisory bodies going forward. He also ensured that the three lines of the family would remain united thanks to a “family management”. Today, the family is represented in two committees: the Supervisory Board and the Shareholders' Committee. The family does not have a mandate in the company's operational functions, so there is a clear separation of responsibilities.

I, myself, am at the company almost every day and maintain close contact with the Management Board and our senior management echelons. The Management Board regularly informs the Shareholders' Committee and the Supervisory Board about relevant topics such as business policy and development, corporate planning, profitability and risk management. Important strategic decisions are subject to the Shareholders' Committee's approval.

The family itself is organized in structures such as family lines, line representatives, a family committee and regular meetings. The so-called family meeting is the centerpiece of it all. For decisions we have to make for the company as a family, we follow the principle that consensus is better than a narrow majority. We want the family to speak “with one voice”. That's why coordination processes take place well in advance, with time for discussion and sharing opinions.



## Taking the company into the next generation of the family

We also try to teach our younger family members about the company, the family's significance and the responsibility that comes with this. It's about maintaining unity and taking the company into the next generation of the family. This is a longstanding process that begins very early on. My cousins and I also got to frolic around on the company premises as children. Konrad Henkel invited us and showed us around the entire place – we were very impressed. We were even allowed to attend a fire drill. It may quite possibly have been staged for our group, but I still remember it very well. To strengthen the family bond, there is also a council of elders, an information loop, a “Lions Club” for the teenagers and an internal family magazine.

These different circles weren't the only thing that helped me grow into my current role: Over the last 20 years, I have consistently taken on new tasks and more responsibility in various committees. In the process, I learnt early on that communication is the key to success. In practice, this means direct channels of communication even outside of formal meetings, fast coordination processes and regular dialogue – especially for a global company like Henkel, which has fast and efficient processes, an international orientation and a focus on achievement.





## Simone Bagel-Trah Chairwoman of the Supervisory Board and of the Shareholders' committee of Henkel



**Simone Bagel-Trah** is a great-great-grandchild of Henkel Founder Fritz Henkel. She studied biology at the University of Bonn and holds a doctor's degree in microbiology. Since 2000, Simone Bagel-Trah is Partner and Director of Antiinfectives Intelligence GmbH. In 2009, she was elected both Chairwoman of the Supervisory Board and of the Shareholders' committee of Henkel and, therefore, is the first woman to hold this position in a DAX-company. She holds several additional mandates and memberships as e.g. in the Supervisory Board of Bayer AG, in the Central Advisory Board of Commerzbank AG and in the Advisory Board of HSBC Trinkaus & Burkhardt AG. Dr. Simone Bagel-Trah is married with two children.

## Vital willingness to change

“If we want things to stay as they are, things will have to change,” says the famous quote from Giuseppe Tomaso di Lampedusa’s novel “The Leopard”. To this day, at Henkel, we have kept this ability to continuously develop and improve ourselves. I am convinced that no traditional company can successfully survive if it is not willing to change. That’s why we will continue trying to combine the best elements of our fundamental structure – that of a listed family business. This means combining the professionalism of a DAX-listed company with the culture of a family as the long-term majority shareholder. It is also very important to us to remain connected to our hometown, Düsseldorf. We want “a future with a heritage”, because you can only explore and understand the world if you know where you come from. ♦

# Private equity in Europe

## Interview with *Lucian Schönefelder*



**Lucian Schönefelder** is a Director at KKR. He is focused on private equity and growth equity investments in the European media & technology sector. Since joining KKR in 2007, Lucian has been involved with KKR's investments in Trainline, Scout24, Fotolia, GetYourGuide, Optimal+, Clicktale, Arago and BMGRights. He also spent one year with KKR Capstone where he worked on various assignments within ProSiebenSat.1. Before joining KKR, Lucian worked in the M&A department of JP Morgan in London. He holds a Master of Science in Business Administration as well as a PhD (summa cum laude) from the University of St. Gallen (Switzerland). Lucian is also the Founder of Karma-Wings, a non-profit online platform that helps NGOs to connect with donors & volunteers. He also founded PeStudents.com, which helps talented students to connect to the private equity industry.



Could you give us an introduction of KKR, tell us what about your daily business and what the characteristics of private equity are to aid those students who don't know much about it?



KKR is one of the oldest private equity firms globally. It was established in 1976 by our founders Henry Kravis, and George Roberts, who are still running the business. Since KKR's foundation, they have transformed the business from a pure play private equity house into a diversified asset manager that is also investing into credit products, real estate, infrastructure and hedge funds. Today, we have more than 100bn USD in assets under management which are entrusted to us by about 1,000 investors world-wide, ranging from pension funds to high net worth individuals. We are investing all over the world and have offices in Asia, Europe, and the U.S.

I am a Director of KKR in London and lead our Digital Media Private Equity Practice as well as our growth equity business in Europe. My job involves three main components: The first one is identifying attractive businesses that we want to invest in. In my field, this can range from large online businesses – like Trainline or Scout24 – which we invest into from our private equity fund, to smaller, fast-growing businesses – like Get Your Guide, Clicktale or Arago – which we invest in from our growth equity fund.

After identifying attractive firms that meet our investment criteria, we reach out to these companies through various channels, mostly through direct contact with the founders and venture capital firms. Once we have built a trusted relationship and shareholders and founders are willing to engage in a transaction, we do our due diligence to confirm our investment thesis.

The third aspect of the job, which for me is the most exciting part, is working with the management team as part of the board once the deal is closed. We help management to execute the investment thesis and our value creation roadmap. This can involve help with a global expansion strategy through our network, support in hiring people or hands-on work in areas like pricing.

You mentioned you approach VC firms when you are interested in one of their portfolio companies. What is the biggest difference between private equity, venture capital and growth equity?



When people speak of “private equity”, they usually refer to investments into more mature businesses with an established track record of revenues and profits often using debt to finance part of the transaction. In many cases, private equity funds acquire a controlling interest in a company, although this is not always the case. Three out of my last four private equity deals, for example, were partnership deals where we were either in a 50:50 or minority position alongside a corporate partner or a founder.

Venture Capital financed companies on the other hand are at a much earlier stage of their development and still face substantial product, technology, and execution risk. These companies are typically unprofitable. Not only the target companies, but also the investor mindsets are different. Whereas in private equity every deal should make a good return for the fund, VCs invest smaller equity checks into many different companies. VCs accept that some of these investments will be a huge success and many others will completely fail.

Growth equity is somewhere in between. Product and technological risk are usually not an issue at this stage anymore and a growth equity company usually has a meaningful revenue base with strong organic growth. Compared to private equity deals the execution risk to scale the company is however still considerable and the companies are in many cases still unprofitable.

If you have a closer look at the investment landscape in Europe and the U.S., I have the impression that while there seems to be a lot of early stage capital in both regions, there is not enough later stage capital in Europe. Is that the reason you initiated KKR's Growth Equity initiative?



We saw a big opportunity in Europe to launch a Growth Equity Fund because of the growing number of entrepreneurs and technology companies that have ample early stage funding, but are facing a lack of high quality entrepreneurial late stage funding. Growth equity is all about understanding the local circumstances of an entrepreneur and helping him to scale his company globally. We realized that there are few funds in Europe that are as local as KKR given we have operated in Europe for 20 years, but at the same time have a truly international platform and outlook. With local teams in Asia and the U.S. and an incredible global technology network, we are well positioned to help European entrepreneurs enter these markets.

Another important reason was that we saw a significant opportunity to leverage KKR's existing portfolio of 100 companies. Many of our portfolio companies are interested in using new technologies and sit on significant budgets. Once we have made a growth equity investment, we introduce the company to our relevant private equity portfolio companies to create win-win situations. For entrepreneurs these contacts are really valuable as they enter new markets and our private equity companies get access to great technology.

Lastly, the global network that we have built in our traditional private equity business is quite valuable for smaller growth equity companies. We are interacting with many large software houses, online and media companies, in our private equity activities. Having access to these companies can be important accelerators for entrepreneurs, and there are not many funds out there that can provide the same level of access that KKR can.

So, if we come back to KKR as an investor, the reason to sell shares to KKR is often to accelerate growth and overcome scaling challenges. Can you give us an example of how you do this?



We for example invested into a business called Arago – a German software business, specialized in artificial intelligence technologies used to automate IT environment. When we invested, it was a purely German business, but we saw a big international roll-out opportunity. So we helped them establish a U.S. presence. We opened an office in New York, hired a local team, connected them up with our network and potential customers including some of our portfolio companies. Within one year, the U.S. presence was fully established. Without our help and KKR's U.S. presence, this would have been a lot more challenging.

Another example is a company called Get Your Guide, an online marketplace for travel activities based in Berlin. They already had a very nice international presence, but they wanted to grow into some new Asian markets. We connected the company to our local teams in Japan and South Korea, who in turn were able to connect them to the local ecosystem to facilitate the market entry.

How do you search for and select the companies you want to invest in?



First of all, we identify themes that we want to invest in. This could range from automation to the rise of online mobility. We then identify which companies are likely to benefit from these overarching trends. We also work very closely with other venture capital firms as many of their companies will require funding in the future. Finally, we hold good relationships with many intermediaries that are often charged with raising new funding rounds. And then, there is just a lot of general networking, going to conferences, doing research, meeting the companies, etc. We then aggregate all our leads in a well maintained CRM database.

When you do your research, do you come across major differences in the companies you invest in between Europe and the U.S.?



European entrepreneurs often have to deal with more structural complexities than U.S. entrepreneurs. They need to grow outside of their home market very quickly and then have to deal with different languages and regulatory environments. All of that needs to happen in an environment where capital is often scarcer than in the U.S. There is an interesting article that I have co-authored and that is available on the web named “Digitalization in Europe” which sums this up quite nicely. That means that European entrepreneurs in many cases have to watch their funds very closely. Oleg, the founder of Fotolia, for example managed to build up a business that we ultimately sold together with him to Adobe for 800m USD with an investment of 500,000 USD. Sometimes, this leads to a mindset where entrepreneurs not always grow as fast as they could because they are underinvesting. We try to find entrepreneurs that strike the right balance between being prudent operators while smartly investing into growth.

I have the impression that European-based companies are often a lot more focused on the business part, and the founding teams are, to a large extent, business people, while it seems that U.S. teams are way more technology-driven. Founders often have an engineering or science degree naturally putting their emphasis on firstly creating a product and secondly selling the product. Can you confirm that?



Well, it depends. In Germany, in particular, many companies got founded by incubators that say to their entrepreneurs “here is the infrastructure; we take care of the tech, and we work on business models that have worked somewhere else”. This approach has worked well in many cases and might result in the perception that you have mentioned.

But I’d say that the companies that we back always come from the product side first and there are many such companies in Europe. We’ve invested in founders who are fanatically focused on the product and combine this with smart commercials. Arago, Clicktale and Optimal+ are all great examples here.

If we stay in Europe, I guess the whole industry has changed a lot during the last couple of years. What would you say is the biggest change that took place?



First and foremost, becoming an entrepreneur has become a much more accepted and sought after career path than it was five or ten years ago. You see many more people who found a business straight out of university. The rise of incubators which can provide a relatively easy path into entrepreneurship, has helped as well.

Secondly, there is more capital available now compared to five years ago. For example, KKR Growth Equity did not exist five years ago, and many Growth Equity firms from the U.S. were not investing in Europe yet. Additionally, there are a couple of other firms that either started up more recently or have significantly scaled up their operations in Europe.

Thirdly, the availability of technology through open source projects has made it easier to found new companies from a technological perspective. Today, the product design phase is faster, because you can leverage a lot of pre-existing technologies.

The mindset shift and the ease with which you can start a company have really led to a significant increase of exciting tech companies in Europe. This creates a virtuous circle, which attracts more capital, and more capital makes it easier for future entrepreneurs to take the risk and found a company.

If we change the perspective and look at the recent trends, what do you think will drive or influence the future? FinTech for example is a big trend; Do you see any other important investment themes?



I think FinTech is certainly an area, particular in London, where we see a lot of interesting activities. Financial Service firms are waking up and ask themselves: how can we leverage technology to run our operations more efficiently, and create new businesses to re-invigorate growth? Some others don't wake up and will get disrupted by new technologies.

The other big trend that we are seeing is in the area of automation which we expect to grow very quickly in the coming years. Arago, our German automation software company, is a great example of how machines can essentially run very complex IT environments in an efficient way and, thereby, allow employees to focus their time on areas with higher productivity.

What would you say is the best way into the private equity industry? A lot of students are thinking about a doing an MBA or a Ph.D. Is that the right way or should you just found a company, or go into investment banking straight out of college? Which advice would you give?



First of all, I'd say as a general rule: Whatever you do, you have to be passionate about it because if you are not, you won't be your best and that means you won't achieve your fullest potential. So, don't squeeze yourself into certain career paths just because you think it is the highest probability career path to get to a certain job. Rather ask yourself, what you are truly good at, what are you truly passionate about, and then pursue this path. If you combine talent with passion success will follow almost automatically.

As for the private equity industry, most of the funds still recruit the vast majority of their talent from either top investment banks or consultancies.

With regards to whether you should do an PhD or MBA, I think it is a question of personal preferences. I did my Ph.D. in St. Gallen, but I did it purely for myself. There is in my view no career advantage that you gain from having a Ph.D., it may just give you additional perspectives. With regards to MBAs, in Europe private equity funds usually don't require them for you to progress through the ranks, but in the U.S. many firms still require MBAs from principal level onwards.

When I look at a CV, what matters to me is whether I can see excellence and uniqueness combined with relevant practical experience: did you do relevant internships, which university did you go to, did you well at that university? Grades to me are a proxy of how hungry you are and how much work you are willing to want to put into things. I also examine your extracurricular activities very carefully; have you founded a business or have you done unique things that give me a perspective on your skills and personality? A lot of people have done internships in banking, but that does not tell me anything about their drive or quality as a person.

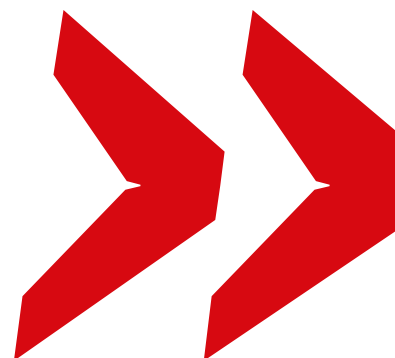
To make the entry into our industry a bit easier, I am building a platform called pestudents.com, which will give student advice on how to work their way into the industry and connect them to funds and their portfolio companies.

Do you have anything to add, like a final statement?




Really ask yourself, what is your dream and where do you see yourself in five years? Don't consider a goal simply because it is cool or because it promises you a lot of money, but because you are passionate about it. Work your way backwards from your goal: if that's what you are passionate about, what are the skills you already have and what else do you need to learn to get there? Then diligently fill those missing links. Then work as hard as you can and you will be successful.

Thank you very much for these interesting perspectives,  
Lucian!



# Neutral Switzerland

Building **bridges** in a globalised world

A stylized silhouette of a mountain range, with the highest peak in the center, rendered in a dark blue color against the red background.

Why are Swiss coaches in the Bundesliga, the German national football league, so successful? One of the reasons is the intensive training to become a coach in Switzerland, said Martin Schmidt in a recent interview. Schmidt, who comes from the canton of Valais, is the current coach of Mainz. Another reason he identified is the Swiss mentality: “Looking at things in a neutral way, thinking democratically”.

This looking at things in a neutral way and thinking democratically is also key to Swiss foreign policy. Particularly in a globalised world, where challenges quickly reach a high level of complexity. Developments in financial markets or trade flows do not stop at national borders, and neither do the effects of climate change, political tensions or threats from violent extremism. All states have to work together to meet these global challenges.

In this context a neutral country such as Switzerland has a key role to play: It can mediate between diverging positions, build bridges between states, create trust and develop joint and lasting solutions with its partners. This type of engagement also lies in Switzerland's own interests. As a highly globalised country with an export-based economy, Switzerland's security and prosperity depend on a stable environment and a viable and just international order. We cannot be indifferent if, for example, tensions increase between the countries with borders in the South China Sea – a region that is home to one of the main axes of international seaborne trade. In this situation, indifference or even isolationism would be inappropriate.

## Neutrality: law and policy

Neutrality is a Swiss foreign policy instrument for safeguarding national interests and facilitating international cooperation where common tasks need to be addressed, and peace and prosperity upheld. Historically, neutrality was above all a security strategy for Switzerland. It contributed significantly to Switzerland's remaining largely untouched by the numerous religious, dynastic and national conflicts among its European neighbours, protecting the country's internal cohesion. Under international law, neutrality means that a state does not take part in wars between other countries. There is a difference between this law of neutrality and neutrality policy.

The law of neutrality is codified in the Hague Convention of 18 October 1907, which sets out the rights and obligations of a state with neutral status. The most important of these rights is the inviolability of the country's territory. Key obligations for a neutral state include abstaining from participating in wars, ensuring its own means of self-defence, treating all conflicting parties equally in terms of arms exports, and not providing its territory to any party for military purposes. The law of neutrality is only applicable to conflicts between states and not newer forms of violence such as internal armed conflicts or non-state actors engaging in terrorist acts, which account for most of today's conflicts. Nor is it applicable in cases where a military operation has been authorised by the United Nations Security Council, as the Council is mandated by the international community to restore global peace and security. Thus, the law of neutrality does not prevent neutral states from supporting such operations.

In contrast, a policy of neutrality encompasses all the measures Switzerland takes as a neutral state in order to safeguard and bolster the predictability and credibility of its neutrality. Unlike the law of neutrality, Switzerland's neutrality policy is not legally binding. Rather, it is guided by the interests of our country and is based on an analysis of the current international environment.



Such a policy makes visible how a country with neutral status interprets its role, and how it implements and “achieves” this neutrality. Switzerland, which has always declared itself to be a neutral country and is recognised as such under international law, has developed a tradition of providing good offices and humanitarian aid on this basis. As a country with no NATO or EU membership, nor a colonial past, Switzerland enjoys a high level of credibility and can act as a bridge-builder. With its commitment to a more peaceful, secure and stable world, Switzerland is also contributing to the security of its nation and people – a factor that is key in today’s globalised world.

## Globalisation creates chances

Just how much our world today is shaped by globalisation is impossible to ignore. Globalisation has created closer economic, social and technological ties, and has benefited countless stakeholders – non-state actors such as NGOs and multinational companies – in gaining power and influence. The balance of power between states has also shifted from the developed economies to the emerging and developing countries of the South and East.

In addition, globalisation has resulted in a levelling-out of the development gap worldwide. The proportion of people living in extreme poverty in developing countries has gone down from 47% in 1990 to 14% today. Hundreds of millions of people benefit from rising incomes, better education and easier access to modern technologies. According to various rankings, Switzerland is amongst the top ten most globalised countries in the world. With its export-based, competitive and innovative economy, and its open society, Switzerland has greatly benefited from the effects of globalisation.

However, globalisation has also created new disparities. Advances in economic development remain unequal. The rapid spreading of ideas, goods, capital and people can also create or exacerbate social, economic and political instability. For example, many people are concerned about migration and tougher competition for jobs – not just in Switzerland.

## Making globalisation sustainable

Put simply, globalisation can be a positive force that opens up tremendous opportunities for humanity. But it has to be shaped in such a way as to maximise the advantages and minimise the disadvantages. If we want to advance the globalisation agenda we need to ensure a just and peaceful international order, build efficient and sufficiently legitimate institutions, and find common answers to the many common challenges we face. In its 2016–19 foreign policy strategy, the Federal Council attaches great importance to several areas in which Switzerland is helping to shape globalisation. These range from helping to establish internationally-binding rules and norms to promoting Switzerland as an attractive location for business, science and research, taking action in areas such as migration, water management and food security, combating terrorism in line with the rule of law and human rights norms, and ensuring a peaceful, secure and open cyberspace.

Where solutions need to be developed in these areas, Switzerland can be a driving and binding force. With its independent foreign policy and as a neutral state, Switzerland can support reconciliation processes and build trust, helping in practical terms to ensure that everyone benefits from the advantages of globalisation.

## From mediation to protecting power mandate

For its activities in this field, Switzerland can rely on a great deal of experience and wide-ranging tools such as providing its good offices, which include conflict mediation, hosting international conferences and undertaking protecting power mandates.

Mediating in or facilitating peace negotiations is one of the international community's key instruments for peacebuilding and finding political solutions to conflicts. This is nothing new: as early as 1961, Switzerland mediated between France and the Algerian liberation movement in Evian. Switzerland was also involved in various mediation processes in the last decade – between Armenia and Turkey and between Georgia and Russia, when Georgia opposed Russia's entry to the World Trade Organization.

Switzerland is currently involved in around 20 mediation processes and supports the mediation efforts of international organisations. This can be illustrated by two examples which are representative of Switzerland's work in this area:

OSCE/Ukraine: Switzerland's chairmanship of the OSCE in 2014 clearly demonstrated the importance of dialogue in conflict resolution. After violence erupted in Ukraine, Switzerland's priority was to maintain dialogue between the conflicting parties. This was the only way to keep opportunities for de-escalating the situation and finding a political solution open. It also made it possible to deploy an OSCE observer mission to the conflict area and set up the Trilateral Contact Group to supervise the peace process with the agreement of all 57 OSCE participating states. In addition to these confidence-building measures, Switzerland also launched the debate within the OSCE on how Europe's security crisis – as demonstrated by the Ukraine conflict – could be overcome.

UN/Syria: Switzerland has deployed its specialists to support the efforts of UN special envoy Staffan de Mistura for a cessation of the hostilities in Syria and UN-led political talks on Syria. At the same time, Switzerland is working to ensure access for humanitarian aid destined for Syria and supports projects aimed at improving the situation for people suffering because of the conflict.

Switzerland hosts a number of international meetings such as last year's Iran talks in Lausanne and the current Syria talks in Geneva. Home to the UN and a large number of organisations, Geneva has established itself as a place where solutions to the global challenges of our time can be developed.

Switzerland's good offices also include its role as a protecting power. By giving Switzerland a protecting power mandate, states that have broken off diplomatic relations can still maintain a minimum level of contact. As a protective power, Switzerland can represent the interests of a state or its citizens against another state concerned. Switzerland currently has protecting power mandates for Iran in Egypt, the US in Iran, Russia in Georgia and vice versa. Talks are currently being held concerning additional mandates for Iran in Saudi-Arabia and vice versa.

## The Swiss cross is recognised around the world

These are just some of the many examples that show one thing above all: in our multipolar world, bridge-builders are needed more than ever before. And that is why Switzerland's neutrality is a concept with a future.

Nothing illustrates Switzerland's credibility and commitment better than the Swiss humanitarian aid convoys that in 2015 helped the people suffering on both sides of the contact line in eastern Ukraine to have access to clean drinking water. Not only did each lorry bring the chemicals that were needed throughout the conflict area, each one also bore on its bonnet that unmistakeable symbol – the Swiss cross. ♦

### Didier Burkhalter Bundesrat, Swiss Federal Department of Foreign Affairs



**Didier Burkhalter** grew up in the village of Auvier. He obtained a degree in economics from the University of Neuchâtel and held positions in the academic world and the private sector before joining the Radical Democratic Party (now the Liberal Democratic Party) in 1985. In 1991, he was elected to the executive of Neuchâtel, which he chaired for three legislative periods.

In 2003 Mr. Burkhalter was elected to the National Council, to the Council of States in 2007 and in 2009 he was elected to the Federal Council and appointed as the head of the Federal Department of Home Affairs, a post he held until December 2011. Since 1 January 2012 Mr. Burkhalter is head of the Federal Department of Foreign Affairs. In 2014 Mr. Burkhalter assumed the presidency of the Swiss Confederation and held the chairmanship of the OSCE.

# Family Equity – Das Beste aus zwei Welten

Vom Duisburger Kolonialwarenhändler zum erfolgreichen Family-Equity-Unternehmen: Seit 1756 ist Haniel international erfolgreich. Als Investmentgesellschaft in Familienhand gestaltet Haniel heute von Duisburg aus ein diversifiziertes Portfolio und verfolgt dabei als Wertentwickler eine langfristige und nachhaltige Investmentstrategie. Hohe Professionalität im Portfoliomanagement und Wertevorstellungen einer fast 260-jährigen Tradition: diese Kombination macht Haniel einzigartig – und damit enkelfähig.

[haniel.de](https://haniel.de)  
[enkelfaehig.de](https://enkelfaehig.de)

# HANIEL

# Tuitio fidei et obsequium pauperum

To care for people in need

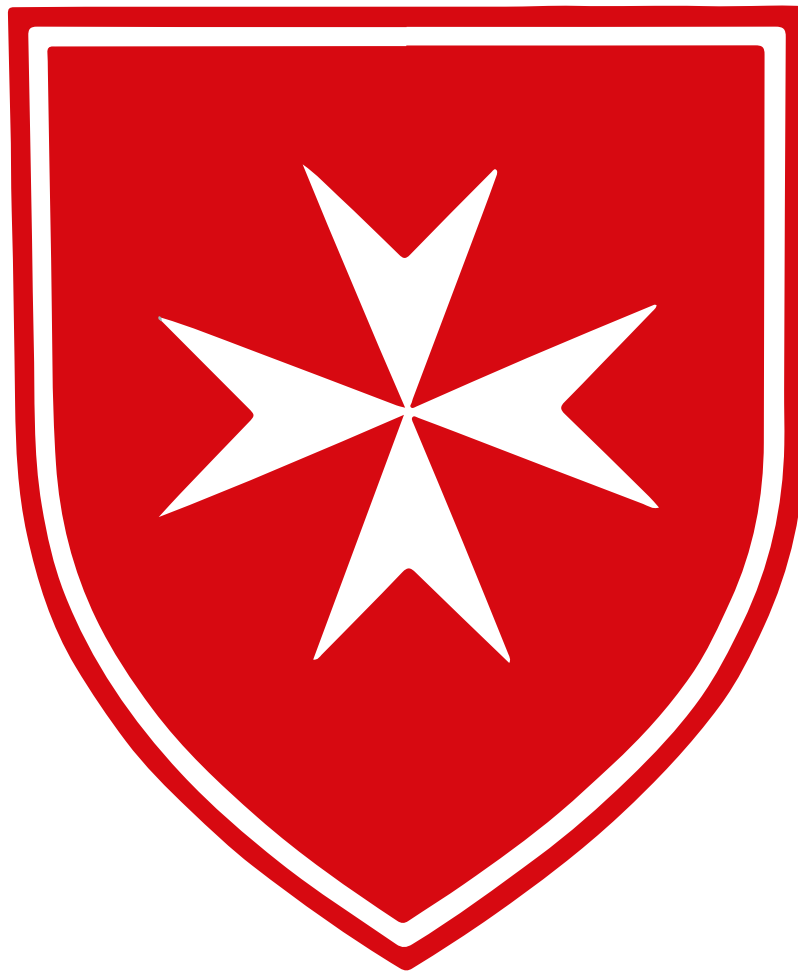
## Interview with *Dr. Erich Prinz von Lobkowicz*



**Dr. Erich Prinz von Lobkowicz** is a knight of the order of Malta since 1989 and the president of the order's German Association since 2006. He is responsible for the 550 knights and dames of the order and many different works with 25 000 full time employees and 80 000 volunteers. He studied history, sinology and philosophy in Munich and Freiburg. Alongside his activities in the order, he manages the "Maxlrainer" enterprises, focusing on agriculture and beer brewing.

The Sovereign Order of Malta is one of the oldest institutions of Western and Christian civilisation. As a lay religious order of the Catholic Church since 1113, the Order of Malta is active in 120 countries caring for people in need through its medical, social and humanitarian works.





To an outsider the Order of Malta, as chivalric, religious order with knights and dames, may seem like a relict from medieval times. Why is the Order of Malta still relevant in the 21st Century?



The Order of Malta today has more members than at anytime in its history and its projects and works span the whole world. It is very alive! The members endeavour to sanctify themselves and their families and equally commit themselves to the Order's social projects. It is those social projects, inspired by the love of Christ, that make the Order relevant today. The MMM (Malteser Migrant Medicine) projects in various towns in Germany provide medical care for people who do not exist according to official records and always have difficulty accessing health-care, the "Brussels shower project" for the homeless, queues of homeless at the Order's London 'soup runs', the care of the disabled on our Lourdes pilgrimages, our major contribution internationally to crisis relief and the care of migrants in Lebanon or Germany and elsewhere. Our combination of religious and charitable commitments through these many projects, big and small, appeals to many people in 21st Century who want to make a difference and improve their neighbourhood, country and ultimately the world.

The Order's official mission "Tuitio fidei et obsequium pauperum" is to care for people in need. It was defined by its founder, Blessed Gérard, in 1048. How do you fulfil the mission today?



In Germany we work with 25'000 fulltime employees and 80'000 volunteers, and fulfil our mission in many ways and through a multitude of projects. Especially well-known is our subsidiary, the Malteser Hilfsdienst, which has over one million supporting members in Germany who help finance the humanitarian projects. Volunteers all over Germany engage in social projects in service to the sick and poor, but also in service to the local community by providing training for first aid and providing medical service at major events. Various professional trainings can be acquired in special centres and the volunteers are also encouraged to keep their expertise up to date. It makes a big difference in caring about the needy if one understands the special requirements of dementia patients for example. In the UK, for instance, the equivalent but smaller volunteer force and the Companions of the Order of Malta are involved in a range of projects such as adventure holidays for disabled kids, feeding the homeless in London, Oxford, Glasgow, and Colchester and working extensively in the Order of St John Care Trust homes for the elderly.

Founded in 1048 in Jerusalem, the Order has – unlike the Templars or the Teutonic Order – survived many external and internal crises. Could you identify any specific reason for this remarkable resistance?



Indeed, the Order was often very close to extinction. Many times it was exiled from its homeland, but it always rebuilt itself. The reason must be that its vocation of helping the poor and the sick is needed in the world and always attracted people.

Many social scientists believe that traditions are continually losing their significance in today's society. Why do you personally think it is important to appreciate tradition? How can this appreciation of the past help us in our future challenges?



Tradition in itself is no legitimization. Nor is removing beautiful traditions a good idea, if nothing better comes instead. The ancient traditions and long held charism of our order attract many people. The military traditions of the Order can embolden our members to strive as 'soldiers of Christ' to work for the poor and marginalised.

What role does tradition play in the identity of your organization? How do you uphold the old traditions in the daily life within the order?



Our order predates canonical law, and has its own rules in choosing leadership and in interacting within the Order. Daily we pursue our mission 'to practise our Faith and to practise charity.' Members are called daily to say the prayer of the order, as in other religious orders, whilst combining their normal lives as laymen with charitable work. Our absolute commitment to 'Our Lords the Poor', for example, gets our members and volunteers out on the city streets, whether in Berlin, London, Paris, Dublin, Brussels or elsewhere, to hand out food and minister to the underprivileged.

With its well-known subsidiaries, Malteser Hilfsdienst and Malteser Werke in Germany, the order resembles other modern aid organisations. How do you differentiate yourself from these competitors in Germany? What influence do the Roman Catholic roots have in your work supporting those in need?



I would not say we are competitors. The needs of our world have never been so great, and there is undoubtedly space for all the different charities out there. Indeed, there really cannot be too many. What differentiates us I think is that we take our role as Catholic order very seriously, with all the people working with us, and with those we help. Seeing the face of Our Lord in every needy person makes our approach different from most other helpers. Our international reach means that to work for the Order is to work as part of a global family, fighting deprivation and poverty and isolation, and, yes, evil.

The Order's status in international law is similar to that of a recognized country. Would you explain the reasons for this singularity and how this helps you as an aid organisation?

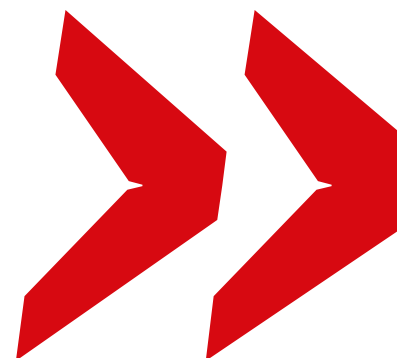


The status of a sovereign was until the 18th century defined by the fact that its ruler owed allegiance to no one. Thus, the sovereignty of the grandmaster of the order was achieved in 250 years of ruling Rhodes and 250 years of ruling Malta. It was confirmed at the Congress of Vienna, and is recognized by 107 countries and the United Nations to this day. This status enables the Order to negotiate on government level in all the places it has aid projects, at the moment in over a hundred countries. This status was particularly useful, for example, in facilitating our medical care and community projects in Rwanda after the genocide, where we were one of the few organisations seen as sufficiently neutral to be trusted by all sides.

You also provide aid in many conflict zones. What kind of support do you provide? Which regions do you focus on? What developments do you see in today's international crises?



Enumerating all the international projects would fill a thick volume, most of them are in health-care, water treatment, disaster relief and rebuilding social structures after armed conflicts. Take the current Syrian refugee crisis, the Order in Lebanon is providing aid and medical care within the camps. Whilst different associations, from around the world, have been providing financial support. In Germany the Order is taking a lead in running receptions centres and providing volunteers across the country to help locally in the resettlement, mentoring and integration of migrants. In all this we are very strictly apolitical, work closely with related organisations and are in for the long haul. We usually stay long after all the NGOs have left.



# The innovation paradox in family firms

## Family Firms and Innovation: the Puzzle

**F**amily firms are often portrayed as very traditional, even conservative organizations that treasure the status quo and are unwilling to break away from their proven ways of doing business. At the same time, however, some of the most innovative firms in the world are family firms. Think of Mittelstand companies, many of them hidden champions, which lead the innovation league tables.

In a recent study my coauthors and I found that even though family firms invest less in innovation than nonfamily firms, these firms exhibit a higher rate of innovation output<sup>1</sup>. More specifically, even though family firms invest less in R&D, these firms nevertheless generate a higher innovation output, such as in the form of new products and patents. Interestingly, family firms were not only more efficient in converting innovation input into innovation output, but are also more innovative in absolute terms in comparison to their nonfamily counterparts. What are the reasons for this puzzling effect?

## Three key attributes of family firms...

We can attribute this surprising finding to three central family firm characteristics. First, family firm owners typically hold controlling stakes in their firms. This gives the owners a tight grip over strategic decisions and also innovation processes in their firms. Second, family owners often have most of their wealth tied to the firm. Some studies report that on average families in business have 80% of their wealth vested to the firm. This makes these owners highly exposed to the risks their firms are running. Finally, many family business owners see their firms as more than a financial asset. Next to financial wealth, these owners typically also derive reputational advantages from their firms, cherish benevolent relationships with stakeholders, and seek to uphold family control for the long run, most often with the intent to pass it on to future generations.

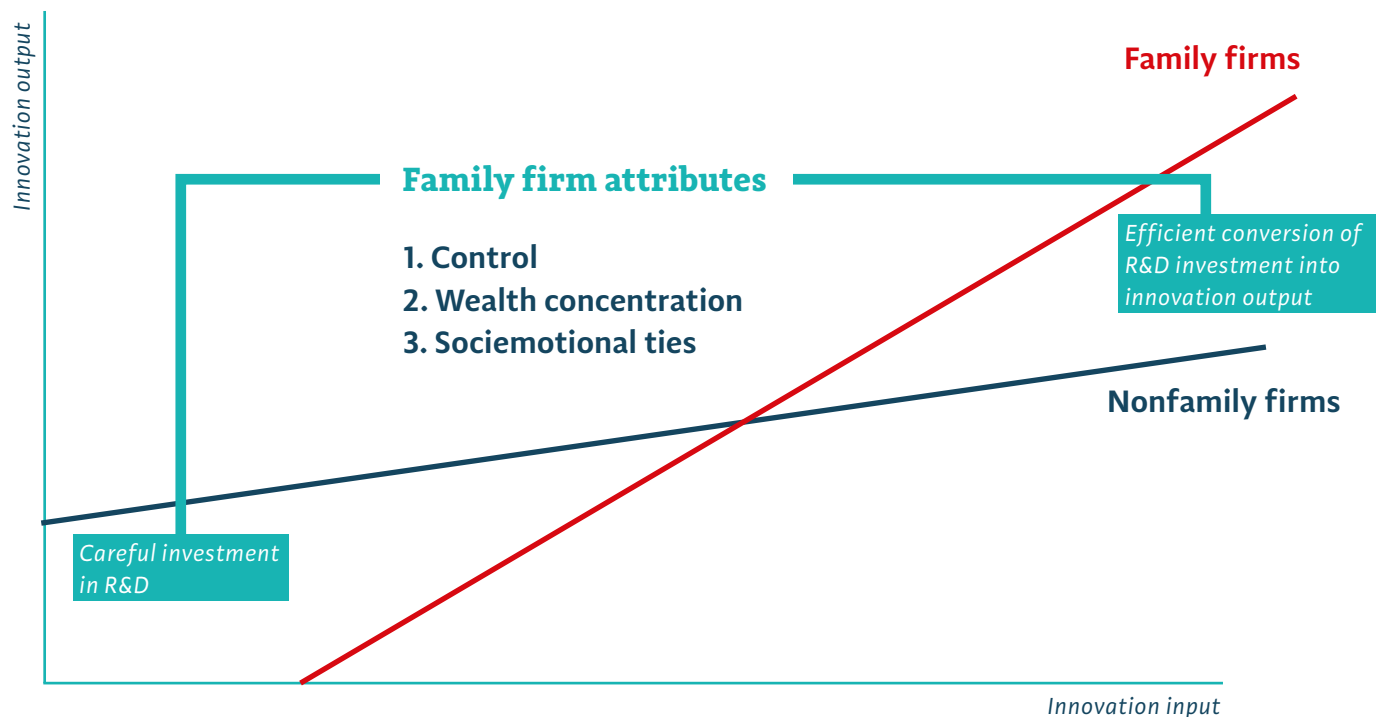
<sup>1</sup> Duran, P., Kammerlander, N., van Essen, M., & Zellweger, T. (forthcoming). Doing more with less: innovation input and output in family firms. *Academy of Management Journal*.

## ... and how they impact innovation input and innovation output

These central attributes lead family firms to invest less in innovation. For instance, the unwillingness to share control and open up equity to nonfamily investors limits the investment potential for innovation. Wealth concentration in turn limits the willingness to undertake investments with uncertain paybacks, such as innovation. Finally, the close ties with stakeholders, the emotional attachment to the existing structures, processes and people make family firms hesitant to heavily invest into novel ways of doing business, which would typically be disruptive for the existing networks and knowledge base.

Interestingly, though, the very same attributes that lead to lower investments in R&D provide the basis for a higher innovation output. For instance, a high degree of control and exposure to the risk of uncertain activities leads to better monitoring of innovation processes and avoids waste. In turn, the trusted relationships within family firms, not only among family members but also with employees, clients and the wider stakeholder community provide these firms with strong knowledge advantages, deep information exchange, and trusted networks.

In consequence, family firms are able to turn the scarcity of innovation input into abundance of innovation output. The figure below illustrates these considerations.





## The myth of “professionalization”

As part of our study we also explored the role that a family CEO at the helm of the firm may have for innovation input and output. Interestingly, we find that a family CEO reinforces the effects described above. When the CEO stems from the family it is even more likely that family firms will be parsimonious with uncertain investments in R&D. But for the investments they undertake, the family CEO will assure that the firm makes the most out of it.

This finding is important for practice, since it challenges the idea that family firms should “professionalize” management, which is often equated with replacing family leaders with nonfamily leaders. Family CEOs seem to be crucial for efficient innovation processes, and replacing the family CEO with a professional manager may do more harm than good, at least in terms of the firm’s innovativeness.

## The drivers of innovation in family firms

Family firms in the pursuit of innovativeness should thus pay particular attention to the efficient working of innovation processes if they want to reap an important reward tied to family control. In making a family firm an innovation champion, owners and managers have the following levers:



### Monitor the innovation projects

Family firms have an incentive to carefully monitor that the limited investments the firm can make into R&D are put at their most efficient use, and actually result in innovations that have a market. In this process, innovation controlling is essential. While early stage innovation may require a loose form of control, such as by defining maximum available resources so that eventual losses remain within acceptable scope, at later stages of the innovation process tight monitoring along business plans may be in order.



### Relationship quality in the top management team

Innovative family firms nurture a trusted atmosphere within the top management team, be the team members family or nonfamily. Relationship quality fosters trust and a mutual understanding, both of which are important to plan for innovation and ultimately growth. Replacing family members with nonfamily members at the helm of the firm may undermine the close ties and trusted relationship that are so important for innovation.

**Information access and exchange**

Innovation requires that information is accessible for decision making. For privacy reasons, families in business sometimes withhold important information about the operational and financial condition of the firm from the decision makers in the firm. Such behavior inhibits information access and flow that is crucial for employees to come up with innovations.

**Nurture tacit knowledge**

Long-term employees often do not have fancy degrees and high education levels. Their implicit knowledge about production processes, clients and markets, however, represents an important resource that is valuable to refine processes, improve products and develop service levels. Proven ways of doing things provide the springboard from which new ways progressively emerge, are refined and are brought to perfection given the long-term view of the firm. Innovative family firms make sure that employees understand that innovation is integral part of their daily job.

**Tradition of innovation**

Many long-term established family firms look back on an impressive history of innovations. This tradition of innovation should ideally become a source of inspiration and new innovations. This is true not only for firms with rather stable business models. Firms that are able to look back on a repeated history of coming up with new ideas and the ability to absorb and weather through the setbacks that naturally accompany innovation processes, will find it easier to break out into new fields of activities.

**Networks are key, but be aware of their closure**

Networks are central for innovation, not only since the internet era. Networks with clients, suppliers and opinion leaders in the industry provide access to credible and timely information, such as about recent trends and new demands. Family firms often possess long-term and trusted network partners and thus typically possess an information advantage through their networks. Highly innovative family firms keep in mind, however, that old networks can become a liability, which leads decision makers to confound the consistent information they are receiving from the network with the stability of the environment. Networks that bind can become networks that blind.

**A culture of innovation**

Innovation can only take place in a corporate culture that cherishes also its inevitable side effect, failure. By definition, innovation projects are risky, both in terms of payoff and timing. Therefore, innovation champions will also value a failed, but well-executed innovation project. A large German Mittelstand company, for instance, not only celebrates the innovation successes. It officially parties the “Burying the failures” ceremony, wherein failed innovation projects are given credit and lessons for new projects are derived.

## Innovation as the management of a paradox

Family firms thus make us aware of an important, yet largely overlooked characteristic of great innovators, namely not to focus on input or output alone, but on the efficiency with which input is converted into output.

Limited input generating higher output, hence doing more with less, points at a paradox. In fact, paradoxical situations are omnipresent and inherent in innovation processes. For instance, companies need to focus on the long run if they want to come up with groundbreaking innovations. They can, however, only do so if they have the means in the short run to finance the farsighted endeavors. Similarly, unfettered R&D spending may lead to endless spirals of trial and error. Therefore, great innovators emphasize not only exploration, but also exploitation, that is to say efficiency. Family firms seem to be particularly good at managing these innovation paradoxes.

A great example of a family firm that has learned how to cope with these innovation paradoxes is the Italian company Beretta, founded in year 1526. This firm has chosen “Prudence and Audacity” as its motto. The motto epitomizes the idea of being cautious and thoughtful in its actions while at the same time proactively embracing new trends. This strategy has served the company well, for nearly half a millennium. It may well be a model for some more centuries to come. ♦

**Thomas Zellweger**  
**Director,**  
**Center for Family Business**  
**at University of St. Gallen**

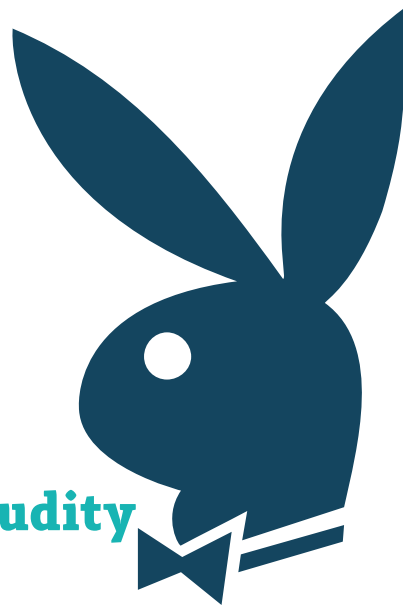


*Thomas Zellweger holds the family business chair at the University of St. Gallen, where he also directs the Center for Family Business. He holds degrees from the University of St. Gallen and Université Catholique de Louvain. After two years in investment banking with Derivative, Brussels, he received his PhD from the University of St. Gallen in 2006. He was a visiting professor at Babson College, at the University of British Columbia and at the University of Witten/Herdecke. Thomas serves on multiple editorial boards. His research has been published in leading academic journals, it has received several international awards and it has been discussed in The Economist, Forbes, New York Times, CNBC, The Times, just as in the leading German speaking media outlets. Thomas is a member of three supervisory boards of family firms in Switzerland.*



# Modest bunnies

Why Playboy banned nudity



## Interview with *Christoph M. Pachler*



**Christoph M. Pachler** is the Executive Vice President and Chief Financial Officer of Playboy Enterprises. Pachler joined Playboy in 2010 and is responsible for the company's strategic planning, corporate and business development and financial operations. Prior to Playboy, Pachler worked at Sony Pictures Entertainment, where he served as the studio's CFO of the International Television Division, and Senior Vice President of Strategy and Operations. He earned a Master's degree from the University of Amsterdam and an MBA from the University of Business and Economics Vienna.



Playboy Enterprises' financial situation has improved dramatically since you joined the firm in 2010. Annual losses have been cut from \$12m in 2009 to approximately \$3m today and online readership is up fourfold. What steps led to this success and how will you continue to restore profitability to this iconic brand?

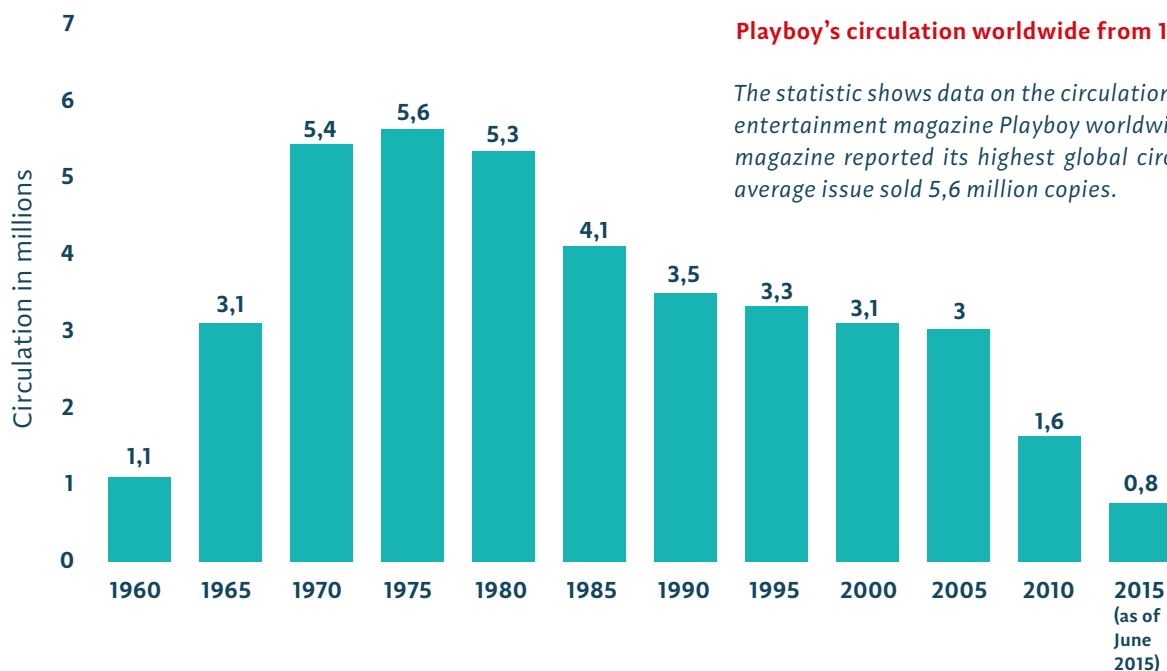


We had a number of initiatives that resulted in our improved financial performance. One of my first priorities after joining was to adjust the expense base of the company by streamlining operations, eliminating unnecessary layers of management bureaucracy, and consolidating multiple locations at the main headquarters in Beverly Hills. This drive for greater efficiency was greatly helped by us taking the company private. Playboy Enterprises, Inc. had been a publicly traded entity since the 1970s, and in 2011 we decided that the future of the corporation was better managed in a privately owned setting. In addition to right-sizing the organization, we identified areas where we could achieve rapid and meaningful revenue growth. In Playboy's case, this was mainly an enhanced focus on the products licensing business, particularly in China, where the brand is incredibly strong.

On October 13th Playboy Enterprises announced that it will be banning full nudity from Playboy Magazine. What inspired the move and what is the strategic rationale behind the decision?



Playboy is a lifestyle brand for young men, and has unaided global awareness of 97%, which rivals Nike or Coca-Cola. Therefore, the Playboy brand is so much bigger than just pictures of nude women. Nudity was part of the content mix that created audience engagement from the 1950s to the 1970s. By now, times have changed, and all forms of nudity are readily available online. For Playboy, nudity has outlived its usefulness and is just passé. Don't get me wrong, we will always have beautiful, sexy women associated with brand, but they don't have to be nude to be part of the Playboy lifestyle experience.



Playboy's circulation worldwide from 1960 to 2015 (in millions)

The statistic shows data on the circulation of the men's lifestyle and entertainment magazine Playboy worldwide from 1965 to 2015. The magazine reported its highest global circulation in 1975, when an average issue sold 5,6 million copies.

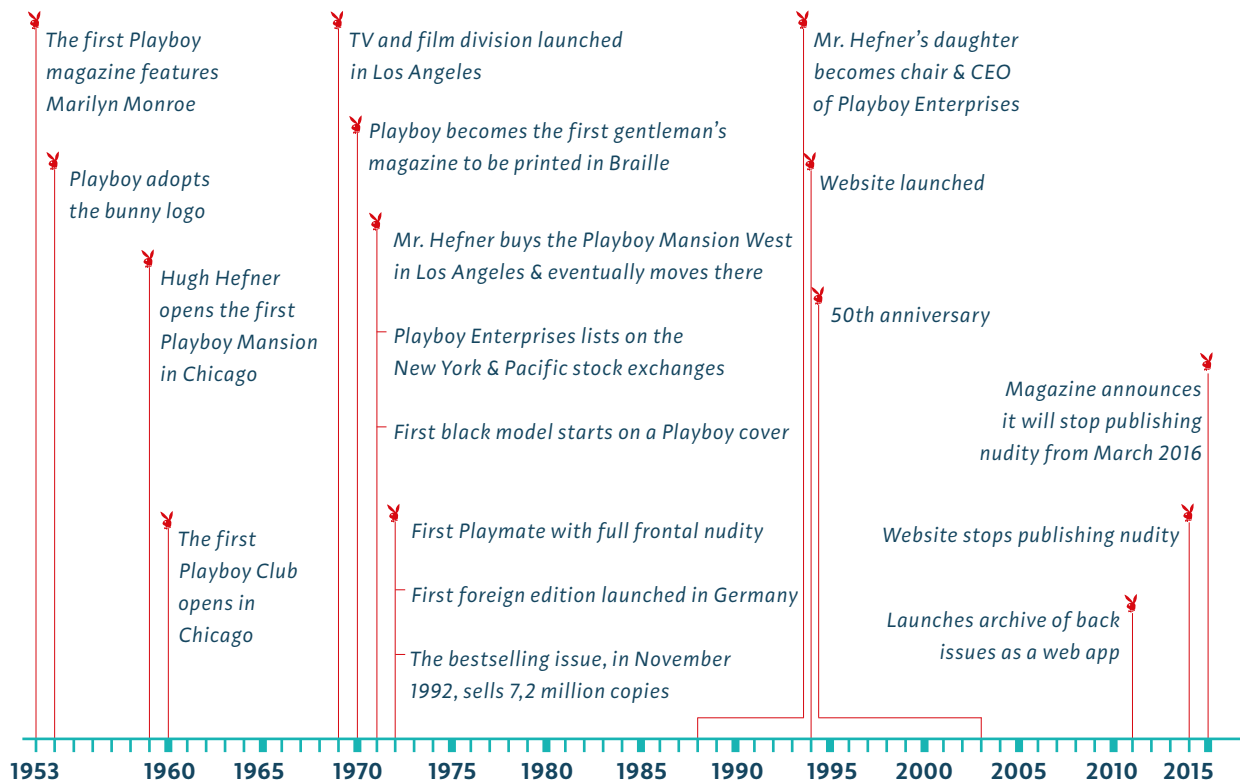
Mr Donald Trump, featured on the cover of a 1990 Playboy Magazine edition, claiming he had been approached for another article in the magazine, stated in a recent radio interview “Maybe I’ll pass. (...) It’s not the same Playboy. In those days that was the hottest thing you can do”. How do you rejuvenate and transform one of the most iconic American brands, without it losing its identity?



Hefner created a very strong foundation for what it means to be a hip, urban, young man when he started Playboy in 1953. Many of the changes we are now implementing are really a rediscovery of the basics from 1953. And we have found that young millennial men find that original vision of Hefner very attractive. That’s why the traffic to our website has quadrupled since we introduced the new creative direction, and we have high expectation for the new magazine format. Our business partners also agree, and we are now doing business with advertising partners who have not been associated with Playboy for decades.



## Years of the rabbit



If the revealing pictures are optional, what is the core of Playboy's identity in 2015?



As I said, it is about a cool, urban lifestyle for young millennial men. It will be compelling content, distributed across all platforms, with a huge focus on digital platforms. The content will of course include pictures and videos of beautiful women (they just won't be completely nude), but also interact with the most interesting minds of our time in the legendary Playboy interview, deal with the big topics of time as they relate to young men, and will be a ton of fun.

How has the magazine's target audience changed throughout the decades? Who is the typical Playboy Magazine reader in 2015?



We look at our audience across all platforms, and the trends for a while now have been clearly moving towards social media and digital platforms. The magazine is an important aspect of our content mix, but not the only one, or even the main audience driver. We operate where our young, millennial audience interacts with content, and that is increasingly less print, and more and more digital.

Following his appointment as CEO, Scott Flanders' strategy for Playboy Enterprises was to transform it into a brand management company. At which stage are you in this transformation process? How will Playboy Enterprises – the brand management company – go about continuously reinvigorating the Playboy brand?

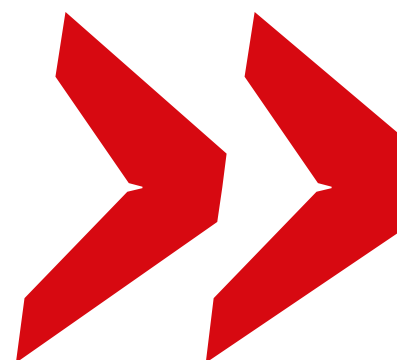


Playboy is one of the few brands that is being monetized in multiple ways. In addition to advertising and subscription revenues from our media business, we generate significant and very high-margin royalty revenue from licensing the Playboy brand globally. We operate an apparel licensing business in China that exceeds almost all of our competitors.

What position will the magazine take in this new model? What will Playboy's main revenue drivers be in 2016 and beyond?



The magazine will play an important role in our multi-platform content mix. The main revenues will be advertising and subscription from our Media business, and licensing royalties from our Merchandising business.



# Fasten your seat belt:

## The role of tradition in the rapidly-changing aviation industry

SWISS is proud to be The Airline of Switzerland. We create value for our customers by offering a distinctly “Swiss” air travel experience. Throughout our history, Swiss traditions such as a commitment to the highest quality, our multilingualism or our diverse cuisine have shaped and flavoured our business. But the world has not been standing still. Globalization and technology have disrupted many businesses. Aviation is not immune: our industry is going through a phase of tectonic changes. So is there still a place for traditions in such a fast-changing world? For me the answer is clear: yes. All the more so, in fact! The importance of traditions is actually increasing in today’s rapidly-changing and unstable environment. Which is why when we change our business model, we must build on the strengths of our heritage.



## Swiss traditions

**A** tradition is something – a belief, a custom, a method – that is passed on over time, from generation to generation. The traditions that define SWISS stem from the values and the heritage of its country of origin: Switzerland. Even in today's globalized world, our core, our work method, our product and our partnerships are all shaped by genuine Swiss traditions.

First of all, Switzerland's prosperity is based on its tradition of openness. Located in the heart of Europe and on the major north-south traffic routes, our country has always been a hub for business, art and tourism. In the same spirit, SWISS's *raison d'être* is to connect Switzerland with the world. Our product offers are rooted in the demand for air travel in Switzerland. We currently offer over 100 direct destinations, which is quite remarkable for the national airline of a country the size of ours. With demand shifting overseas to the emerging markets, one tourist in three arrives in Switzerland by plane<sup>1</sup>. Some 43% of our exports (by value) are also shipped by air, as Switzerland's industrial structure is based on high-value technology and luxury

<sup>1</sup> Infrast. 2006/2011. Volkswirtschaftliche Bedeutung der Luftfahrt in der Schweiz.





SWISS Senator Lounge

goods<sup>2</sup>. Direct connectivity is a key locational factor for many of the international companies that operate out of Switzerland – be it Swiss companies such as Nestlé or Roche or foreign ones such as Google or Mondelez (Kraft Foods). Through its systemic role here, aviation contributes over CHF 30 billion to Switzerland's GDP and generates more than 190,000 jobs<sup>3</sup>.

Secondly, with around 70% of our workforce being Swiss nationals, we are shaped at SWISS by Swiss work traditions. In our attention to detail, our hospitality and our focus on quality, we differentiate ourselves through the same characteristics that have made Switzerland a prime tourist destination and an economic powerhouse. Similarly, most of our pilots and cabin crew members, and also our various office staff – product designers, marketers, revenue managers and more – have enjoyed the high-quality Swiss education system. We continue to build on these roots. We train over 60 apprentices, 130 interns.

Thirdly, SWISS is deeply embedded in Switzerland's economy. Over 70% of our on-board products, for instance, are Swiss – from Quöllfrisch beer to Nespresso coffee to La Prairie beauty care. Every year we serve 2.4 million bottles of Swiss wine, two tonnes of Bündnerfleisch air-dried beef and 16 million (!) chocolate bars. Another example here is our award-winning “SWISS Taste of Switzerland” gastronomic concept for our intercontinental flights, which invites top Swiss chefs to interpret the culinary variety of our home

country in their own unique ways. The programme was launched over ten years ago, and has been highly successful: we can't even accommodate all the requests from potential partners who wish to demonstrate their art in our First and Business Class menus.

Switzerland has the world's strongest “country brand”, and we are immensely proud to bear the Swiss cross on our tailfins. We carry the Swiss flag and traditions all over the world. We are an ambassador of Switzerland.

## Changing business models

While we are shaped at SWISS by our traditions, we cannot close our eyes to the massive changes that are currently taking place. There is no tradition in business models!

At the industry level, the global economic landscape is changing. Economic growth is shifting to the East. Air traffic volumes in the Asia-Pacific region are expected

<sup>2</sup> IG Air Cargo. 2015. *Luftfrachtpolitik als integrierter Teil der Luftfahrtpolitik*

<sup>3</sup> Bundesamt für Zivilluftfahrt. 2016. *Luftfahrtpolitische Bericht des Bundesrates*.

to grow by 5% a year between now and the mid-2030s, while the growth in Europe is likely to hover around 3%. Simultaneously, the constraints in Europe are getting tighter. Noise and environmental concerns are top of the agenda in Europe's post-industrial nations. As a result, air traffic infrastructure has reached its limits. Zurich Airport, for instance, is at its capacity limits at peak times, and its night flying ban is more rigorous than that of any comparable European hub.

New competitors have also emerged. In Europe, the two main low-cost carriers, Easyjet and Ryanair, have captured the largest share of intra-European flights. Easyjet is now the clear market leader in Basel and Geneva. And on intercontinental routes, the emergence of the large state-owned carriers from the Middle East and Turkey is increasingly challenging the viability of the European hub carriers' business models. With access to almost unlimited state funding, these carriers offer a top-of-the-line product coupled with unrestricted infrastructure.

At the customer level, digitization is changing customer behaviour. Sales are shifting online, often aggregated through tools such as ebookers or skyscanner. The result is full pricing and product transparency, along with booking convenience. Price has become the main decision-making criterion, effectively making flying a commodity. Customers increasingly purchase their tickets online, a trend that has had a significant impact on travel agents. In addition, the customer is now used to purchasing a flight anywhere, at any time and with any given device – ideally with a single click.

Linked to this development is the fact that customer needs are becoming more individual. A customer used to Amazon or Spotify's amazing recommendation engines expects SWISS, too, to recognize their needs, and to offer them a tailor-made product at low entry prices. The short-haul business traveller does only want carry-on baggage; the student traveller has no desire for a high-end inflight meal; the retiree traveller wants the full care package. And all these wishes have to be accommodated with consistent quality across all flights. In summary, then, we must create additional value for the customer beyond the flight itself – fulfilling their individual needs and giving them adequate choice.

## Accommodating change and traditions

**W**e launched our “Next-Generation Airline of Switzerland” strategy at SWISS in 2014 to address these challenges. The strategy is based on the appreciation that we must modify our business model, building on the strengths of our Swiss heritage.

To begin with, we aim to further strengthen our best-in-class team. This is essential, as our workforce is growing: we will hire over 800 new recruits over the next few years. In view of this, we have launched several initiatives to reinforce our unique SWISS culture. Among other things, we aim to include our employees better in decision-making processes, redesign our workspaces and further enable collaboration across all our divisions. We also want to emphasize that our employees are our most important asset of all. That is why, this January, we created our “SWISS People's Plane”: a brand-new Boeing 777-300ER liveried with the faces of 2,500 of our employees. Our Employer Value Proposition, too, is based on a claim that we believe is core to Swiss working conditions: people matter.

We are also investing over CHF 6 billion in a new aircraft fleet, and are adding new destinations, too – all to give our customers the best possible air travel experience. Our new fleet flagship, the Boeing 777-300ER, offers a top-of-the-line inflight product, along with unbeatable economics in cost-per-seat terms. We will further be the world's first airline to operate the Bombardier CSeries, a completely new short-haul transport that is half as loud as comparable aircraft to the

human ear and uses 25% less fuel. So here we are also cultivating Switzerland's reputation for being at the forefront of cleaner and more efficient technologies. And we have vastly expanded our operation in Geneva with a new local entity – based on the idea of local responsibility and Switzerland's subsidiarity principle.

We are also strengthening our product and services throughout the travel chain. Our new aircraft offer the subtle luxury that Switzerland stands for. We rely on innovative Swiss suppliers, such as Lantal for our seat cushions or Bucher for our aircraft galleys. And we combine this with cutting-edge technology, such as internet connectivity aboard our new planes. Similarly, our new airport lounges are full of Swiss traditions, such as their Vitra and De Sede furniture, or the raclette and fondue that we plan to offer on the terrace of our First Class Lounge as a highlight for our foreign customers. In the digital realm, our swiss.com website, which has won a best-of-Swiss-web award, runs on all devices (desktop, mobile or tablet), and we were among the first airlines to offer such "responsive design". We are continuously expanding our presence on innovative channels such as Google Flight Search, too. And it was to address increasingly individualized needs that we introduced our new fare concept for Europe in 2015.

Lastly, we deliver our value proposition in close collaboration with our partners. Here, too, we follow key Swiss traditions such as respect and cooperation, be it with our staff associations, our strategic suppliers or our hub airport authority. In a similar vein, we substantially benefit from the synergies and contribute to the success of the Lufthansa Group. As an example of this strong collaboration, I have been assigned process responsibility for Revenue Management and Distribution for the entire Lufthansa Group, in addition to my role as CCO of SWISS. So our airline is continuing to evolve in the way of so many Swiss-based companies: rooted in Switzerland, internationally embedded.

## Résumé

It is traditions that have made SWISS what it is today: one of Europe's most successful airlines. Tradition and change are not incompatible. On the contrary, we must never forget the most important Swiss trait of all: adaptability. Only if we continuously evolve our traditions will we be able to survive in a rapidly-changing global environment. We are proud and grateful to carry the Swiss flag on our tailfins. It is what sets us apart today, and what will continue to do so tomorrow. ♦

### **Markus Binkert** **Chief Commercial Officer,** **Swiss International Air Lines**



**Markus Binkert** is currently holding the position of CCO at Swiss International Airlines Ltd. In addition, he has been assigned process responsibility for Revenue Management and Distribution for the entire Lufthansa Group. He started his career by studying at the Ecole Hôtelière de Lausanne where he graduated in 1995 as Eidgenössischer Diplom Hotelier. In 1999 he began his studies at the Kellogg Graduate School of Management, Northwestern University. In 2001 he concluded his studies, obtaining a Master in Business Administration. Afterwards he worked at Bain & Company for four years before signing with Swiss International Airlines.

## Imprint

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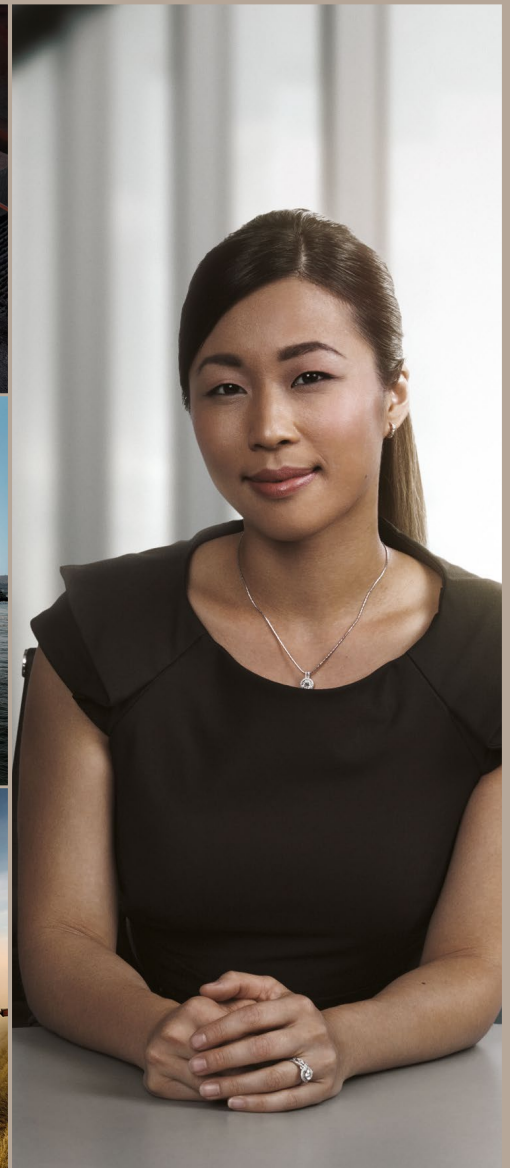


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