7 Financing the Enterprise

Frugal Beginnings Predominate

Founders of the researched companies, as well as their successors, availed themselves of a number of sources and instruments to fund their growing businesses. They invested their own savings, borrowed from friends and families, accessed bank financing, took out mortgages and, occasionally, connected with outside investors. By and large, they were frugal and, more often than not, boot-strapped their ventures to avoid dependence on external financial sources such as banks.

Visiting these companies and their production operations today hides the fact that many of them had started on very simple premises. Some began their companies in garages, on the kitchen table, in simple rented facilities or they acquired old factories from companies that had either gone bankrupt or closed down completely. Thriving enterprises today and, on average, employing hundreds of people, it is difficult at times to imagine that such was not always the case. Generally, behind every one of the researched companies, there was a humble beginning.

Starting Up in Garages and Old Factory Buildings

Several companies started in the proverbial garage, in simple surroundings and with small teams of two or three employees. In addition, the founders had given up their previous jobs or were working two jobs to make ends meet.

- Emil Richterich started to make his candy, later to be branded **Ricola**, in his bakery in 1930 in the town of Laufen.
- Hans Frei started **Plaston** in 1956 in the garage of his parents.
- Max Koch started **Komax** in 1975 in a shed near Lucerne.
- Paul Wyser started **Wyon** in 1999 in the garage of his own house in the town of Steinegg, Appenzell, located at an altitude of 1100 m.

J.-P. Jeannet et al., *Masterpieces of Swiss Entrepreneurship*,
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Needless to say, these firms have long outlived their “garages” and have since expanded into modern facilities for both production and administration, as well as having scaled up operations.

Some of the companies followed in this study were one step ahead of the “garage entrepreneurs” in taking advantage of unused factory buildings laying idle due to economic downturns. In the Western part of Switzerland, companies active in the watch industry had fallen on hard times during the economic depression in the 1930s. In the Eastern part of Switzerland, many textile operations lay idle due to the long-term decline of the textile industry.

- Hans Stüdeli started **Fraisa** in 1934 by buying out a tool making operation, which had gone bankrupt.
- Hans Oetiker started **Oetiker** in 1942 by acquiring an old, unused factory in the town of Horgen.
- Hans Schmid started **Filtrox** in 1938 by acquiring an old, idle textile factory in St. Gallen.
- Heinrich Kuhn acquired a workshop in **Rikon** in 1926 that had been making old-fashioned copper pans.
- Felix Flisch acquired a former workshop for watch components in 1945, located in Les Geneveys-sur-Coffrane, where he established **Felco**.
- Peter Grogg started **Bachem** in 1977 in rented quarters in Liestal and, after moving to Bubendorf where he was still renting, acquired a factory complex, which became available after a bankruptcy.

Snatching up idle factory sites allowed these companies to scale up on minimal investments in a country where real estate has traditionally come at a premium and where building permits for new operations on land were not always easy to get. Recycling these operations and re-purposing them for new use meant that industrial activities were not lost on the host communities.

Tapping into Personal and Family Savings

Since company founders were often from backgrounds of limited financial means, the question was how to finance their start-up operations. Few could bring substantial amounts of capital into their companies and, for the older companies in the sample, there was no easy access to financial markets or instruments as are available today.

- Heinrich Kuhn got help from his in-laws to acquire the factory building in **Rikon**.
- Hans Frei invested his retirement pension of CHF 25,000 to buy the first equipment for **Plaston**.
- Peter Grogg invested CHF 50,000, together with his wife and partner, to start **Bachem** from funds he had saved up from his previous stint in the USA.

- Domenic Steiner funded **Thermoplan** together with his wife from their own resources.
- Paul Wyser started **Wyon** with his own resources in addition to getting help from a friend and a business partner, without any conditions attached.

The amounts invested by the company founders were relatively small, but when combined with either "garage-type" premises, or the acquisitions of unused factory buildings at low prices, the resources were sufficient to start up.

Bootstrapping Mentality

Once up and running, the early founders had to operate frugally and make use of limited resources. Peter Grogg, when starting **Bachem** in 1971, was crafty with his use of second-hand equipment and installations.

> **Bachem** focused initially on peptide synthesis. To start his business, and to save on needed capital, Grogg made savings in a number of areas. For his lab equipment he used elements of a simple, standard home kitchen and his friends at his former employer Ciba let him buy a used car for a small amount, filled with empty vials that had been discarded.[1]

These two additional examples are also instructive.

Hans Frei, **Plaston** founder, demonstrated how as a start-up founder he leveraged scarce time and limited resources to acquire his first customers.

> Hans Frei founded **Plaston,** aged 55, in 1956 in his parent's garage. Poor health forced him to leave his job at the textile manufacturer Viscose. He invested all his savings to buy a 60-ton injection-molding machine and began to produce plastic products for the household market. Criss-crossing Eastern Switzerland by train, he travelled from town to town to meet with buyers from major household resellers. Serving as a sergeant in the army, he soon discovered that several of his fellow soldiers were business owners. It was through this network that he secured early orders and managed to establish a reputation for quality.[2]

Paul Wyser, **Wyon** founder, leveraged his time, his limited resources, and the low-cost region of the Appenzell to save on production resources.

> In the first five years **Wyon** was located in the garage of Paul Wyser's house above Appenzell, at an altitude of 1,100 meters. It had always been important for the founder to remain independent; they did not want any money from outside investors. One friend and one business partner invested some money but with no conditions. Paul Wyser was able to continue working as an external consultant for the Swatch Group, which provided the main income for the entire development work during the first few years.
>
> Utilizing the whole network Paul Wyser had built up during his career, he and his sons had the opportunity to use various devices at institutes and companies throughout

[1] Adapted from Bachem company profile.

[2] Adapted from Plaston company profile.

Switzerland; this, however, was very cumbersome. For example, to produce a battery in the early days of the company, Philipp Wyser started work in his garage as far as his limited machinery would go. Then, to be able to weld ultrasonically, he had to go to a company in Bronschhofen. He then had to drive to Basel, to the university, where he could use a glovebox. Then he went to Zurich, to Phonak, to charge the batteries. Overall, it took about two weeks until a new battery specimen was ready. However, before investing further money in their own equipment, he wanted to be sure that the planned product would really work, at least in principle.[3]

Even in later years, founders preferred to rely on their own resources when faced with major investments. Domenic Steiner at **Thermoplan** is a case in point.

In 1995, at Domenic Steiner's usual rounds at restaurant fairs, or visiting customers and users of **Thermoplan** cream whipping and hot milk foaming machines, some suggested that only coffee was missing from the mix. The development of an automatic coffee machine for use in restaurants and hotels, however, was to require a considerable investment. Domenic Steiner, who ran a profitable business with 21 employees, decided nevertheless to take this next step. Recruiting a suitable engineering team, the company worked on the project for two years and the founder invested CHF 2 mio from his own resources into the project, partially tapping into his pension fund, to avoid having to approach external investors.[4]

And finally, **Medartis** offers still a different example. Although owner financed through founder Thomas Straumann, the resources he could commit to the ramp-up of Medartis, until it was brought to the public through an IPO, were a substantial improvement. The Straumann funding had allowed the company to grow quickly and possibly faster than if it had to do with the resources of a less financially endowed founder.

When **Medartis** was formed in 1997, the fledging operation was essentially 'non-bankable.' Thomas Straumann, in his role as sole owner and founder, also assumed the role of investor and, until the company reached profitability, loaned an amount in excess of CHF 100 mio to cover accumulated development costs and losses. *Without Thomas Straumann, there would be no Medartis today!* (Miesch, CEO).

Having turned the corner and reaching profitability, Medartis undertook an IPO on the Swiss stock market in 2018 that brought in fresh capital for future expansions, allowed the repayment of private loans and brought in some CHF 120 mio in additional liquidity that could be used for eventual expansions or merger and acquisition (M&A) activities. All of the IPO proceeds flowed into the company and existing shareholders did not sell any of their shares. The announced goal was to reinvest any profits back into the business. The company was now essentially debt free.[5]

[3]Adapted from Wyon company profile.

[4]Adapted from Thermoplan company profile.

[5]Adapted from Medartis company profile.

Leveraging External Investor Resources

As illustrated by the Medartis example, start-ups were usually not "bankable." It was probably a function of more recent developments that investor financed companies appeared towards the latter end of the research window. One of the youngest firms to join the sample of 36 companies fit this investor-funded model precisely.

> When three students and their professor founded **u-blox**, financing came initially from a group of friends and family members. Soon, however, the private equity firm Partners Group (Zug) joined as a major investor. The investment was made as a result of the founders circulating an aggressive business plan sent out in 1998 to entice investors. Following initial orders, the company was also able to attract the UK investment company 3i to join.[6]

None of the other founders and owners of the 36 companies researched had to or would have been willing to, forfeit a substantial part of their equity to bring in external investors. They preferred to go slowly and stay within their own means. On the other hand, the development task of bringing **u-blox** products to market, and the need to occupy a segment of the world market quickly, would have exhausted most of the founders' personal resources. In the end, the u-blox founders ended up with only about 5% of the company's equity. Some might argue that 5% of a large pie is better than owning 100% of a small pie.

Sometimes, additional resources were tapped through allowing new investors to join when a company was in need of fresh capital. This was the route chosen at **Caran d'Ache** when its then majority shareholder Schweitzer invited the Hübscher family to join as a shareholder in 1930.

> To achieve the ambitious goals of retrofitting the **Caran d'Ache** factory to launch new products, and to develop export markets required an investment of more than CHF 5 million, an amount beyond the means of Schweitzer and his partners. With the help of, and through the connections of Joseph Reiser, financial advisor and accountant, Jacques Hübscher, Sr., a Swiss merchant and raw material trader living in Marseille, provided the needed funds for continuing the development of the company. Intended as a loan to be repaid within five years' time, Schweitzer did not have the funds to pay off the loan. Hübscher remained invested in the firm, later became a shareholder and eventually joined its board of directors. When Schweitzer sold his shares in 1946, the Hübscher, Reiser and Christin families became co-owners of the company. Henri Hübscher (1894–1959), Jacques' son, assumed a controlling interest in 1947 for the Hübscher family.[7]

[6] Adapted from u-blox company profile.

[7] Adapted from Caran d'Ache company profile.

Utilizing Leveraged Financing

When the sale of a company was considered, leveraged financing became necessary, since the amounts in question were, typically, beyond the means of the new owner-managers. Leverage could be obtained through a bank lending facility, an investment fund, or through private equity.

When the employees of **Selectron** decided to buy out their corporate owner, the employees had only a small amount to invest directly. Additional equity financing was provided by outside investors and a large part was injected by regular bank lending.

> Banks, after first balking at the idea of a leveraged employee buyout of **Selectron**, agreed to finance about 60 percent of the acquisition price. For the 40 percent equity required, 75 percent was contributed by a group of international investors recruited and the remaining 25 percent by employees. Eighty percent of them voluntarily decided to participate, some 46 staff members invested collectively CHF 1.25 mio in their company.[8]

The investor team that acquired **Sécheron** from its financial owner, a local bank, had to inject equity, but also profited from a substantial loan made by the selling bank to leverage their equity portion.

> A group of six private Swiss investors came together and were able to acquire **Sécheron** from the bank. The partners did not see themselves as a private equity group in the traditional sense, but instead were actively involved in the business and had no plans to sell. By investing their own money, the new owners all had 'skin in the game.' The acquisition was heavily leveraged with financing provided through two banks requiring only a minimum of investor capital.[9]

Financing Current Business

For the financing of current business, and in particular, when larger investments were needed, companies often turned to bank lenders for funding. The experience of SMEs with bank lending was mixed, at best. **Datamars** relied on such funding, in conjunction with private equity:

> All acquisitions of **Datamars** would not have been possible without the backing of its principal bank and, especially, its private equity investor Columna Capital. Together with management, this PE investor developed the Datamars' growth strategy and also supported it financially. In 2017, Datamars further strengthened its investor base when Caisse de Dépôt et Placement du Québec, a large, long-term institutional investor from Canada, became the company's largest shareholder, investing alongside Datamars' senior management and Columna Capital, which had been involved financially with the company since 2011.[10]

[8] Adapted from Selectron company profile.

[9] Adapted from Sécheron company profile.

[10] Adapted from Datamars company profile.

Smaller firms, who at times need to rely on banks for the funding of current business, have reported a number of negative experiences that resulted in avoidance, if possible, of such lending.

In 1988, **Kuhn Rikon** agreed to acquire 60 percent of the shares of Spring, a company based in Canton Thurgau specializing in the cooking-at-table segment, with a strong retail presence and business to catering companies. Financing the transaction was also made difficult when the banks, initially willing to separate the buildings from the business transactions, granted 100 percent mortgages on the buildings, only to change their minds later, suddenly requesting a reduction of the mortgages to 60 percent of building value. Kuhn Rikon was also in the midst of installing a major new production system representing a large investment. The issue was resolved with the help of external friends. This led company management to 'No more banks' when it came to major financing.[11]

As a small company, **Rüeger** relied partially on bank financing. It maintained relations with the two large Swiss nationwide banks, as well as with a regional bank. **Sylvac**, another small company was also relying on bank lending.

Although sales for **Sylvac** progressed steadily to almost CHF 30 mio, the company did experience several serious downturns caused by external economic circumstances. In all of these situations, the financing through its banks became an issue. The first downturn occurred in 1990 when sales to its US distributors suddenly dried up because of banks making unilateral changes in financing customer terms without informing Sylvac beforehand. More significant was the impact of a downturn of about 1/3 in sales in 2002 when the main lender for Sylvac suddenly decided to get out of loans to measurement companies, including Sylvac. Fortunately, a regional bank stepped in to help out when Sylvac loans suddenly became due.[12]

The experience of smaller companies with bank lending for ongoing operations was often negative and became part of a strategy to steer as clear as possible from such lending.

Relying on Cash Flow and Internal Sources

Given the strong preference for independence expressed by many of the firms, it should come as no surprise that a fair number of them strove for financial independence from external investors, or from banks. To gain, and guard such independence, a strong financial performance was required and a parallel agreement among owners to reinvest a good portion of profits back into the business. This self-restriction required discipline, both on the part of company management and ownership. **Felco** had a self-imposed restraint as its guidelines.

[11] Adapted from Kuhn Rikon company profile.

[12] Adapted from Sylvac company profile.

Since **Felco** was a privately held company with a family holding as its main shareholder, no financial data were regularly made public. According to its CEO, there was little talk about EBIT at the firm level. The main financial parameter was the re-investment capacity at Felco for new equipment and projects, which was targeted at about CHF 2 mio annually, or about 5 percent of sales. The company did not avail itself of any bank financing or mortgages and was fully financed by the family-owned Flisch Holding.[13]

Even for companies with strong earnings, complete reliance on internal funding was not always possible. **EAO** used a differentiated approach to mix internal funding with occasionally accessing external lending.

When the two company founders passed away, **EAO** was debt free since the company had traditionally relied on self-financing. After the asset split into two companies, EAO and its HMI business had to live through more difficult times due to the fact that the bulk of the company liquidity had been spun-off. Regardless, EAO relied on external financing for current or short-term needs only. When building up the automotive segment, which required a considerable investment, EAO used loans for the three-year development and ramp-up period.[14]

By contrast, **Jura** was in a very strong position to achieve this financial independence because of its size and profitability.

Jura was a closely held corporation with few shareholders and ownership had not substantially changed over time. This stability in ownership and governance, combined with Jura's success, had allowed the company to remain financially independent and fund its development from internal resources. According to one insider, the company was using banks for its treasury and transaction operations, not for lending or credit purposes.[15]

Among larger companies covered by the current research, those with sales in excess of CHF 200 million, there was also a strong reliance on funding growth and business needs internally. Typical for those companies are the statements below.[16]

- **Sécheron** was financing its growth and investments from internal cash flow. As a result, the company did not see a need for going public. Sufficient resources were present to fund internal development and a group of about 100 engineers in Geneva, and elsewhere, were developing and improving its product line.
- **LEM** had a long experience with being a listed company, dating back to 1986. With its listing on the Swiss exchange, LEM had access to capital if needed. With a steady cash flow of more than 10% of sales, the company was in a position to finance its own capital needs internally from own resources. The relatively healthy profitability allowed for a targeted dividend payout ratio of in excess of 50%, appreciated by its shareholders.

[13] Adapted from Felco company profile.

[14] Adapted from EAO company profile.

[15] Adapted from Jura company profile.

[16] Adapted from the relevant company profiles of Sécheron, LEM, Burckhardt and Komax.

- **Burckhardt Compression** management believed that operating as a public company listed on the Swiss stock exchange offered some important advantages. Although the CHF 30–40 mio of free cash flow allowed the company to finance its investments internally, including the India and China acquisitions, there were always situations where access to the stock market would allow raising capital beyond its own cash flow generation. Burckhardt Compression's stable profitability and cash flow allowed for a dividend payout ratio of 50% or more.
- Through its stock market listing, **Komax** had access to additional capital if needed. Over its history, the company could rely largely on its self-generated cash flow and used external debt financing through banks for only a small part of its capital needs. Its financial performance, measured in RONCE, of 25% and with an EBIT of CHF 50 million or more, allowed for a constant investment of about CHF 20–25 million and a targeted dividend payout ratio of 50–60% of earnings after tax.[17]

Adopting Conservative Financial Policies

In general, the researched companies followed conservative financial policies. At times, this was officially stated and considered an advantage over publicly owned companies, which were subject to different accounting policies or pressures on earnings. **Maxon,** one of the largest companies in our sample and privately owned, was fully internally financed. Below are the views of three privately held companies concerning their financial policies.[18]

- Despite being a family business, **Sefar** behaved like a public company and, for example, applied accounting principles according to Swiss GAAP FER. Sefar was financed conservatively and had zero net debt in 2018. According to Christoph Tobler, this allowed for a high degree of independence, freedom and flexibility. For example, this made it possible to buy the company Monosuisse during the financial crisis.
- For almost 40 years since the company was founded, Domenic Steiner and his wife Esther were the only shareholders of the **Thermoplan**. They followed conservative business practices, funding all expansion on their own without any recourse to external financing. Being a family company, they met often and discussed and resolved issues together.
- For strategic control of **Oetiker Group**, CEO Meier-Bickel focused on sales growth as the key metric, which was targeted as exceeding market growth. Profitability ensured financial independence and was target at above 10% EBIT for its core business segments. Given present sales levels, this allowed for an

[17] RONCE stands for Return on Net Capital Employed and EBIT for Earnings before Interest and Taxes.

[18] Adapted from the relevant company profiles of Sefar, Thermoplan and Oetiker Group.

internally generated investment budget of about CHF 20 million annually. The company maintained reserves for acquisitions and sometimes availed itself of bridge financing. The ability to approach an acquisition target without having to take on credit for the deal added to the credibility as an acquirer. Oetiker operated under a long-term strategic plan for the period until 2030. Quarterly figures were not relevant in this context.

Fraisa offered a detailed example of how privately owned companies need to adapt their financial policies to the evolving needs of the economic realities.

Lessons from the financial crisis made **Fraisa** change its financial policies. Zero outside debt, financial strength and dependability became top priorities. Debt would be used for mortgages only with up to 50 percent of building value. Profitability had to ensure that the company could make CHF 8 to 10 mio of investments annually, for which the company needed both product and volume growth.

Detailed results for 2018–2019 were published as customary for Fraisa. Sales reached CHF 110 mio, with an EBITA of CHF 27 mio. This allowed the company to spend CHF 6.6 mio on R&D, invest CHF 9.5 mio in fixed assets and machinery and grow its global workforce to 547. External financing amounted for just 7 percent of total assets and the capital ratio reached 62 percent of total assets.

A crisis makes you think about things that appear to be non-touchable. For an owner-managed firm, you need to respect some limits, which are 3 to 4 percent of annual growth and not much more (Maushart, CEO).[19]

Lantal, a company subject to considerable volatility in its sector for specialty textiles, adopted a strategy to smooth this volatility through operational, rather than financial means.

In 2017, the aviation industry accounted for about two thirds of **Lantal**'s turnover, 30 percent was ground traffic and the rest was the premium segment, i.e. VIP or yacht interiors. Worldwide, Lantal had a market share of 65 percent in aircraft seat covers. Concerning the aviation industry, 90 percent or more was customer specific. Thus, Lantal made very few standard products and tried to individualize as much as possible. The aviation industry was a very volatile industry, with 95 percent of turnover coming from project business. If a project was postponed for whatever reason, there was less turnover. As a result, Lantal often had deviations from the plan of +/− 35 percent per month.

To compensate for this without having to lay people off, Lantal developed a model in which people were trained intensively and multifunctionally and could work in all three production sites in Switzerland. Yet, crises in the aviation industries have also led to some downsizing in the past. As a result of the 9/11 terrorist attacks in the US, several airlines cancelled their orders and Lantal's turnover decreased from CHF 121 mio in 2000 to CHF 89 mio in 2003. Some years later and after partly recovering, Lantal's turnover again dropped by 24 percent to CHF 86 mio, following the global financial crisis. Again, Lantal was able to recover and achieved sales of more than CHF 100 mio in 2014.

Although privately held companies pursued conservative financial policies, there was nevertheless a sense among the public companies that this independence could

[19]Adapted from Fraisa company profile.

at times lead to complacency and delayed action when changes were needed. The CEO of **Burckhardt Compression**, Valentin Vogt, expressed this observation during the interview as follows.

> As a public company subject to larger scrutiny, dealing with changes in the economy also required a different response time. During the financial crises of 2008–2009 when orders for major equipment sharply declined, as a public company management felt forced to react right away by reducing costs. *A private company might have been able to ride out the storm and wait for the economy to come back* (Vogt, Chairman and CEO).[20]

The experience of companies researched shows that conservative financial strategies were the norm, particularly for those companies that had existed for a longer period of time. For companies founded more recently, for example after 1970, the changing attitude of financial markets and the more commonly available risk capital has become visible. To maintain independence, older companies and their owners were willing to impose on themselves considerable self-restraint in terms of profit payout, to the point of foregoing considerable cash dividends to continue to grow the company.

While tapping into financial markets is now more typical, the companies who did so were pursuing approaches that allowed for a level of operational independence while at the same time ensuring stability among investors. Once achieved, following their opening to outside investors, these companies again preferred to finance themselves internally as much as possible, a return to their earlier policies, it seems.

[20]Adapted from Burckhardt Compression company profile.