

## Reporting Seed Money & Venture Capital

### BRANCO WEISS and Venture Capital – Between two major economic recessions

BRANCO WEISS, founder in 1984, first chairman and honorary member of the Swiss Venture Capital Association (which evolved later into SECA) left us on the last day of October 2010. His involvement into promotion of entrepreneurship and innovation in Switzerland was seminal but somewhat not so well covered in the reviews which have been published (e.g. Wikipedia) since. This brief notice aims to fill this gap in a timely way and with a personal touch.

#### Planting the seeds

I met Branco for the first time in June 1983 at the Gottlieb Duttweiler Institute in Rüschlikon, nearly ten years after he had sold his very profitable company, KONTRON AG, which he single-handedly had started 8 years after graduating at ETH in Zurich with a Diplom-Chemiker (M.Sc. in Chemistry) title, which was soon followed with a very practical Ph.D. thesis on the “Cost/Performance Analysis of Filtering”.

Pierre ARNOLD, CEO of MIGROS (Switzerland’s largest retailer and handpicked successor of Gottlieb Duttweiler) was organizing a two day seminar there on the theme: “The Future of Microelectronics and Microtechnology in Switzerland”. It might sound farfetched that Switzerland’s chief retailer was promoting such a national gathering, opened by a speech of the late Federal Councillor K. Furgler: in fact ARNOLD also graduated as an agronomist engineer from ETH during World War II, built up the manufacturing operations of MIGROS since his entrance there in 1958 and was one of the first Swiss top managers, who grasped very early the implications of the electronic revolution, originating from the US and unfolding since 1970 in Europe, on the fabric of Swiss economy.

The then prevailing public attitude in Switzerland, following the worldwide recession of 1980-1982 with hyperinflation in the US, was fear and resignation toward the seemingly unstoppable rise of Japan as industrial powerhouse. This applied especially to the watch-making industry, which was nearly bankrupt and had lost its traditional mechanical based leadership in world markets because neglecting electronics. ARNOLD started writing editorials in the in-house

MIGROS press, counteracting this pessimistic view and explaining in simple and understandable words and pictures to the ordinary consumer, that electronics represented rather an opportunity for Switzerland, which should be seized with determination. 1981 all the articles written by ARNOLD were edited and published again in the book “Leben mit Elektronen” (Living with Electrons) both in German and French.

Branco presented himself at the seminar as “Entrepreneur and Venture Capitalist, investing both in the US and Switzerland”, raising the eyebrows of many attending managers of traditional Swiss companies, accustomed to the staid way of conducting business along the lines they had learned as high ranking officers in the Swiss Army. He pleaded for renewal of the structure of the industry by fostering new companies and bringing in new blood into the management suite. After him Waldemar JUCKER, the head of the Swiss Federal Agency for Innovation, blew in the same direction, outlining that the Government was ready to support financially innovative R&D projects emanating from young small companies. Until then, most funding went to large well established firms, which only could afford the paperwork needed to submit proposal to the Agency. In the final panel discussion chaired by me, as invited speaker on microelectronics (the title of my contribution was: “Chips looking for Opportunities”) a kind of consensus developed, that the time was now ripe to stop talking and move ahead. The road map for action was now clear.

At a subsequent meeting organized by ARNOLD at MIGROS headquarters in the fall of 1983 many participants established a more personal relationship. We decided to follow the example of what was done in the US, bypassing the traditional financing channels of the Swiss banking system.

#### SVCA and the entrepreneur of the year award

So I took the initiative of convening preliminary meetings of parties familiar or interested in Venture Capital at the Federal Institute of Technology of Lausanne (EPFL) during the spring of 1984, which culminated with the foundation of the Swiss Venture Capital Association (SVCA) in August 1984 in Bern and the election of its Executive Committee, where Branco became Chairman and I assumed the duties of Secretary. Just few months before the European Venture Capital Association (EVCA) was founded in Bruxelles, so our

move was no small feat, given the traditional time lag that Switzerland was exhibiting, when confronted with new trends. Of course SVCA immediately became member of EVCA.

The Swiss Banking Association promptly issued a booklet, where it was demonstrated that all realistic innovative projects submitted by industry could be easily financed with credit lines provided by banks, implying that equity financing was only for very speculative projects, doomed anyway to fail. The term itself of Venture Capital sounded subversive and it was quite difficult for us to have the Federal Commerce Registry in Bern accepting that "Swiss" could stay in front of Venture Capital Association in our official designation. Our official written language being English, it was only the English version of our name that was finally accepted, because there was no acceptable translation of it in German, French and Italian.

Clearly a lot of communication and media work was necessary for lowering the cultural barriers and this was the work that Branco cut out for himself as Chairman of SVCA. Leaders show the way by example: in parallel with meetings organized by SVCA, Branco set up the Swiss Entrepreneur of the Year Award (prize of 50'000 Francs out of his pocket), singling out during ten years (1984-1993) a Swiss entrepreneur, that had successfully started and grown a company. The Jury of the Award included among others Waldemar JUCKER, the chief editor of the new German speaking economic magazine BILANZ (A. ZGRAGGEN) and the chief editor of the likewise new French speaking magazine HEBDO (J. PILET). Each year submissions were collected, analyzed and finally the Jury made a "on the spot" visiting tour of the three top candidates. Everything was organized and funded by Branco, last but not least the excellent gourmet restaurants along the way, where to make a welcome stop for lunch or dinner and pick the winner.

The brightest choice among the ten Awards in hindsight has been Daniel BOREL and his LOGITECH start-up, which achieved global status and market share competing with Microsoft in the field of computer peripherals. The funniest one was, when at the end of the self-imposed period of ten years, the choice fell on Nicolas G. HAYEK, who was one year older

than Branco (he passed away just 4 months before Branco).

Pierre ARNOLD had taken on 1983 the duty of Chairman of the Board of SMH (Société Suisse de Microélectronique et Horlogerie, which 1998 become the The Swatch Group), helping thereby another Swiss establishment's outsider to get funding and credibility for that famous merger/turn-around deal, which today is publicly traded but still family owned. But already 1986 ARNOLD parted the way with HAYEK and left in anger, committing his MIGROS to buy branded M-Watches from a competitor of SMH.

The two successful immigrants, Branco, with his Eastern European Jewish background and Nicolas, with his Lebanese Greek-Orthodox background were initially suspicious of each other and it took a lot of meetings between them for convincing Nicolas that there was no hidden agenda behind the bestowing of the last Award upon him. Finally the Award ceremony ended in a beautiful lunch in one of Zurich's top Zunft-Restaurants and each participant got a golden limited edition quartz watch, with Nicolas' name imprinted on the dial.

Toward the end of his Chairmanship of SVCA, Branco published 1991 the book "Praxis of Venture Capital", where he contributed personally the last chapter, aptly titled "Who goes under, who stays afloat": its checklist is still an absolute must lecture today for anybody who wants to embark in equity financing of young enterprises. Of the many young enterprises deals that Branco financed in Switzerland during that period together with other associates of SVCA, none made it, prompting him to refer often to the saying that "Wisdom comes from experience and experience comes from lack of wisdom". But his VC gains made in the US would more than offset such learning expeditions in Switzerland. During the same period of time Branco was also dispensing post-graduates courses at ETH for engineers, to make them acquainted with the practical aspects of technology transfer and entrepreneurship. Out of these courses a documentation was edited (in German) and made available to all SVCA members and to interested teachers and professors at Swiss schools.

One equity deal (kind of a turn-around) stands out though: ESEC (European Semiconductor Equipment

Company), founded in Cham by Karl NICKLAUS, former technical guy of the Kulicke & Soffa US semiconductor equipment firm. ESEC was limping along in the European market with insufficient financing and marketing. Branco made a deal with NICKLAUS, injecting money and marketing expertise, leading ESEC into the fast growing Far Eastern markets, where the prestige of Swiss precision manufacturing was the best selling reference and grew the company very fast to become a global contender. With flair for good timing he (and obligingly NICKLAUS) sold the company to the ailing Oerlikon-Bührle conglomerate, which was happy to pay a very hefty price for acquiring a sorely needed high-tech leg, complementing the vacuum-equipment manufacturer BALZERS they already had in their portfolio.

Ten years after the 1980-81 recession, the economic environment in Switzerland had changed (Berlin Wall 1989, Refusal of the EEC treaty by popular vote in 1992) and Branco wisely decided that he should pick up other challenges and invest more time and money in education and development of human resources. SVCA was morphed into SECA, its focus shifting to private equity and corporate finance, more in line with the purely financial environment of Zurich, Geneva dropping out of sight. But the pioneering work was done and slowly common people (and even journalists) began to understand the difference between debt and equity financing of young enterprises. Paradoxically enough the same Swiss bankers, who were warning about the risks of Venture Capital, drove blindly into the blast of the mortgage bubble, that had built up by free-wheeling real estate debt financing in the late 1980's and lost collectively 40 billions Swiss francs in the process. But nobody officially complained.

### **Harvesting the long term fruits**

Nowadays Switzerland is being ranked as one of the most innovative countries in the world. Organizations like the CTI (Government's Commission for Technology and Innovation), associated with the internet Venture-Lab Platform for Entrepreneurs and the CTI-Invest Club have bridged the gap between technical innovation and creation of start-ups. The biannual Venture Contest, sponsored by ETH and McKinsey and backed by established big Swiss firms, is selecting among close to 200 submitted business plans the 10 most promising start-ups and granting to the three best of them monetary incentives and publicity. Many

foundations, like de Vigier and Gebert-Ruf as well as Business-Angels Clubs are also providing early money and international exposure to would-be entrepreneurs. Now enough money and knowledge are at hand, the challenge has really shifted to the grooming and development of high-profile entrepreneurial personalities (quite often non-Swiss nationals), to help them expand into international markets, since all successful Swiss enterprises are doomed to export, like KONTRON already did in the early 1960's. This state of affairs owes a lot to the seminal work, intellectual and monetary investment, that Branco deployed since he sold his enterprise and started thinking and looking for ways to put his money and expertise to work in favour of the next generation: he felt indebted to the country, the school and the people, who welcomed and helped the poor 12 years old Jewish boy and his mother, fleeing from the dangerous Milano at the beginning of WWII and luckily getting admission into the Swiss safe heaven at Poschiavo.

### **Looking ahead**

Branco left the scene, when a much more dangerous repeat of the 1980-81 world recession swept over global markets, with oil and gold price reaching again unprecedented peaks, but with interest rates at abysmal low levels and fears of rampant deflation instead of inflation. A fundamental but totally overlooked economic law is still at work, as it has been since its inception in 1965: Moore's Law, which provides for an exponential growth of the performance/price rate of microchips (every 18 months performance doubles at constant price). The disruptive power of this Law made Internet and the decoding of the Human Genome possible and has, together with fiber-optics and satellite technology, completely revolutionized the field of global wireless communication and computing. There are today 5 billions cellular phones in use in the world and GPS can locate you with an accuracy of a meter everywhere on the surface of the globe. There is still a lot of room for new ventures, after the flop of the Millenium Bug in 2000 and other cyclical repeating dead ends extrapolated by tech fans. Branco recognized the far-reaching potential of Information Technology (formerly "Electronics") and donated a very substantial sum to ETH for setting up in its new Science City campus an "Information Science Laboratory" for interdisciplinary applications. But the décor of the scene has been shifting in quick steps to the

Pacific Area: I just discovered that SVCA stands now for Shanghai Venture Capital Association!

Another trend will have far-reaching implications. Instead of riding down since 1982 on worldwide falling interest rates, with “irrational exuberance” deals and “light covenants” loans, we will be confronted from now on with the next 30 years of steadily rising interest rates. This can only mean that the surviving entrepreneurs have to become even more hardnosed in raising equity capital and especially in managing their cash-flow, which is by the way, the most valuable advice that Branco set out in his check-list at page 180 of his book on Venture Capital.

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