

# SCRAPING THE BARREL

For three years now, Nobel-Biocare-Director Domenico Scala has been trying to crack the nut of turnaround. Now, his time at the dental implant company is running out.

► STEFAN BARMETTLER AND STEFAN LÜSCHER TEXT / GIAN MARCO CASTELBERG PHOTOS

He leans back in the chair until it squeaks, folds his hands behind his head, crosses the right leg over the left. Every now and then he leans forward, reaches for a piece of chocolate from the table, lets it melt in his mouth with pleasure and folds the paper to exact strips with his fingers. Domenico Scala is personified calmness. He is charming, sociable, laughs heartily again and again.

Nothing seemed to unsettle the man with the unmistakable Italian influence. For a good three years now, he has been managing the dental implant producer Nobel Biocare outgoing from the enterprise headquarters located on the Balsberg close to the Zurich airport where the Suissair machine crashed. Is Nobel

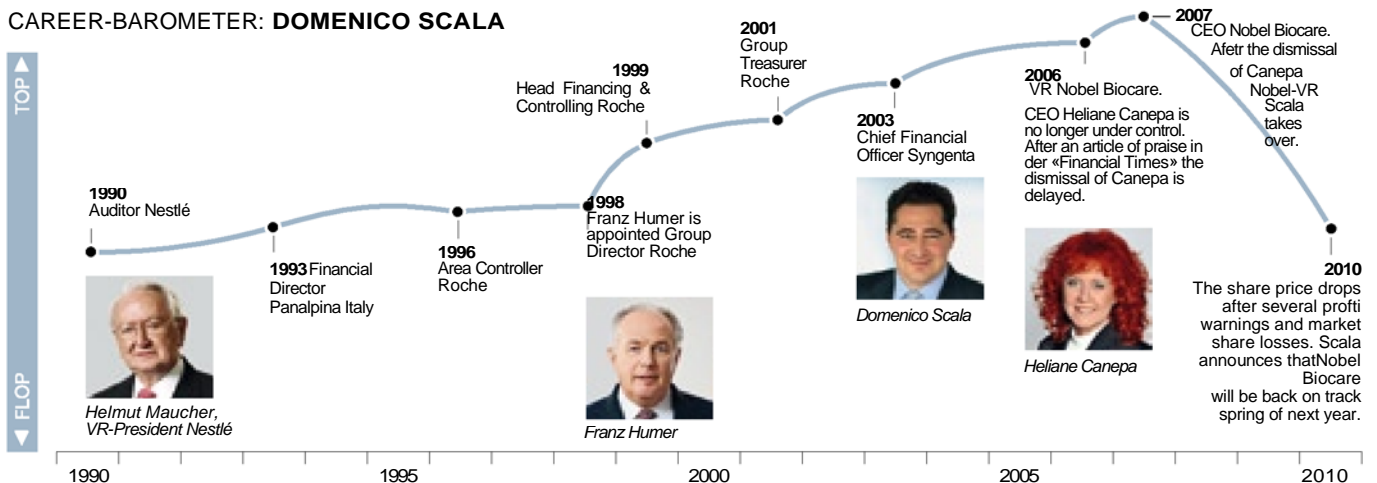
Biocare not fighting massive fluctuation? «Gar kai Froog» (Oh, sure) he says in the broadest of dialects. Did the management not make many mistakes? Gar kai Froog. Are the shareholders not disappointed by the fallen stock price? Gar kai Froog.

Only the damp patches in his armpits reveal that Scala in tense on the inside. The 45-year old man who unexpectedly resigned as financial director of Syngenta in the summer of 2007 was placed at the top of Nobel Biocare as successor of Heliane Canepa in September of the same year. Known as an intelligent and clever man of numbers, his specialist competence in the area of dental implants was little: one-and-a-half years of experience on the Board of Directors of the company.

A few weeks prior to the change of jobholders, Scala and Canepa had to present surprisingly disappointing numbers for the first half-year of 2007. It was the beginning of a line of poor results. Domenico Scala started his job at a time when the financial crisis was just starting to rear its ugly head. The dental implant branch was regarded as crisis-resistant – an assumption that was to be proven wrong. Scala was consistently chasing reality with his prognoses, had to report several profit warnings over the following months and with that destroyed his own creditability.

The entire branch has been suffering for three years now, but Nobel Biocare was hit the hardest.

## CAREER-BAROMETER: DOMENICO SCALA



Fotos: Gauby Genster (1), RDB (1)



Domenico Scala, called to the top level of Nobel Biocare, must suffer more losses with his company than the competition.

**COMPANY MANAGEMENT**

# Start of a new era

## How the Medtech company changed since 2007

**CEO (to mid-year 2007)**

~~Heliane Canepa~~

**Financial**

~~Director: Thomas~~

**Marketing & Produkte:**

Robert Gottlander

**Europe / Near East / Africa:**

Jacques Gutedel

**Planning & Technology:**

Mathias Krebs

**North America:**

Kevin L. Mosher

**Latin America/Asia:**

Thomas M. Olsen

**CEO (since September 2007)**

Domenico Scala

**Financial Director:**

Dirk Kirsten (since 2008)

**Marketing & Products:**

Hans Geiselhöringer (since 2010)

**Europe / Near East / Africa:**

Alexander Ochsner (since 2008)

**Latin America/Asia :**

Thomas M. Olsen (since 1994)

**Research and Development:**

Hans Schmotzer (since 2008)

**Business Development**

**and Strategic Planning:**

Petra Rumpf (since

2007)**North America:**

William J. Ryan (since 2010)

**Logistics:**

Ernst Zängerle (since 2009)

**Communication:**

Nicolas Weidmann (since 2007)

► This is visible in the share price. In the annual report 2007 Scala promised: «Nobel Biocare is obliged to create value for the shareholders.» Reality looks different. Since the change of direction, the shares lost three fourth of their value. Scalas remark that the competition is also suffering is only partially true. The greatest competitor, the Basel company Straumann, mastered the crisis better. His share price only lost 35 percent in the same period.

The most meaningful shareholders of Nobel Biocare, among them the largest US asset manager, BlackRock, or the financial associations Artio and Manning & Napier demand better results after three long years of downfall. For Scala, the situation is dramatic, his job is hanging by a thread. Speculations about how he will be able to hold the position are already being made.

Measuring him by his statements, he should have been long gone, gar kai Froog. However, he also says :«We are surely not satisfied, the current share price does not mirror our position nor our potential. The

development of the last years also led to a loss of trust.»

Not only the investors but also the Board of Directors are seemingly running out of patience. Sales movements are becoming visible. Rolf Soiron, who brought Scala into the company as CEO and has backed him since that time resigned from his position as president this summer - in

## THE MAREKT LEADER OF ONCE IS NO LONGER NUMBER ONE.

A very delicate phase. «The company appeared to be on a way of improvement, Scalas hard work and his measures started to be effective. In 2009 I expected that my resignation would take place just when the results turned positive again», he justified his decision. However, the results were less than poor again this year, while Straumann was able to gain ground (see

«Control Checkup» on page 47). A small detail on the side that does not give the Board of Directors the best rating: Canepa should have been replaced already in autumn of 2006, the day of her release was already set. When the «Financial Times» appointed her one of the 25 most important managers of Europe, the insecure Board of Directors cancelled the release last minute. Heliane Canepa, who apparently did not know of this manoeuvre, was allowed to make one last lap of honour.

**SLIPPED.** Scala, back then on the Board of Directors himself, took over in autumn of 2007. The thing that pains the Canepa successor most today : Nobel is continuously losing market shares. Especially the competitor Straumann is gaining ground, but also Astra Tech or low-price providers like Implant Direct. Nobel Biocare, once the undisputed market leader, is no longer number one. According to the assessment of Helvea-Analysts, Straumann will take a 19.4 percent piece out of the 5.2 billion Franc implant cake this years, while Nobel Biocare has to admit defeat for the first time with 19.3 percent. In the letter to shareholders Scala promised months ago he will «put every effort into» Nobel Biocare strengthening the number-one-position in the dental industry.

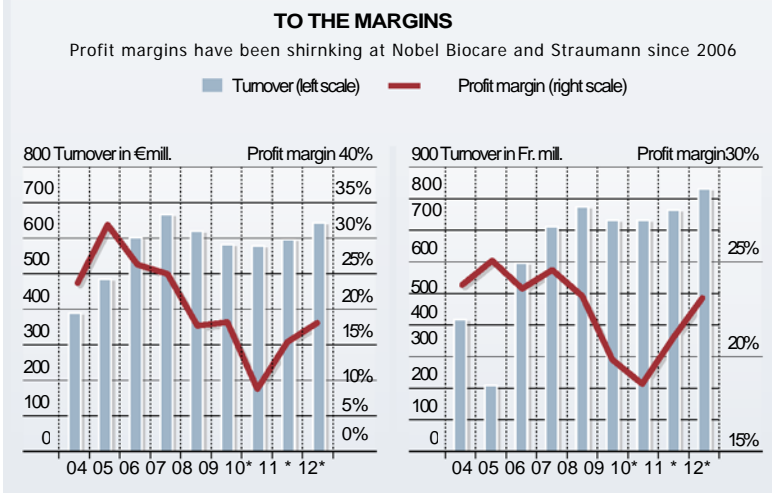
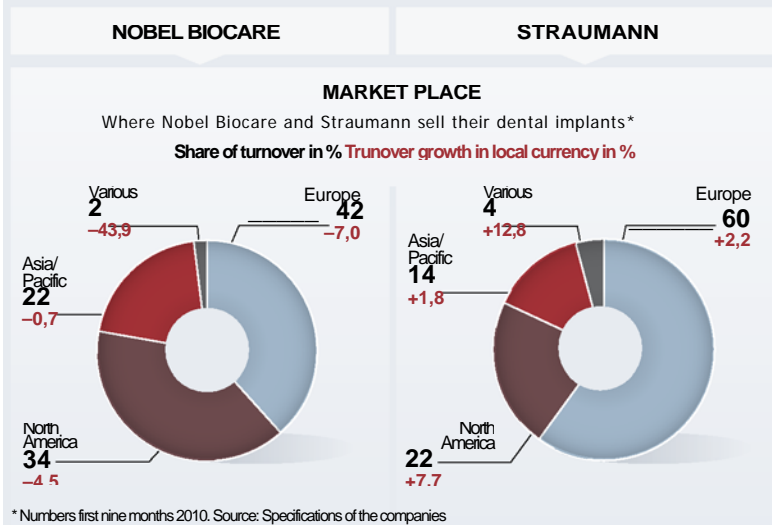
Coming from the defensive, Scala made new promises. He announced to at least grow again with the market «in six to nine months». Thus setting himself an ultimatum. If Nobel Biocare loses further market shares the first quarter of 2011, Scalas time is definitely up. «The Board of Directors will not watch indefinitely», says the new president Heino von Prondzynski. And what does that mean exactly ? «If the numbers are not better at the latest in this period, the Board of Directors must conduct this discussion.»

That von Prondzynski stays discreet is not surprising to the branch. He is handled as a potential successor of Scala. The former pharmacy manager declines: «At the age of 61 I am hardly adequate to take the place of CEO of a young and emerging company.»

Where does this modesty come from ? In earlier times anyway, the German was less reserved. Six years ago, as Director

of the Roche-division Diagnostics,

## Open wide - A closer look



**CONTROL CHECKUP**  
Nobel Biocare and Straumann compared (numbers for the first halfyear 2010)

Nobel Biocare		Straumann
386,1 Mio. Fr.	<b>Turnover</b>	392,4 Mio. Fr.
-6,3%	Change in local currency	+4,2%
19,3%	<b>Market share global*</b>	19,4%
75,1 Mio. Fr.	<b>Company profit Ebit</b>	98,8 Mio. Fr.
-12,3%	Change	+5,3%
19,4%	Ebit-Margin	25,2%
77,2 Mio. Fr.	<b>Net profit</b>	82,0 Mio. Fr.
20,0%	Net profit margin	20,9%
285,2 Mio. Fr.	<b>Liquid means</b>	279,0 Mio. Fr.
2397	<b>Number employees</b>	2268
161 080 Fr.	<b>Per-capita-turnover</b>	178 360 Fr.
432,6 Mio. Fr.	<b>Equity</b>	655,3 Mio. Fr.
43,6%	Equity rate	79,3%
38,1%	Return on equity	27,5%
1980 Mio. Fr.	<b>Market capitalization**</b>	3240 Mio. Fr.
-53%	Price trend 2010	-28%
-76%	Price trend 3 years	-36%

\* Estimate Helvea, for the total year 2010. \*\* As of mid-year November 2010. ©BILANZ-Graphic

► he dictated to «Cash» journalists: «I trust myself by all means to lead the entire Roche group.» And he surely trusts himself to do this also at Nobel Biocare.

That Scala will soon shine in market growth is doubted. Even after his three years of work, the company is a gigantic construction site. Two dozen meetings with dentists, scientists, analysts, competitors and employees conjure up the image of an insecure company that has suffered dramatic losses of market shares, specialists and reputation these last years.

In the main market USA, the High-End-provider suffers mainly from the crisis. But also in Germany, the second most important sales area, Scala has not yet managed the turnaround by far. When he accepted the position, the company sold 50 000 implants there, the number for 2010 is set at 35 000. Turnover is said to have lost 40 percent to 25 million euros. Scalas comment

## TURNAROUND IS NOWHERE IN SIGHT.

◆

«We are still performing below market.» A dramatically negative trend in an otherwise slightly growing market.

**SHAKE UP.** Not only the loss in the core business is drastic, but also the fluctuation in the national companies. Currently, Germany is temporarily led by Europe-Director Alexander Ochsner. The last national Director left half a year ago, his predecessor, also positioned by Scala only stayed a few months. Over the last ten years, no less than eight national Directors came and went in Germany.

Name signs on doors are not only being changed in high cadence in Germany. Under Scala, 34 of the 37 National Directors were dismissed. If you do not make the right numbers, you have no reason to stay on. A risky personnel policy in a market that lives from close relationships with dentists and oral surgeons.



Scala with a sceptical view of the future: His time at Nobel Biocare is running out.

released negative stories about him. Ultimately even the Zurich public prosecutors office was informed and a former employee was held in remand for four weeks. Scala had to contract financial experts from PwC for months as a replacement for the released financial team.

**BRAIN DRAIN.** Domenico Scala the fighter is surely not to be envied. Still, he managed to reduce the fluctuation rate that reached peak numbers of 30 percent under Canepa. But nevertheless, Nobel-Biocare-employees are susceptible to changing jobs. The turnover in field service work is dangerous. A departing employee takes along 20 to 30 percent of his turnover with him to the competition, says the branch. Things are easier for competitor Straumann: His sales personnel is more loyal, which is valued by the traditional dentists guild. Still, Scala remains confident: «Prior to my time, we had a Brain Drain, but meanwhile we were able to get many experienced people on board.»

Nearly already with the courage of desperation, the Nobel-Biocare Director is trying to counter in Germany, applying unusual sales methods. Dentists are baited with a super discount under the title «Simple change to Nobel Biocare»: They are offering to purchase up to 100 implants including components of the competition, if the dentist acquires the same number of implants from Nobel Biocare. The dentist benefits from a 60-percent discount. «Absolutely unusual for the branch», says one competitor. Factually, exchanges at ratios of 1 : 3 or 1 : 2 have been recorded until then, but never 1 : 1. Scala denies the fact of expensive acquisition of market shares: «We are no more aggressive than the competition.»

After all, he is able to say he brought the relationship to the German association for implantology and to the association of oral surgery back to a normal level. Under Canepa, the relationships to these branch associations were broken. She had provoked a factual boycott with her sales methods («Teeth-in-an-Hour»).

Another permanent trouble spot is Sweden, the country of origin of No-

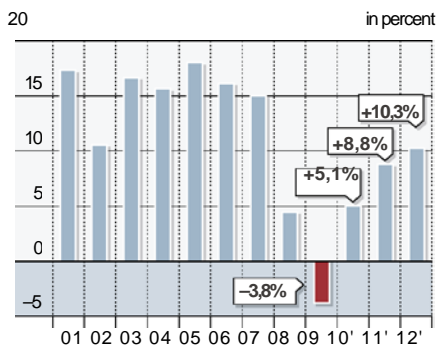
► The astounding wear of managers in the German market repeated itself also in Switzerland. Michael Studer is already the third national Director within only three years. Studer, who joined the Scala team in 2009, was told by Swiss dentists they would by all means look forward to seeing him again next year -

provided he would still hold the position then.

A further construction site was the financial department at headquarters. Scala had been jobholder for only six months when the great exodus commenced. Apparently people of this department had plotted and schemed against him and

**GAPS**

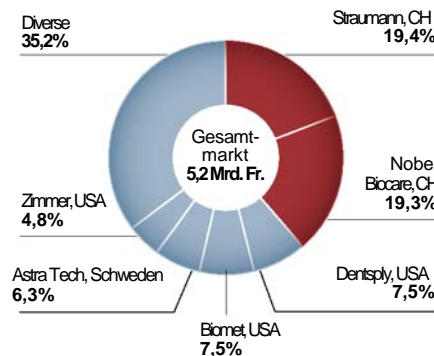
Market development for dental implants 2001 to 2012



\* Estimate. Quelle: Helvea

**SWISSPOWER**

World market shares of the leading providers of dental implants



Source: Helvea. © BILANZ-Grafik

► bel Biocare. Canepa was consistently arguing with dentists that had filed charges against the company. Under Scalas management, the double company residence Switzerland/Sweden was resolved and the headquarters at the foot of the Balsberg was built up as veritable company residence. But most Swedish did not want to move to the Zurich suburb. The consequence: Another massive Brain Drain. A former top manager remembers: «With the concentration in Switzerland, hundreds of years of experience were lost.» Domenico Scalas analysis: «We centralised a large part of the enterprise functions at the headquarters and created over 100 new positions, positions that were correspondingly cancelled in Göteborg.»

The competition rejoices: Half of the research location of Astra Tech in Sweden is equipped with former Nobel-Biocare-people. Also at other locations, former Nobel-Biocare-top managers have a firm grasp of the shift levers, pressuring their former employer.

Many people were up for hire at Nobel Biocare. Except for the Director of Asia, Scala replaced the entire enterprise management over the course of the past three years. The branch experience decreased almost simultaneously, even if Scala denies it. He also denies the branches reservation of him being primarily a financier who is based more on numbers and less on customer needs. His first official act at Nestlé – he hired

## ABOVE ALL, THE COMPANY NEEDS A STABLE ORGANISATION.

in audit – he went into the markets with the sellers. Also at Roche he did not only manage finances he says. «I was part of the core team in the restructuring of Roche.»

The core team at Nobel Biocare includes CFO Dirk Kirsten, Strategy Director Petra Rumpf and Marketing Director Hans

Geiselhöringer. Except for the latter, none of them have worked in the dental branch. Geiselhöringer managed a dental laboratory in Munich, Rumpf (internal designation «the secret CEO») worked for the consulting company Capgemini, Kirsten came from the seed producer Syngenta, like Scala. Together, they want to free the company from the claws of crisis. It is understandable that the CEO dreams of more stability after the turbulent last three years. «What we need in the company right now is stability in the organisation.» A further core task is to improve the still damaged reputation. Scala wants to build on academic excellence, cooperation with universities and speciality conferences. An important marketing tool is the P-I Bränemark Symposium that Scala conducted for the first time in Göteborg in autumn of 2009. The name giver of the congress, the Swede Per-Ingvar Bränemark, holds the reputation of being the father of modern dental implantology. 200 dental experts participated in the event. Scala called it a «scientific highlight of the year».

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The second event is planned for spring next year.

Just recently however, Nobel-Biocare figurehead Brånemark caused an internal scandal. In a letter to the «valued Nobel-Biocare-Board of Directors» he was quick at the draw against Scala and his management team. Quote: «The direction the current managers of the company have chosen will lead to a further downfall of Nobel Biocare.»

Reason for the forceful letter was the dismissal of group management member Robert Gottlander. Domenico Scala had gradually deprived the Swede, once a close confidant of Canepa, of power, and dismissed him several weeks ago. Gottlander, wrote Brånemark, was «the only top manager with a broad scope of branch knowledge and longstanding experience» at Nobel Biocare.

Scala dismisses the letter of the 81-year old Brånemark as a reaction of a frustrated man, driven «by the anger about the dismissal of a friend in management». Apparently, clarifying discussions have taken place.

A few days ago, Nobel Biocare declared that Brånemarks Non-Profit-Clinic in Bauru, Brazil would continue to receive support. Conciliatory feelings regarding the next symposium are also to be expected.

**SCALAS TIME IS RUNNING OUT.** The analysis of Brånemark would be worth a footnote at the most, but the letter including the call for a collection of protesting signatures against Scala is already on the market and making its way among financial analysts. The episode also shows: This high-profit, growth-oriented Medtech branch is a village, where gossip about the competition is passed on with pleasure. Scala takes it lightly, as it seems: Nobel Biocare as branch innovator has always triggered many emotions. It does not make it easier for him though.

Not only Scalas time is running out, the Nobel Biocare clock is ticking as well. With the drop of share price, the company «turned into a candidate for takeover», says Helvea-Analyst Daniel Jelovcan. The company was rated at

over eleven billion Francs in peak times, today, its rating is two. This is still too large for the competitor Straumann: The competition authorities would most probably object in several countries. Jelovcan sees 3M and Johnson & Johnson as possibly interested parties. Further names are being passed around: Bausch & Lomb, a lens group from New York, and the Swiss Medtech company Synthes, each of which would be able to build up a fourth division with the acquisition. «Nobel Biocare is not yet stable. The interested parties will wait and see how the situation develops», says David Kâgi, financial analyst for Sarasin.

For Domenico Scala, a takeover would not be inconvenient. He would not lose face, would be able to resign as company director who was stopped just short of the turnaround he propagated. His comment concerning a possible takeover offer: «This is the responsibility of the Board of Directors. The company is operationally and financially able to realize the strategy independently.» Scala must prove this over the course of coming months. ■

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