Picture perfect

A passion for photography and an appetite for risk inspired Andreas Kaufmann to invest in Leica Camera AG eight years ago. Today, as Chairman of its supervisory board, he has helped to cement the company's reputation as one of the most exclusive camera brands in the world

words Rhea Wessel_ **photography** Jens Umbach

"I actively try to retreat, reflect and find out what's necessary"

The portrait of Che Guevara that became a symbol of revolution. The Vietnamese girl who screamed under a napalm attack. These are just two of the iconic images that owe their existence to a Leica camera.

As a young man, Andreas Kaufmann noticed that almost everyone he spoke to was convinced that Leica cameras were among the best in the world. That's why, in 2004, the investor's interest was piqued by the opportunity to take a stake in Leica Camera AG. There had to be a reason why the brand had such a cult-like following.

Keen to play his part in the regrowth of this prestigious brand, Kaufmann decided to buy a 27.4% stake in the company through his investment holding, ACM Capital Management. Six months later, however, it became clear that Leica needed restructuring. Kaufmann's brothers, who were then partners in the investment firm, split amicably and divided assets, each striking out on his own. Here was Kaufmann's chance to indulge his appetite for risk by taking a hands-on approach to turning the company around, despite his lack of experience in the industry.

This entrepreneurial spirit came, in part, from Kaufmann's roots in a German-Austrian industrial family business that owned Austria's largest pulp, paper and packaging company for more than 100 years. Yet he hardly grew up talking business at the dinner table: in 1971, the family declared that none of its members should manage the business at the operational level. They could, however, participate as members of the supervisory board.

"We were totally free to do what we wanted. I studied German literature and political science," recalls Kaufmann, who became a teacher at a Waldorf school before playing an active part in the family's business.

Kaufmann's father had always advised his sons that, regardless of their choice of vocation, they would succeed by creating moments of inner quiet and learning to separate the essential from the non-essential. "Even now, I actively try to retreat, reflect and find out what's necessary and what's not," says Kaufmann.

Left: Andreas Kaufmann has taken a hands-on approach to managing the growth of Leica Camera AG **Below:** Photographer Alberto Korda used a Leica camera to take this iconic shot of Che Guevara

This ability to prioritize the most pressing issues has proven invaluable for Kaufmann in his role as Chairman of Leica's supervisory board. Having failed to make the transition from analogue to digital photography, the company had almost become insolvent in 2005, so Kaufmann's first challenge was to steer sharply toward the digital realm and repair Leica's finances. He invested in R&D, made management changes and revamped the way the company sells and distributes its high-end cameras and lenses. By 2009, Leica had turned a corner. From then on, it kept growing: it saw record sales of €248.8m (US$329.8m) and a net profit of €36.3m (US$48.1m) in the financial year ending in March 2011.

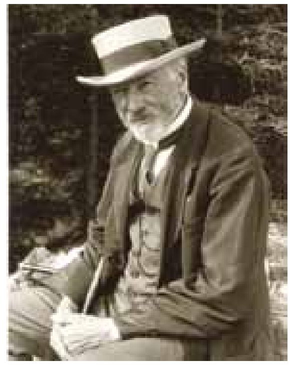
The second phase of Kaufmann's strategy is to expand Leica's presence around the world through new distribution channels, flagship stores and partnerships with luxury brands such as Hermès, a former investor in Leica. He is doing this with the private equity group Blackstone at his side; in October 2011, Blackstone bought 44% of Leica's shares from ACM, which remains the majority shareholder.

Under Kaufmann's leadership, Leica has revamped its distribution strategy in Japan, Switzerland and France. The company has bought back its distribution networks and has changed contracts with dealers to ensure that they meet quality standards, hit price points and distribute selectively.

In addition, the company has begun launching flagship stores in prime shopping areas that feature only

Leica: History of a brand

- **1849** *The optician Carl Kellner founds an Optics Institute in Wetzlar*
- **1869** *Ernst Leitz becomes Managing Director*
- **1914** *Oskar Barnack constructs the Ur-Leica*
- **1924** *Ernst Leitz II puts the 35mm Leica (Leitz Camera) into mass production*
- **1932** *The 100,000th Leica II rolls off the conveyor belt*
- **1956** *Ernst Leitz III takes over management of the company after the death of his father*
- **1973** *Leica opens a factory in Vila Nova de Famalicão in Portugal*
- **1986** *Leica GmbH is founded and combines all Leica activities*
- **1987** *Ernst Leitz Wetzlar GmbH and Wild Heerbrugg AG merge to become the Wild Leitz Konzern*
- **1988** *The company moves to a new factory in Solms, Germany*
- **1990** *Wild Leitz Holding AG merges with The Cambridge Instrument Company plc to form Leica Holding B.V.*
- **1996** *Leica Camera becomes a limited company, Leica Camera AG*
- **2005** *ACM Projektentwicklung GmbH joins the company under the leadership of Dr. Andreas Kaufmann*
- **2011** *Leica Camera AG completes a turnaround and announces a record turnover for 2010–11*



Above: Ernst Leitz, Leica's first ever managing director **Right:** Leica cameras are renowned for their technical quality and distinctive design

"We're not a luxury brand, but we are elite, and price plays a role in how we see products"

the Leica brand and offer exhibition space for the work of local and international photographers. In 2006, Leica opened the first such store in the Ginza district of Tokyo; by early 2012, it had 34 franchised, stand-alone Leica stores and 50 Leica boutiques (areas within larger stores) in 18 countries. Before Kaufmann became involved in the business, Leica had no physical presence outside Germany; today, the brand is present in 54 markets.

In 2009, as part of the drive to strengthen Leica's image internationally, the company launched a fresh approach to product development that saw all R&D conducted with an eye toward price levels. "In the past, if an engineer had an idea to improve a camera, we might have pursued that with abandon. With our new process, we first make sure that any developments working their way through the pipeline will be ones that will sell at a particular price," explains Kaufmann. "We're not a luxury brand, but we are elite, and price plays a role in how we see products."

Leica certainly seems to have found the right mix of technical quality and distinctive design at prices acceptable to the market. While its cameras may – to the untrained eye, at least – appear "retro" in style, customers are still willing to pay tens of thousands of dollars for them.

In 2010, Leica asked Volkswagen's design chief, Walter de'Silva, to rework the M9 Titanium for a limited edition. "De'Silva is considered a god in design," says Kaufmann. "We were able to hire him because we found out that a large number of Volkswagen board members are Leica customers."

The company produced 500 copies of the model, which each cost €22,000 (US$29,160). "We sold out in three days," Kaufmann states. Building on this success, Leica plans to launch another special edition of the camera later in 2012, this time co-designed by de'Silva with a Hermès case and retailing for an estimated €40,000 (US$53,017).

Where next?

While product launches of this kind help to reinforce Leica's exclusive image – not to mention boost its revenues – the company still has only a tiny share of the global market for cameras and there are plenty of growth opportunities ahead. Kaufmann is making changes in Asia, and looking to expand into South America, India and the Gulf, where Leica is hardly present.

To take advantage of strong demand for high-end products in Asia, Leica has focused its expansion priorities there in the past few years, having set up a distribution company called Leica Camera Asia Pacific Pte. Ltd. in Singapore in 2009. It also entered a joint venture in Korea in 2011 to focus on sales and marketing, and there are plans to do the same in China in 2012. The stage is set for accelerated growth.

Now, however, the challenge for the company is to ensure that the pace of production keeps up with the rate of expansion and the introduction of additional distribution channels, such as internet sales. Leica is building a new factory in Portugal as part of its efforts to increase this pace.

"We have a backlog of probably 35% of our annual turnover," says Kaufmann, acknowledging that the waiting list for certain handmade, high-end lenses can be up to a year long. "Producing at Leica is a tricky process. It's not automated. We're increasing productivity, but it still makes sense to do some things manually."

It will take time to find the right balance between speed and quality, but Kaufmann – like his father before him – has never been one to rush things. "We usually live under continuous time pressure, so creating the space to reflect is not easy," he says. "My father's advice was among the best I ever got, and his words keep ringing in my ears."

Viewpoint

Private equity gets entrepreneurial

Sachin Date, EMEIA Private Equity Leader, Ernst & Young

Entrepreneurs and private equity investors have more in common than some might expect. The two groups are tenacious, focused and capable of spotting new opportunities on the horizon. Their roles are also inherently linked: entrepreneurs with strong business ideas seek out the capital – and, sometimes, the know-how – that private equity investors have accumulated, while private equity investors are often keen to invest in young companies that are in the early stages of growth.

Private equity firms can therefore make a significant and positive contribution to the companies they invest in, depending on the stage they have reached in their development. Often, the capital invested comes with support from seasoned managers, including retired CEOs who can bring their skills and expertise to the board of the portfolio company. These private equity investors are not your average consultants: typically, they roll up their sleeves, make hands-on strategic interventions and get involved in operations, should that be part of the arrangement.

Take the example of international expansion. If a portfolio company is pursuing that goal, a private equity investor can help make introductions to potential partners around the world and give concrete suggestions to the company to ensure the success of its expansion strategy. In some cases, the portfolio company may be entering a market that is completely new to it, while the private equity firm has already gained experience there through a different portfolio holding.

Last year, there was a strong trend for private equity firms to diversify geographically, looking to emerging markets as economies in developed countries slumped. Some did so through the companies they invested in, while others expanded their own operations internationally.

The focus on emerging markets – including the BRICS (Brazil, Russia, India, China and South Africa) and certain Asian countries – makes sense for private equity investors, since by their very nature, businesses in these regions need capital. Likewise, companies in emerging markets that are not yet listed can benefit from the structure and discipline that private equity investors can bring to areas such as corporate governance.

As private equity pursues international expansion, the industry is arguably returning to its roots in entrepreneurship. When the business model matured in the 1980s, private equity investors were highly creative and flexible in their approach – two hallmarks of entrepreneurship. Now that bank lending remains tight and leverage is on the decline, private equity is once again experimenting.

That innovative approach to dealmaking involves exploring new sources of financing and a wider variety of funding structures. For example, private equity firms may raise money through the bond market and sovereign wealth funds, or through structures such as corporate partnerships and minority stakes.

What's clear is that, in the coming years, private equity's flexible model and entrepreneurial spirit will serve portfolio companies well as they work together to confront global economic volatility in 2012 and beyond.

More information

For more insight into the private equity sector, please visit **ey.com/privateequity**