IT IS NOT AS BAD AS IT SOUNDS:

Winning in a new reality in 2009, and beyond

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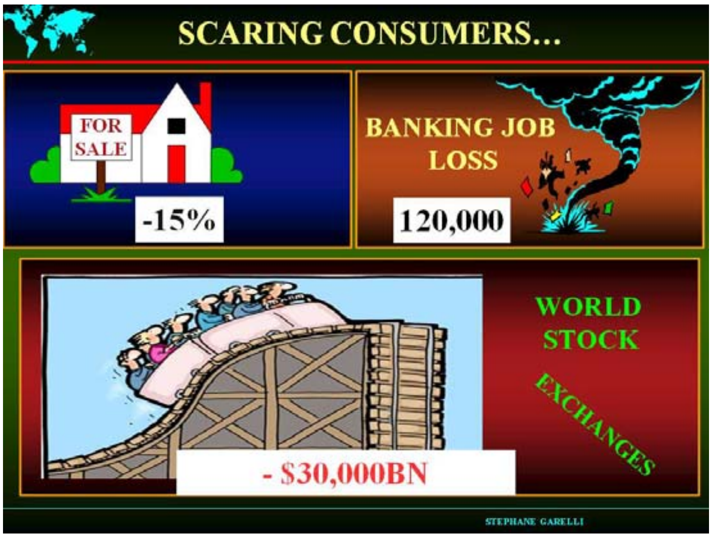
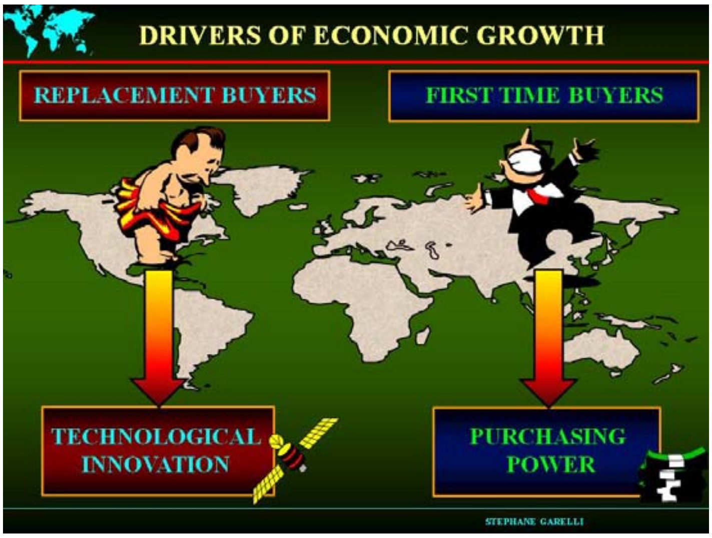
The title of the presentation is inspired by a comment made by Mark Twain after listening to an opera by Richard Wagner... The world economic situation in 2009 is indeed quite challenging. The subprime market crisis has had a domino effect triggering a major financial crisis which is now spilling over to the real economy. The magnitude of the crisis, and the speed with which it evolved, have stunned the world business community. How long will it last? How can we deal with it? What will the world look like afterwards? And is it all bad news for companies?

You will find in the following pages a summary of some if the ideas highlighted in the presentation and examples of supporting slides. However becuase the economic and business environment is particularly volatile, the presentation is regularly updated and adapted to circumstances. Below are some of the issues tackled in the presentation.

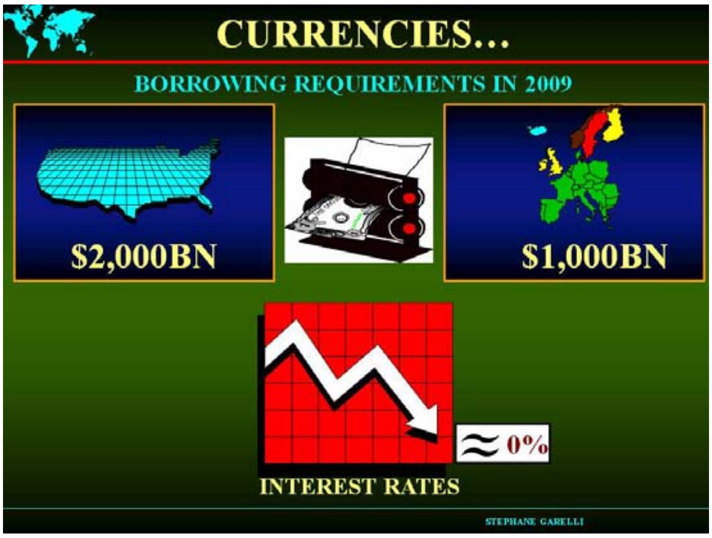
- The mechanism of the crisis: how did we get there?
- The domino effect from a subprime crisis to a credit crisis and now a recession: why did it go so fast?
- How long could the recession be, and what shape will it take (V, W, U or L): what do companies expect will happen?
- How governments react to it: the bailout plans - is there a model that works?
- What will consumers do: spend or save?
- At the end of the tunnel, which world economy will emerge?
- Will governments and politicians have more power? Yes!
- Shall we have more regulations, more corporate governance rules? Yes!
- What shall be the consequences of printing massive amount of money and reducing interest rates?
- Will the dollar weaken? And the pound? The Euro will remain stable (and reasonably successful)
- Raw materials will stay volatile. But present price levels are unrealistic. When the economy shall recover, prices will go up just as fast.
- Markets in the emerging world did not disappear into a big black hole. The middle class there is still eager to work hard, make money. and consume!
- In a recession international trade is always affected, and exporting nations, e.g. China will suffer from this decline.
- Where shall future growth then come from? Infrastructure investments, Technology, Clean Tech?
- So what for companies? Plan A is well known: cut cost, freeze salaries, delay investments, etc. In short, cut the fat and preserve the muscles.
- But is there a plan B? The next frontier in management is to drastically simplify the business model (processes and products) - There are huge reserves of productivity and customer satisfaction in this area - how to do it?
- Finally, a recession is a period not only to reinvent the company but also to revisit the management competencies and personal skills needed to succeed. What are they? Turbulent times are excellent opportunities to test the quality of people. Everybody can manage fair weather, but a storm? You have to be good at what you do but also at what you are. How?



The origin of the problem is that the US is over consuming money. The budget deficit for 2009 will approach $ 1200bn, more than 8% of GDP! The national debt is in excess of $ 10,000bn – growing at a rate of $ 3.2bn a day – and household debt is above 140% of disposable income. The bubble burst because too much credit was granted with unrealistic conditions and without proper control. In 2008, house prices went down by 15% and 120'000 jobs were lost in the banking sector alone. The crisis spread rapidly to world markets and stock exchanges around the world have lost $ 30'000bn since their peak. How can we recover from such a mess?

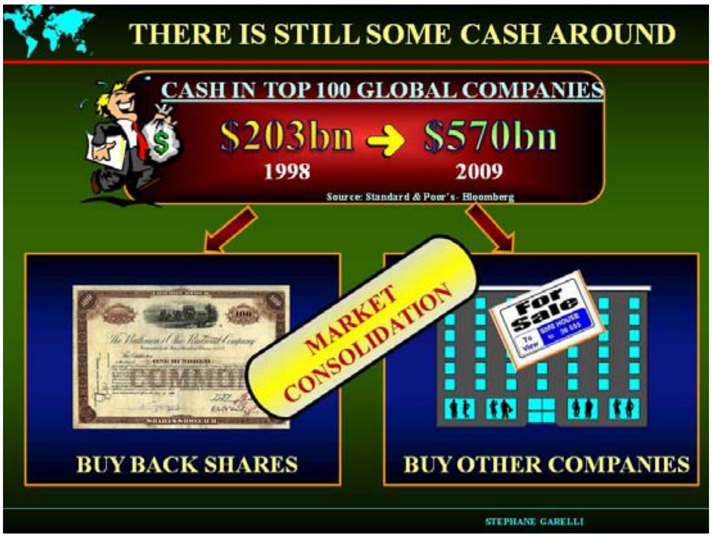


Nations were quick to rediscover Keynes and bailout plans to the tune of $ 2'600bn so far were launched everywhere (with an additional $ 2'700bn allocated to loan guarantees). Will it be enough? Will consumers spend or save the money? Actually consumers will react differently: In economically advanced nations where buying means replacing an existing product, they may wait and save. In emerging economies characterized by first time buyers, they may be more receptive to stimulus packages. Thus, the impact of bailout plans may not be as big as expected in advanced economies since nervous customers can delay a purchase for longer. Despite the uncertainties, for the moment, nobody knows what else should be done...



To complicate matters further, most nations who have been heavily solicited to bail out the economy find themselves in dire financial straits. In 2009, the most advanced economic regions of the world will run budget deficits of between 3% and 8% of their GDP. The US alone will need to borrow $ 2'000bn in 2009 and Europe $ 1'000bn. The world will be flooded with money, printed or borrowed. At the same time interest rates converge toward zero as the fear of depression and deflation haunts central bankers. These factors lead to a high degree of volatility on money markets with severe consequences for currencies such as the dollar and the pound.

In this new brave world governments will gain more power over the economy. More regulations can be expected to control the financial sector in much the same way as the Enron debacle created the Sarbanes-Oxley act. Corporate governance rules will aim at curbing the excesses so much decried in public opinion, such as golden parachutes and excessive remunerations. Companies and high revenues individuals will bear the burden of increased taxes as soon as the crisis is over, because governments will need to address their debt problem. In short, a new relationship is emerging between governments, the political world and companies. In the longer run, when the economy picks up, debt and perhaps renewed inflationary trends may become the next big issues. The pendulum never swings back to the middle…



All is not doom and gloom. There still is some money around. Many large companies have amassed significant amount of cash in the past and are going to use it to buy back their own shares or to acquire companies. Several industrial sectors will consolidate and not just those in financial trouble. Moreover, central banks in emerging economies have accumulated formidable sums of money – some $ 6'000bn in currency reserves – while their sovereign funds are now managing more than $ 3'000bn. These surpluses which used to be reinvested mainly in the West (and which created some of the past "saving glut" of recent years) are now increasingly being used to finance infrastructure projects at home or to sustain indigenous global companies. In addition, the acquisition of industrial assets in the rest of the world will increasingly be viewed as a more attractive alternative to more risky investments in US or European financial institutions.

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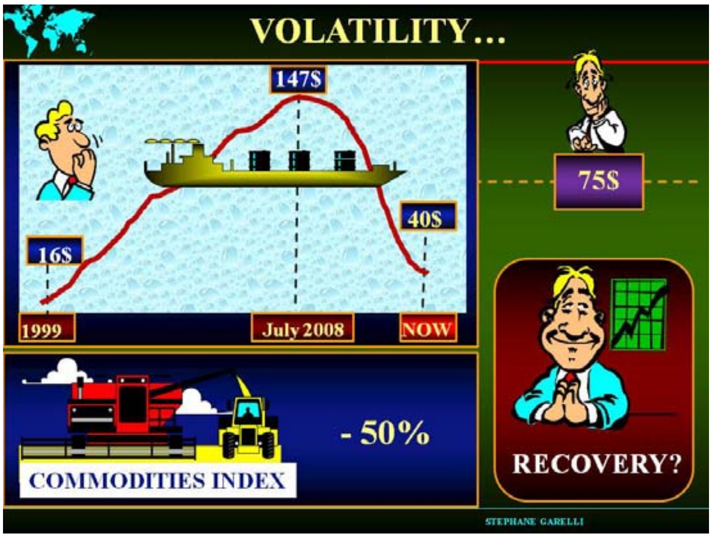
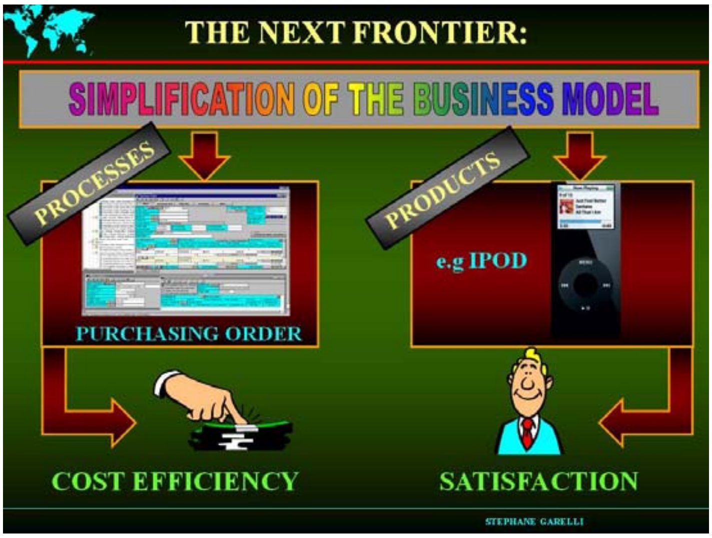


The cost of raw materials and food is falling but will rebound. Rapid economic growth in the past – above 7% for Russia, 8% for India and 11% for China – has generated formidable pressure on raw materials and commodities. Energy and food commodities were recently at record prices since some of the largest markets in the world, namely China and India, have rapidly increased their consumption despite not being large producers. The economic crisis has however triggered a rapid decrease in prices: down 75% for oil and 50% for commodities from peak. However, when the economy starts to recover, the same volatility can be expected to prevail upward. The potential demand is so high and the discrepancy between supply and demand so important that the long-term trend will be toward higher prices.

The reaction of companies to the crisis consists in reducing the fat while keeping the muscle intact to benefit from the next recovery. This is achieved through a mix of traditional measures – stopping expenses, freezing labor costs, slashing investments and inventories, etc. – and more innovative measures such as simplifying the business model or entering new business segments such as "cleantech". Times of crisis are times to rejuvenate the company: keep the best reinvent the rest. The fundamental challenge remains to ensure that, when the crisis ends, new business opportunities are not imperiled by an excessive diet…



The next revolution in management is the simplification of the business model. The traditional approaches to increasing productivity – such as quality and reengineering, outsourcing, and more recently globalization – have already been successfully implemented in companies. Today, the sophistication of the global business model generates complexity, and thus mistakes and oversights, while impairing the relationship with customers, who thrive on a more transparent and seamless linkage. A simpler business model – in both processes and products – can potentially generate huge reserves of cost efficiency on the one hand, while strengthening the loyalty and the satisfaction of customers on the other. A win-win situation!

Ultimately competitiveness is question of mindset. A new world competitiveness landscape implies a new mindset. Crisis are periods that reveal strength of character.It is not only bieng good at "what you do" that counts, but also being good at "what you are". Winners will need to deal with more uncertainties and a higher sense of discomfort.They should nurture a healthy sense of ambition for their organization and themselves. Resilience and the ability to quickly re-invent oneself are key objectives.

Finally, it is also a time to think outside the box. A "why attitude" questionning every single issue is not adequate in turbulent times. Competitiveness will rather thrive on a "why not attitude" - why is it impossible, why not try, why not do things differently, better and faster?