



THE BOSTON CONSULTING GROUP

Thriving in a damaged economy

CIO Day

16 November 2010

Agenda

**Not a normal recession,
not a normal recovery**

**Speculation on some new
realities**

What it means for companies

Challenges...

In a slow growth economy...

Growing means gaining share

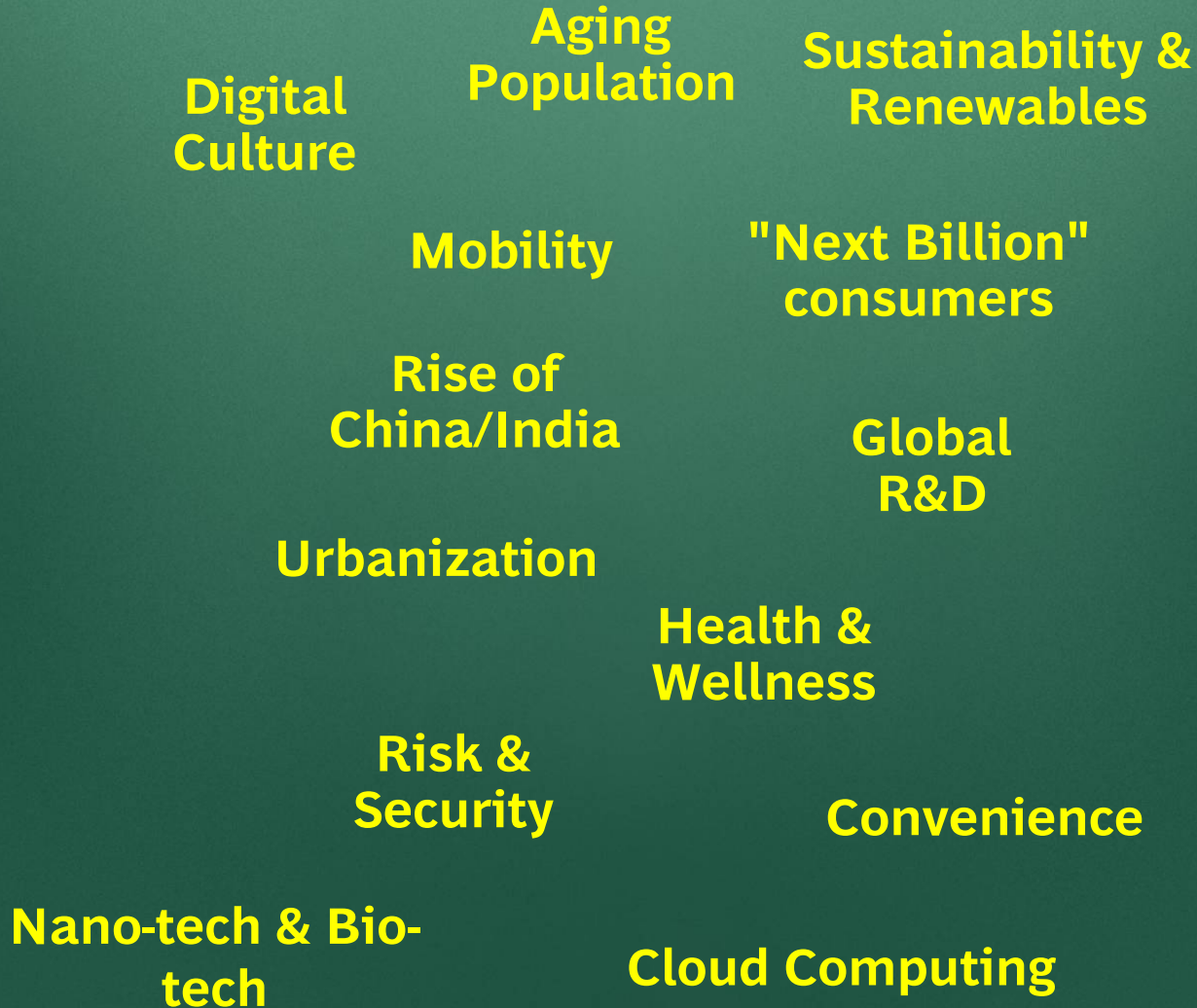
Competitive intensity rises

Pressure on profitability & costs



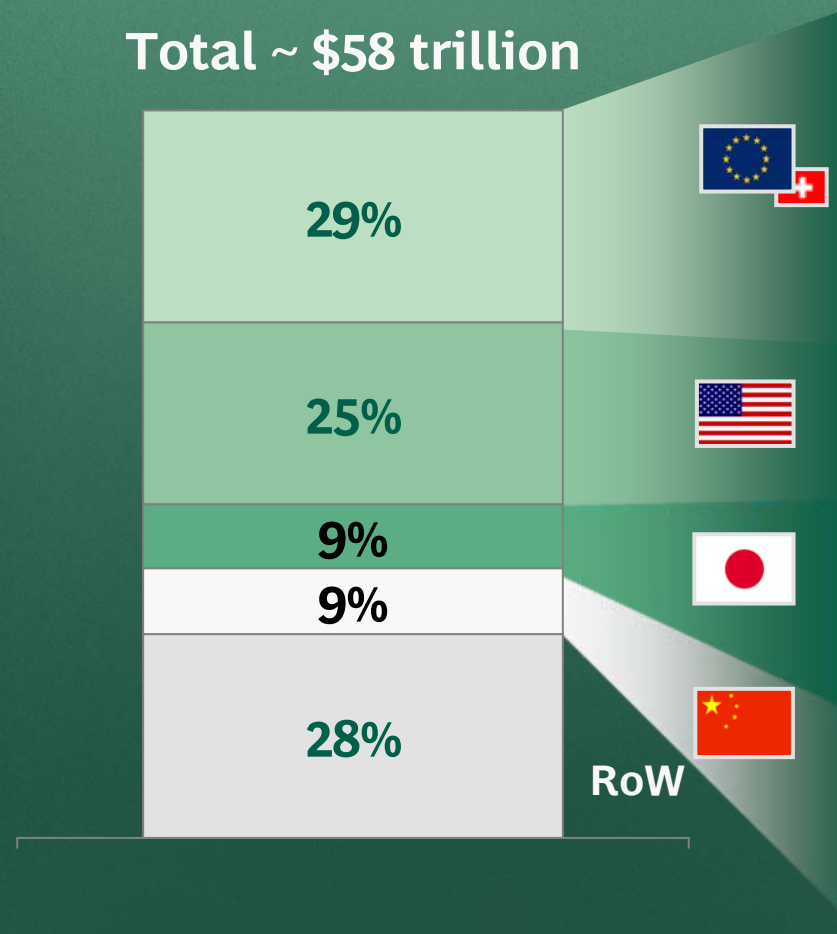
**Broken business models
get found out**

Challenges ... but a world of opportunity



The *Old World* still matters

Global 2009 GDP breakdown



83% of all Global Trade flows through EU, US, and Japan



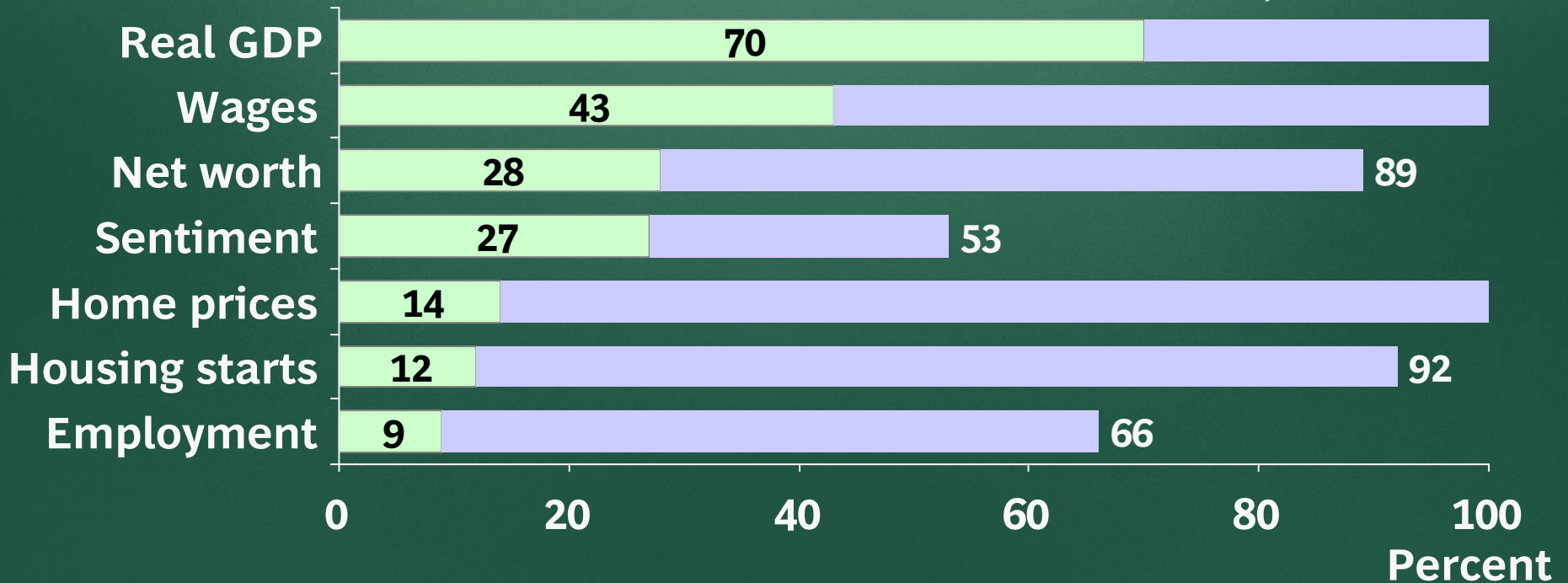
Hardly a bounce

Far weaker than average recovery since 1970

To what extent have recession losses been recouped?

"The Great recession"

Average catch up

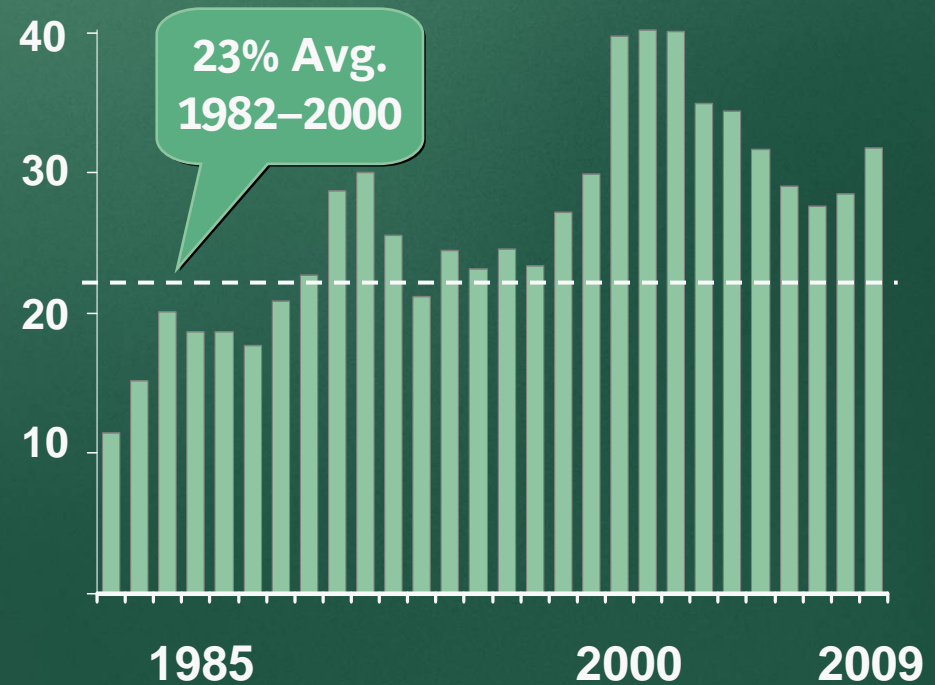
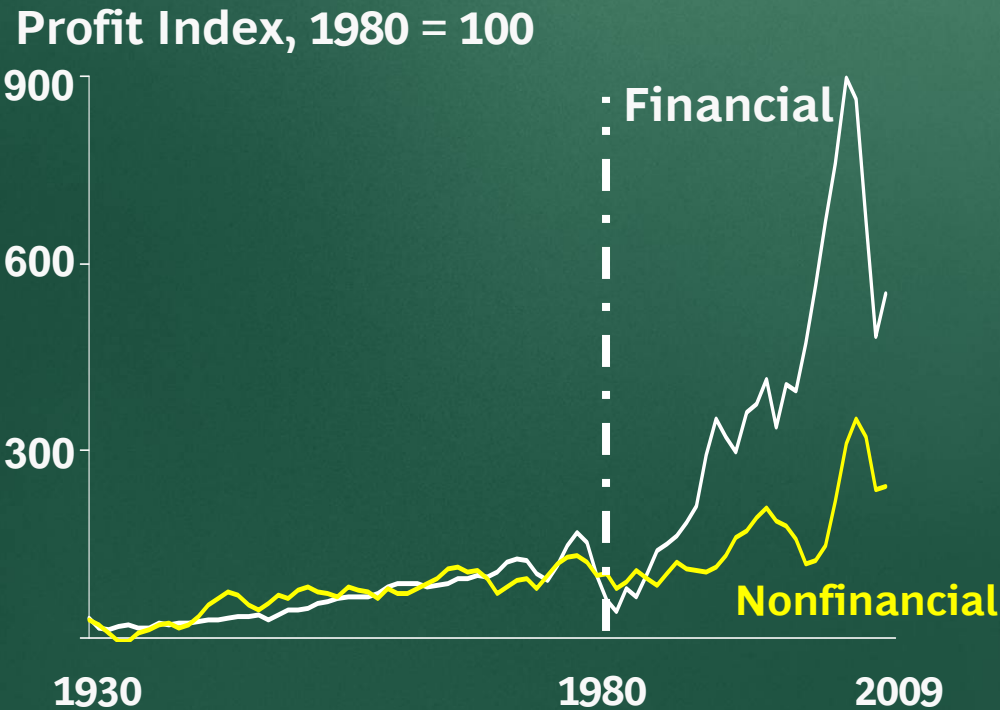




A phoney economy?

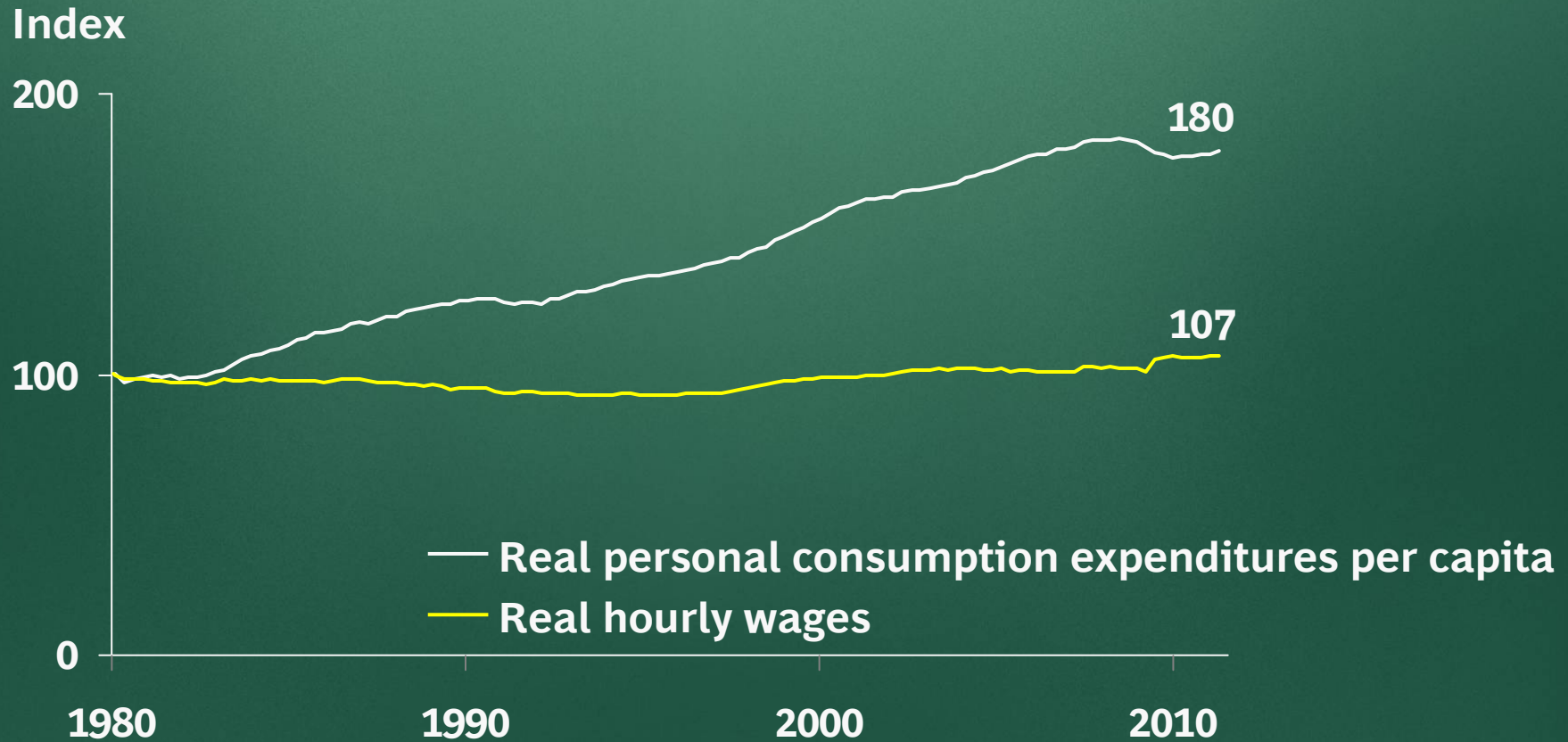
US financial services profit growth outstrips corporate profits

US financial services profits / total corporate profits (%)





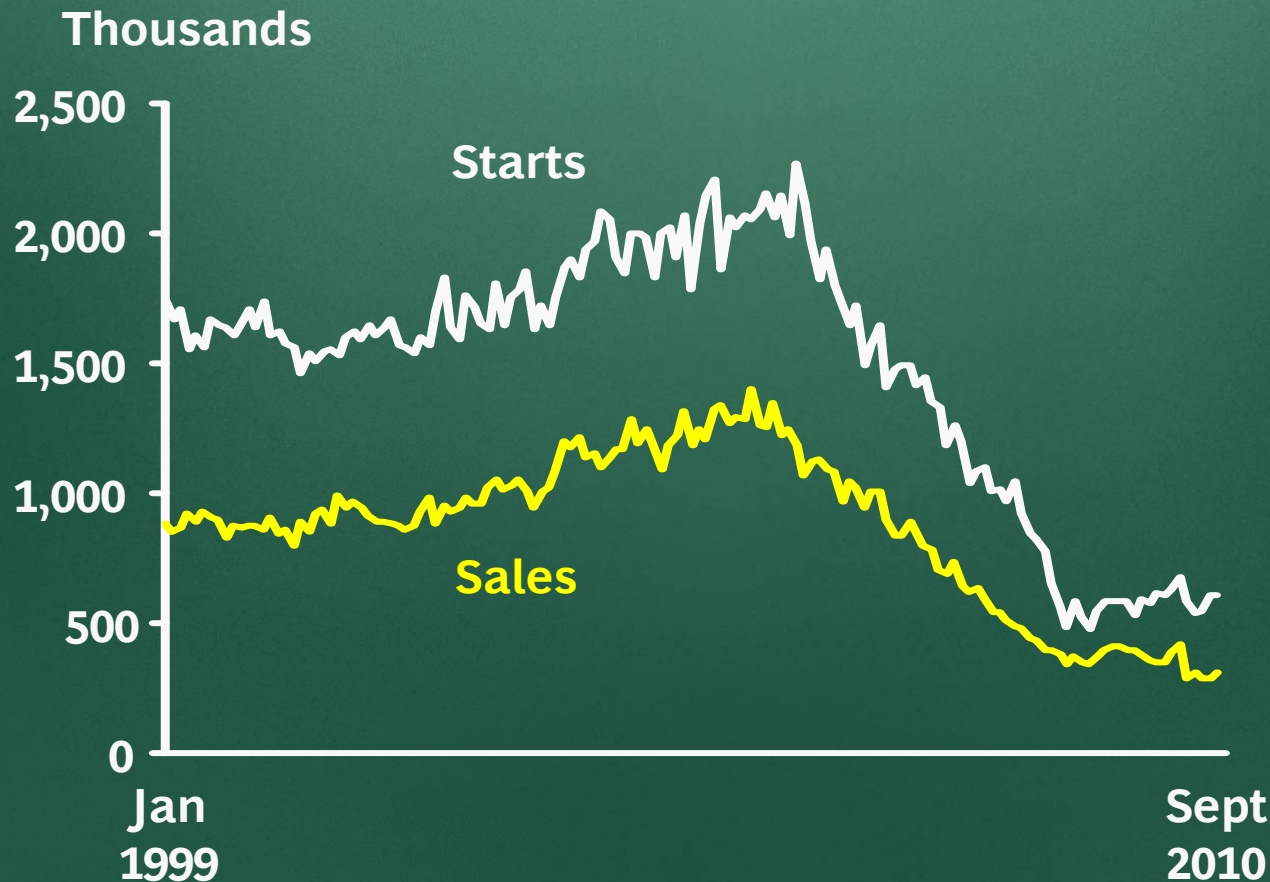
Wages flat...consumption per capita rising





Expiry of homebuyer tax credit triggering double-dip in US housing market

New private housing unit starts and sales





Unsurprising that consumers are cautious

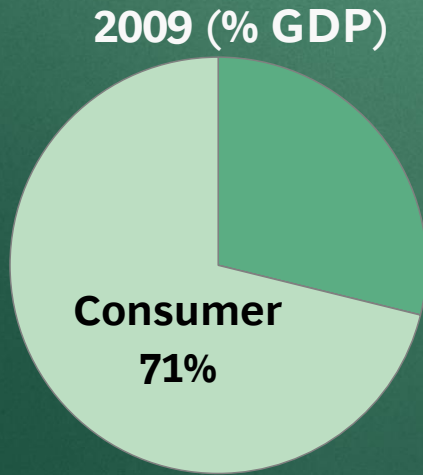
*Consumer Confidence
January 2004 – October 2010*





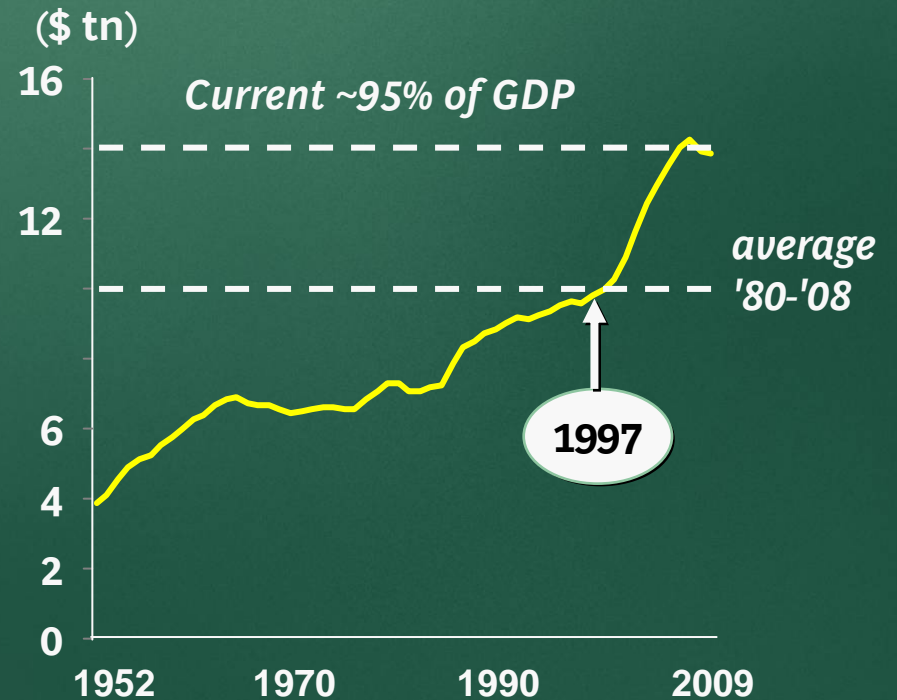
And consumers are beginning to cut back on debt

US economy fuelled by consumption...

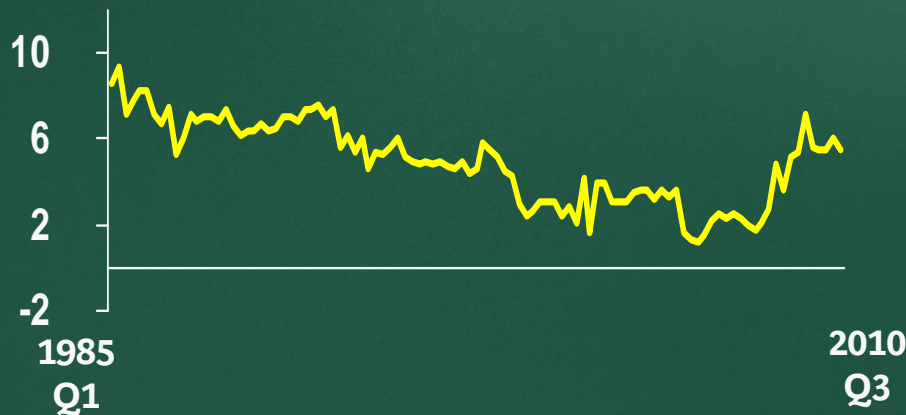


... deleveraging likely to be drag on growth for years

Historical household debt

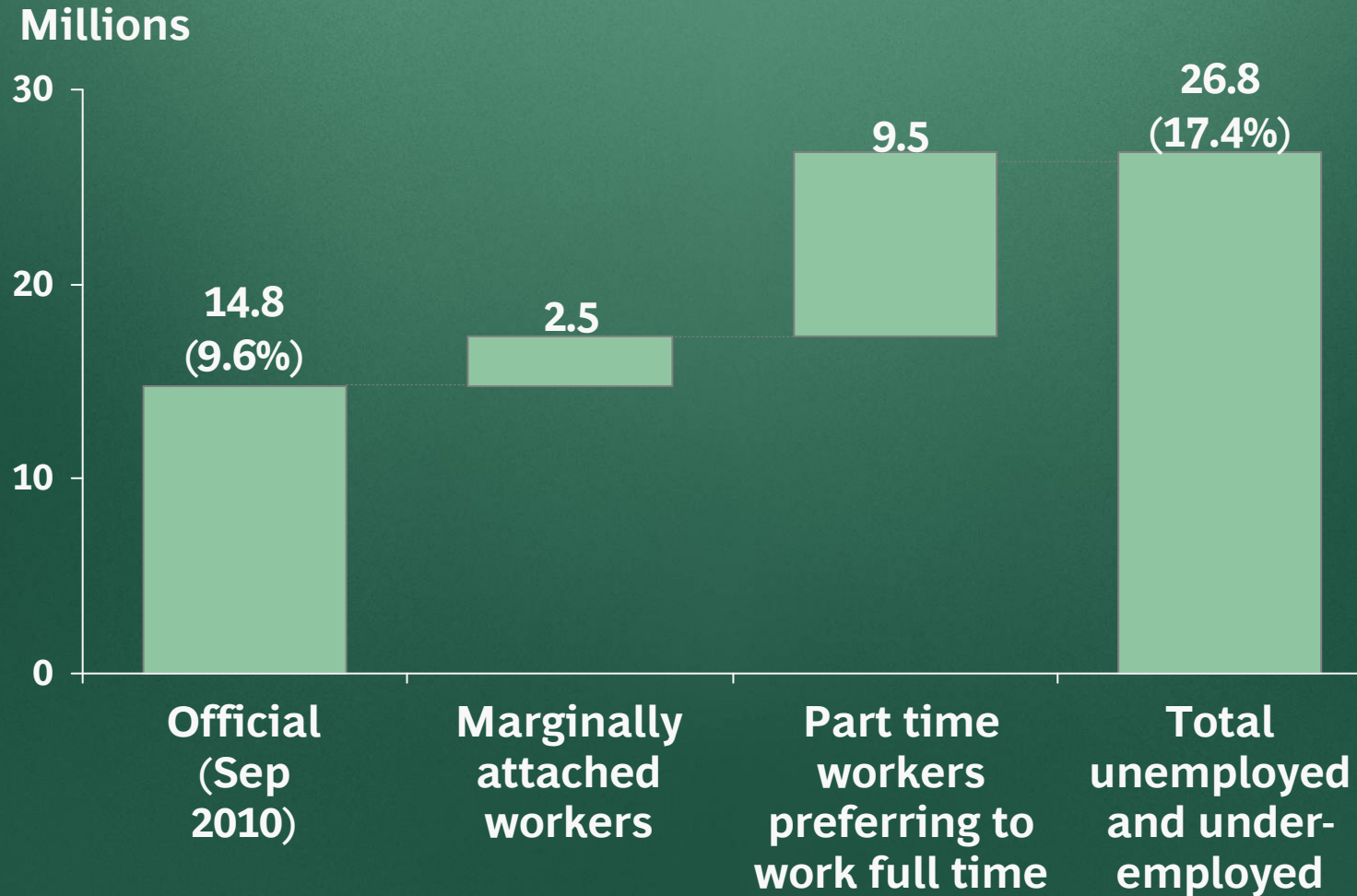


Personal Savings Rate: 1985 – Q3 2010 (%)



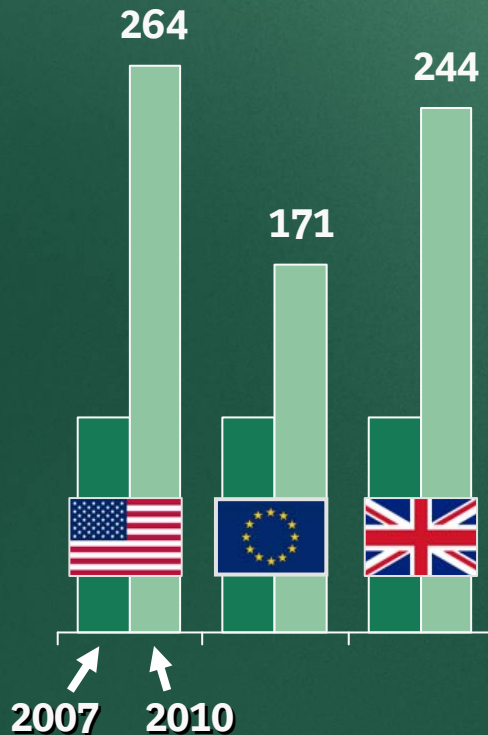


Further drag from high unemployment...

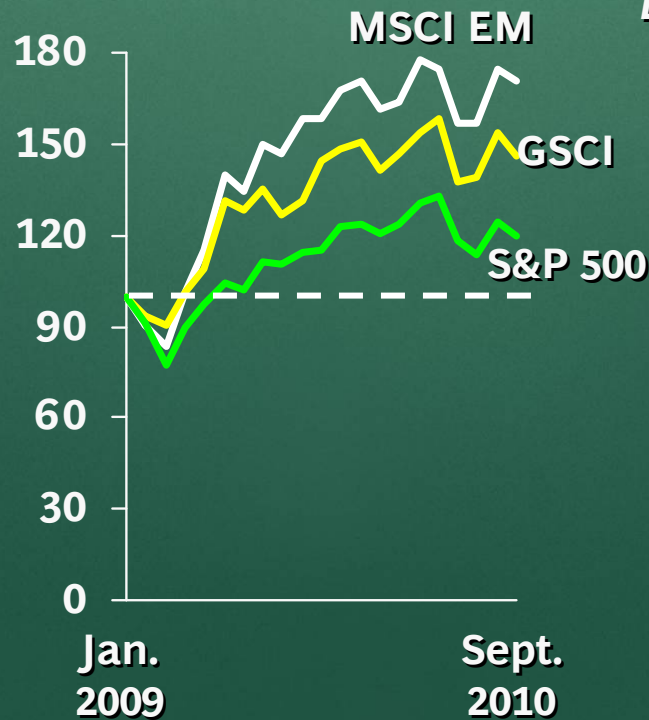


Cheap money not reaching the real economy

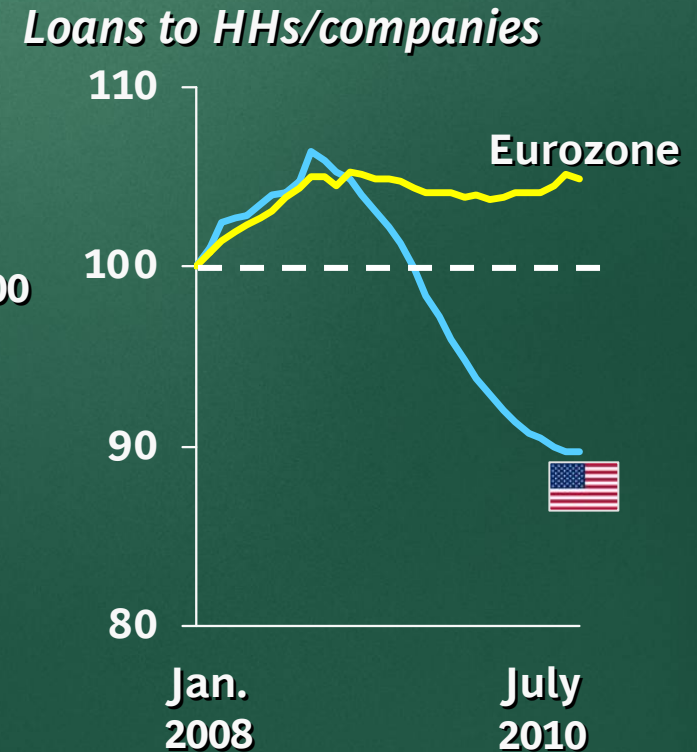
Massive increase in cheap central-bank money ...



... flowing into stocks and commodities ...

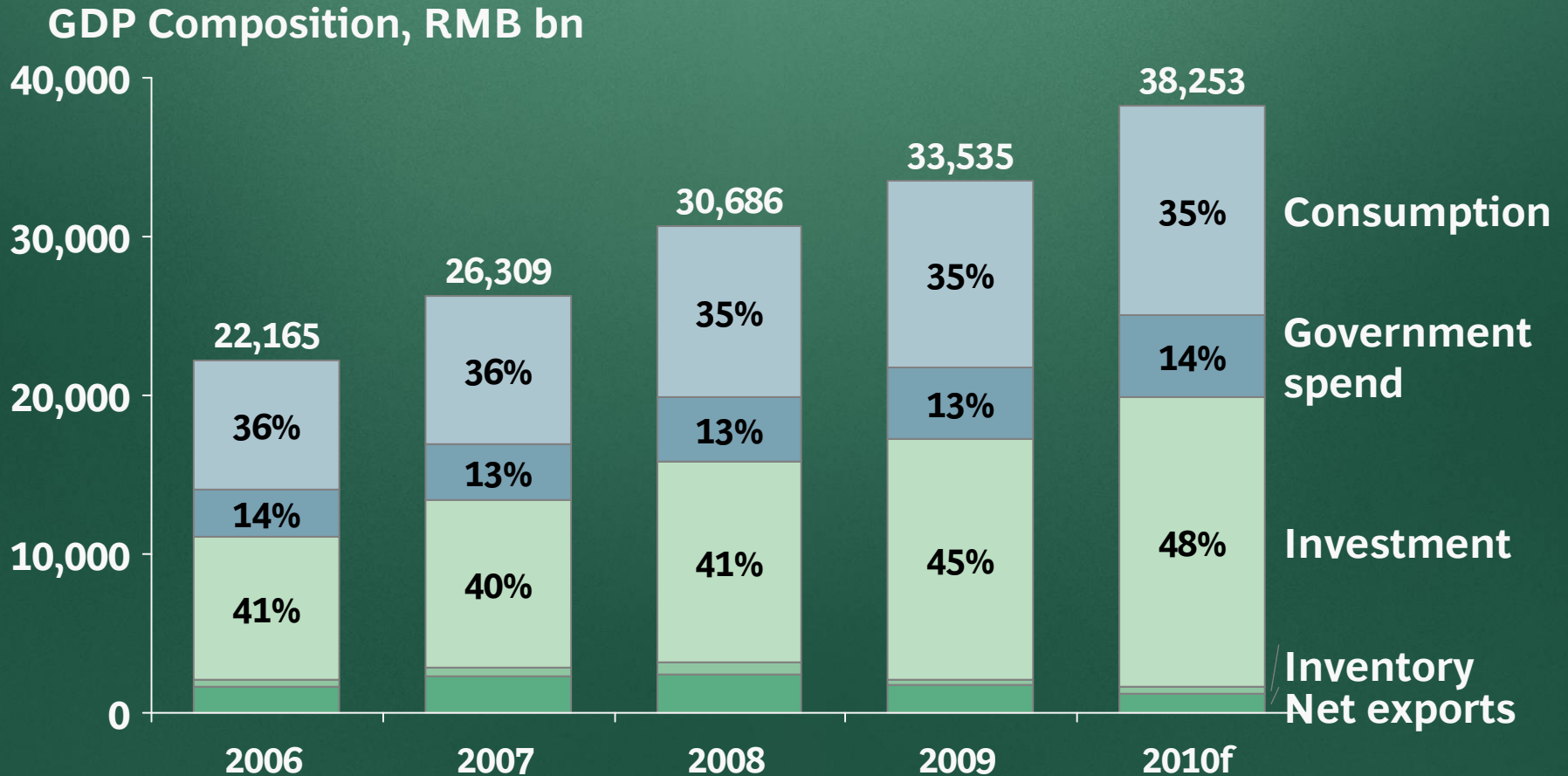


... instead of reaching the real economy



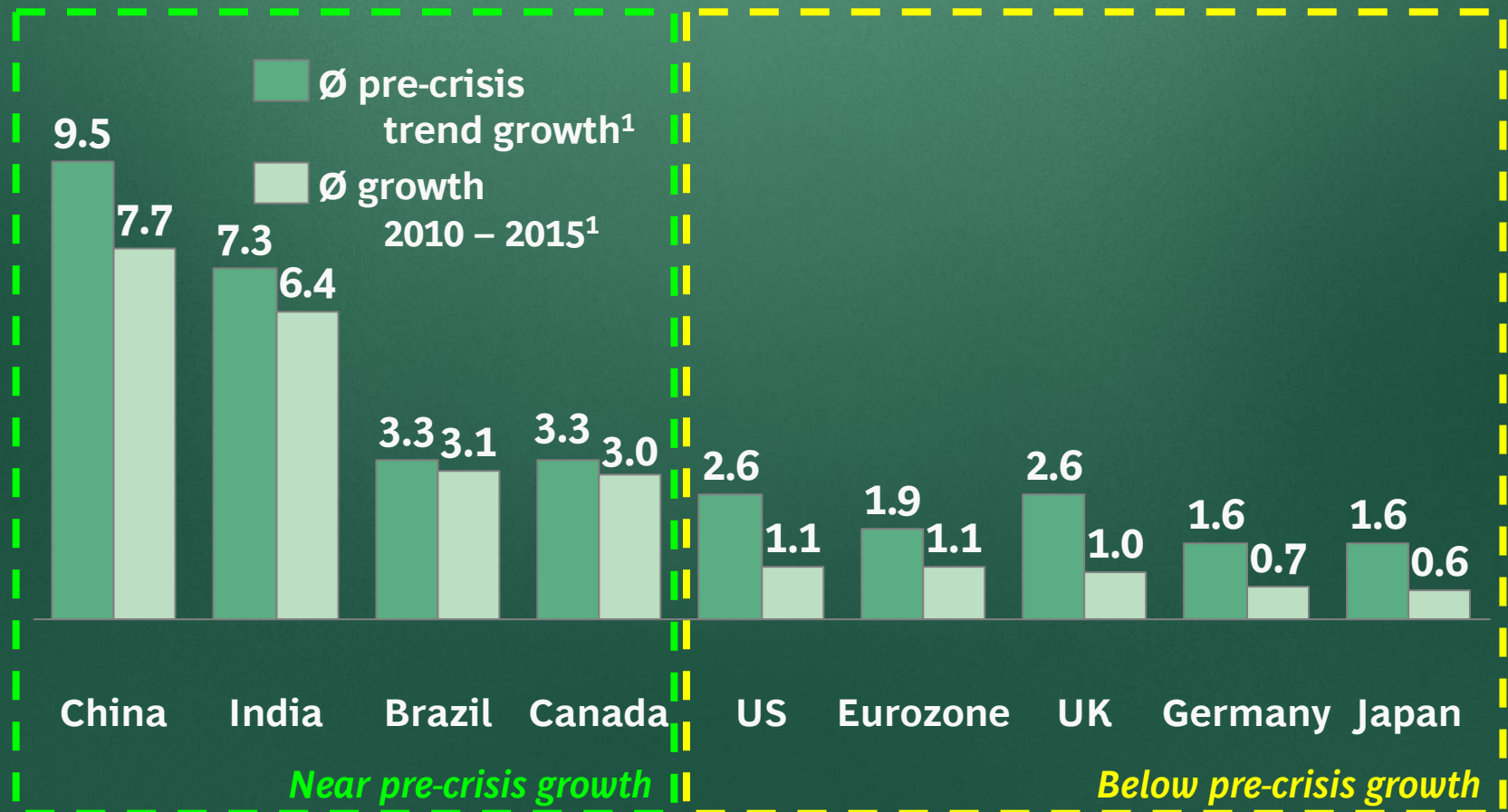


Investments remain the biggest driver of Chinese GDP



A two-speed world emerging

Simulation of future growth based on IMF research



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What it means for companies

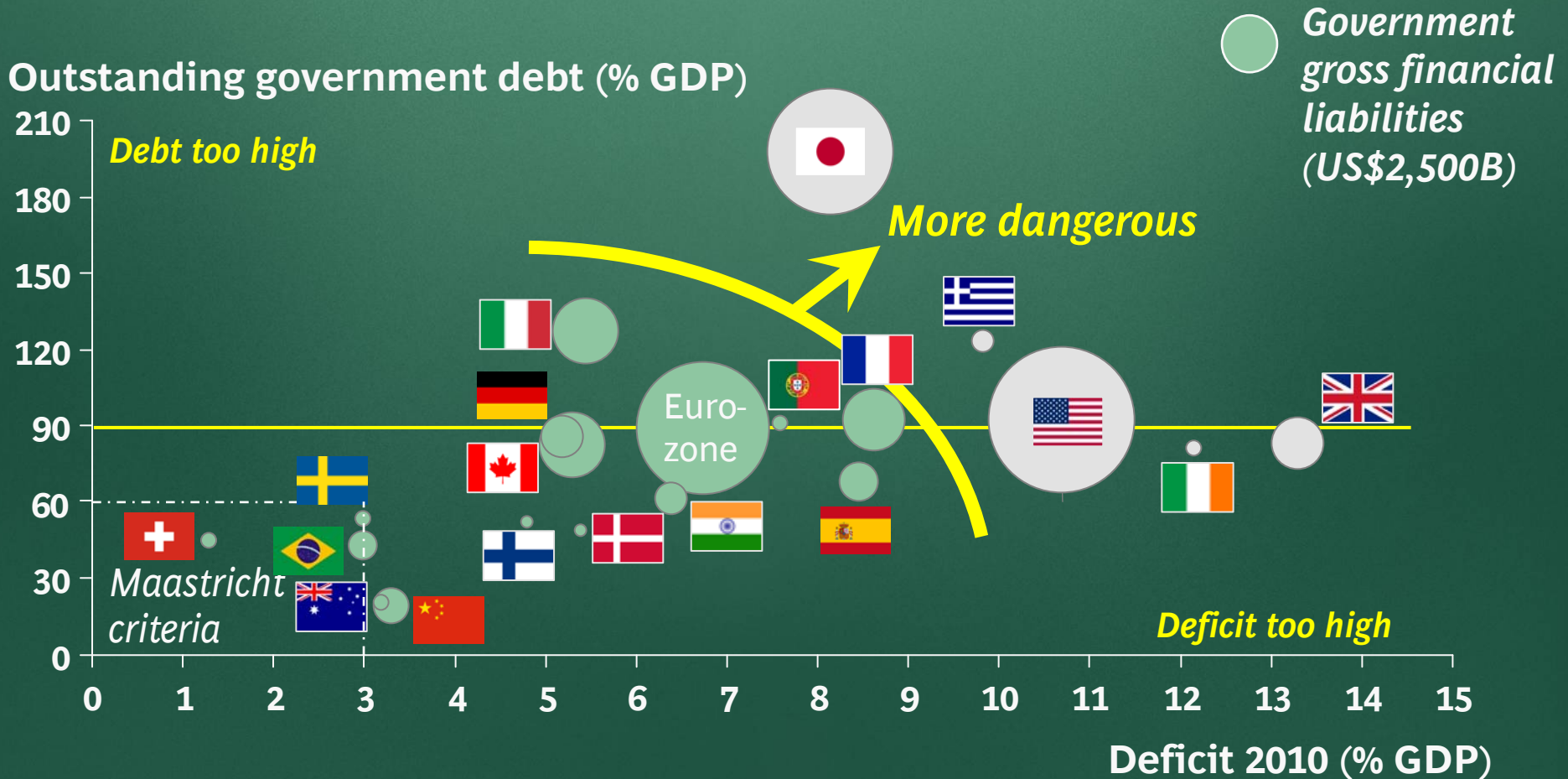
A New Global Economic Order (I)

Sluggish GDP growth

- Less debt turbo charging
- Government debt crises
- Unfavourable demographics

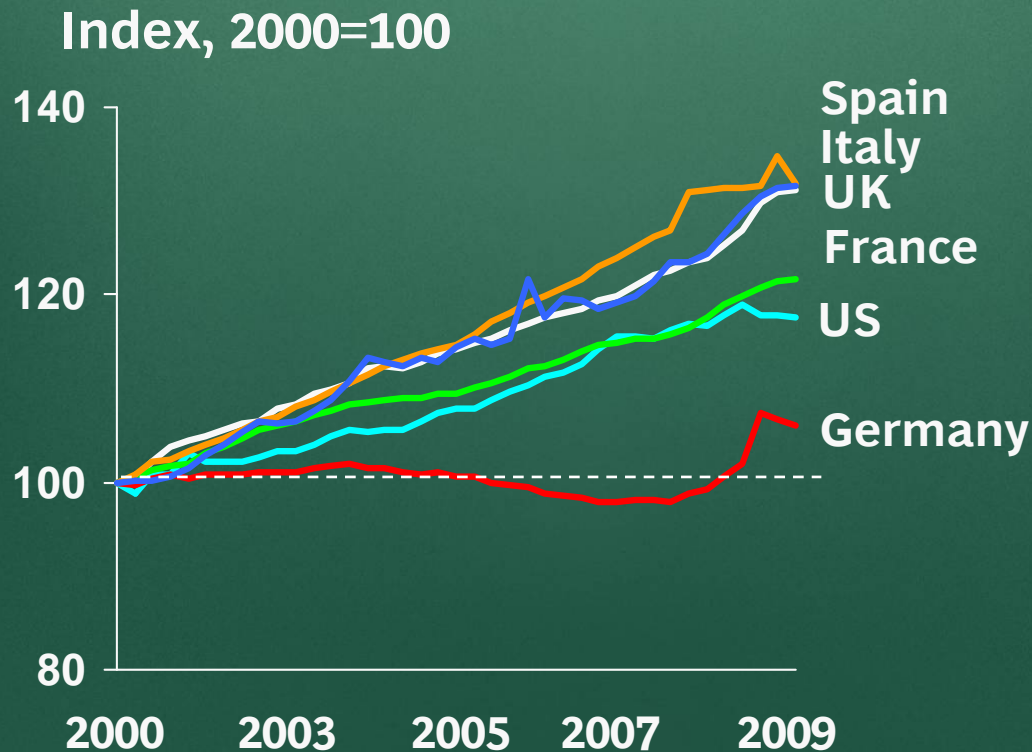
Government credit not unlimited

Public-sector debt and deficits



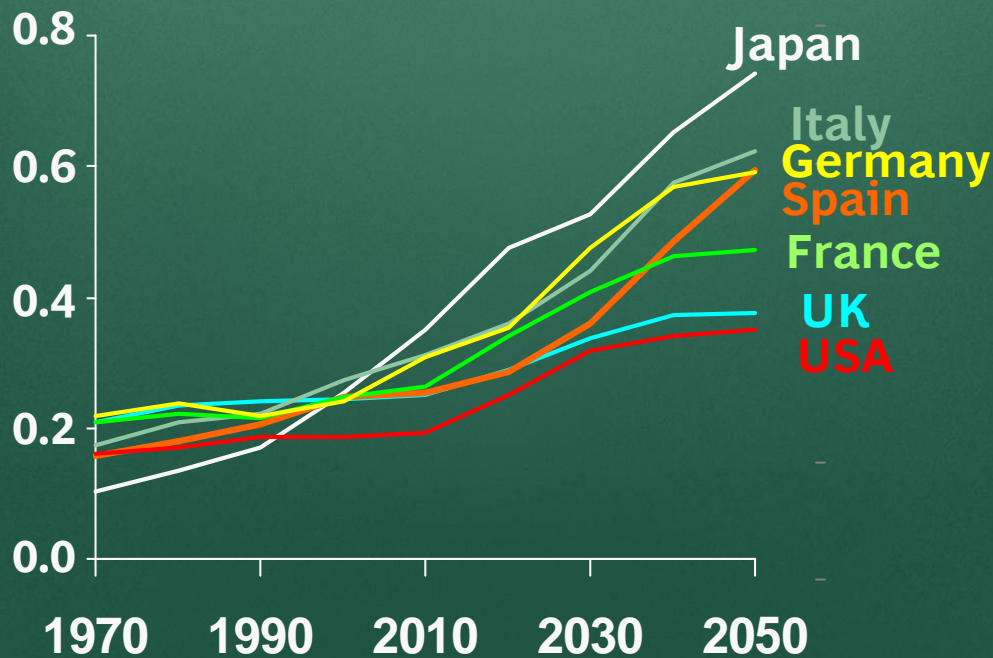
Struggling to deal with varying levels of national competitiveness

Unit Labor Costs



Unfavorable demographics in Western economies drives age-related spending needs

Ratio of old-age population to working population



A New Global Economic Order (II)

Governments step in

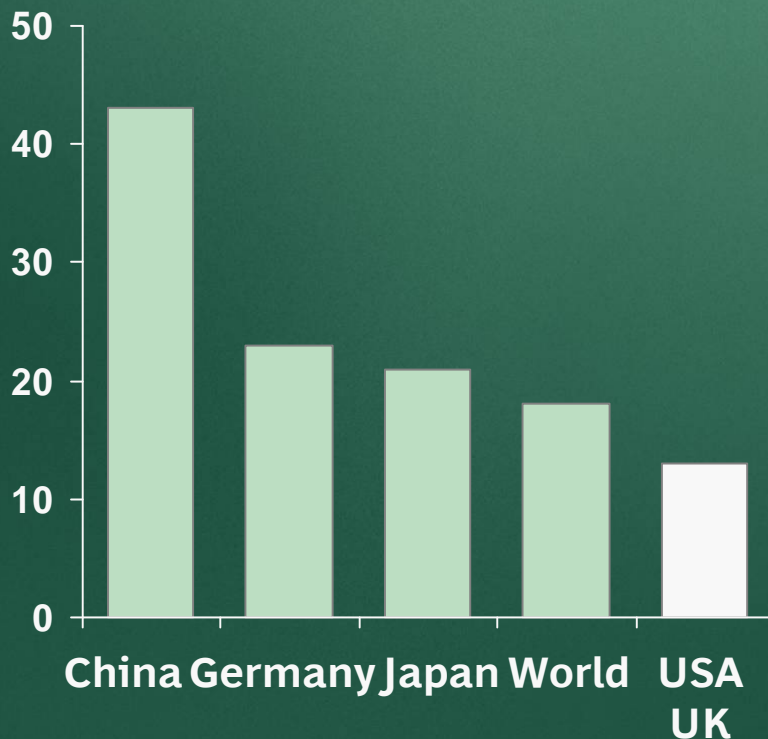
- Protectionism
- Re-industrialization
- Re-regulation

Reindustrialization: easier said than done

USA, UK need to reindustrialize...

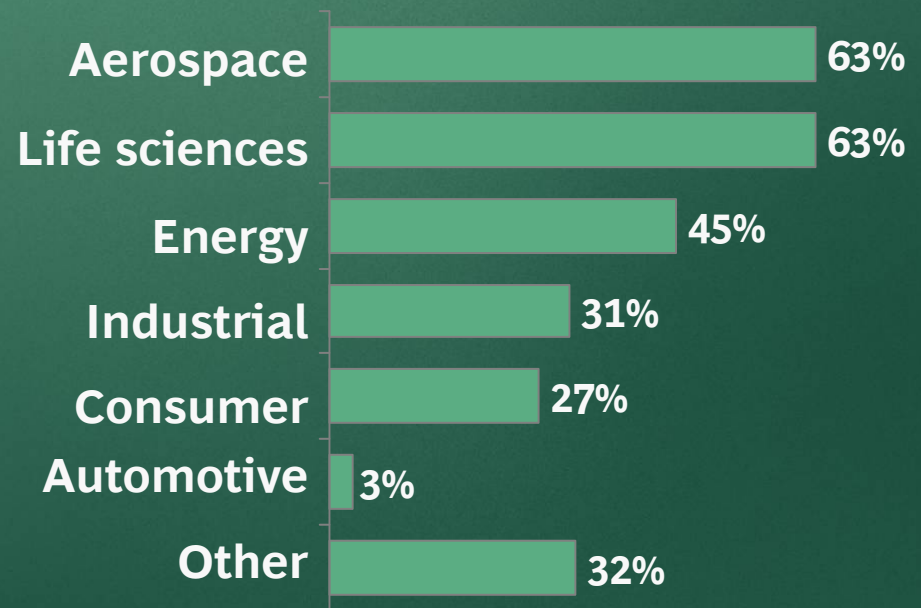
...but lack the required skills

Manufacturing as % of GDP



% of responses

"lack of skills is moderate-serious"



"It's difficult to find people for jobs that require maths skills and the ability to read technical blueprints"²

Might we see a globalization squeeze?

Export of low skilled jobs bought low inflation growth for West

Intense competition from emerging Global Challengers

- Home advantage
- Now competing on technology
- Attacking abroad

Failed education policy in West



A New Global Economic Order (III)

Changing consumer mindsets

- Consume less, value conscious
- Anti-capitalist? Social unrest?

Changing investor expectations

- Lower risk appetite
- Lower return expectations (α)

Industry restructuring

- Broken business models
- New pecking orders
- Importance of innovation

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What it means for companies

Strategy remains timeless...

No magic bullets

Strategic options no different in hard times

But takes

- **Determined leadership**
- **Competitive cost base**
- **Willingness to take risks**
- **Guts...and luck**

How successful companies have turned downturns into opportunities, not threats



Recalibrating management mindsets in the light of *Capitalism 2.0*

Challenge shareholder value mantra

Redefine globalization

Rethink compensation

Hone political skills

Refine the social contract

Revisit corporate governance

Lead from the front