Plenary Session Three

Thought Leadership on Risk and Change

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Session Moderator
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The Perfect Storm
Navigating Through the Turbulence of Risk and Change
Thought Leadership on Risk and Change
Thought Leadership on Risk and Change

Jerry R. Strawser
Dean,
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41st Annual ECC Conference   The Perfect Storm   Navigating Through the Turbulence of Risk and Change
Doing Business in the “Reset” Economy
Doing Business in the “Reset” Economy

Jerry Strawser, Dean
KPMG Chair in Accounting
Mays Business School
Texas A&M University
In the last 6 months, have things:

1. Gotten much better 4%
2. Gotten a little better 44%
3. Stayed about the same 22%
4. Gotten a little worse 22%
5. Gotten much worse 8%
In the next 6 months, will things:

1. Get much better
   - 3%
2. Get a little better
   - 51%
3. Stay about the same
   - 34%
4. Get a little worse
   - 8%
5. Get much worse
   - 4%
When do you think things will get back to “normal”?

1. Within the next 6 months 0%
2. Sometime during 2010 16%
3. Sometime after 2010 64%
4. Never 20%
So What Happened?

DOGBERT THE CEO

OUR NEW FINANCIAL PRODUCT IS A HYBRID OF RISKY MORTGAGE LOANS AND A PONZI SCHEME.

WE’LL COVER OUR BAD LOAN LOSSES WITH OUR PROFITS FROM MAKING EVEN WORSE LOANS.

I’LL NEED SOME WAGGING ROOM WHILE I TELL YOU HOW THIS TIES INTO MY BONUS STRUCTURE.
Source: www.conference-board.org/
People Who Plan to Buy a Home
in the Next Six Months

Source: www.haver.com
Small Business Outlook
“Now Is A Good Time To Expand”

Source: www.haver.com
Small Business Outlook
“Planning To Hire People In The Next Six Months”

Source: www.haver.com
Industrial Production Index

Index 1997=100

Source: St. Louis Federal Reserve
Capacity Utilization: Manufacturing

Source: St. Louis Federal Reserve

Source: Federal Reserve Board
Banks Reporting Stronger Loan Demand
From Large Firms

Source: www.haver.com
Banks Reporting Stronger Loan Demand
From Small Firms

Source: www.haver.com
The Credit Crunch

For those affected:
• Reduced availability (58%)
• Increased cost (49%)

US Employment: Construction

Thousands of Workers

Source: St. Louis Federal Reserve

Source: Bureau of Labor Statistics
US Employment: Government

Source: Bureau of Labor Statistics

Sector 92: Executive, legislative, justice, public safety, human resources, environmental quality, planning, national security.

This includes civilian employees only, military personnel are excluded.

 Thousands of Workers

Jan-90 18,000
Jan-92 19,000
Jan-94 20,000
Jan-96 21,000
Jan-98 22,000
Jan-00 23,000
Jan-02
Jan-04
Jan-06
Jan-08

Source: St. Louis Federal Reserve
Oil Prices

Source: http://tonto.eia.doe.gov/dnav/pet/hist
In Summary

- Nobody has much confidence
- Activity is slow
- Banks can’t (or won’t) loan.
- Customers aren’t able to borrow (or do so at reasonable terms)
- Unemployment is high
The Best Case Scenario

- Rise in stock price followed by favorable corporate earnings 4Q09
- Consumer confidence rises with stocks
- Foreclosure pressure continues to be heavy
- More spending results in higher profits
- Layoffs end by the end of the 2009
- “Jobless recovery” in 2010
- Higher interest rates and inflation in 2010-11
The Worst Case Scenario

• No effective fiscal package gets passed
• Treasury and Fed continue to stumble
• Bad banks and businesses propped up
• No price discovery for “toxic” mortgages
• Political risk for business stays high
• Business / investors “sit on their hands”
• Unemployment goes well over 10%
• Commodity deflation and price deflation
Which is it?
Take a page from Cisco’s “Playbook”

1. Be realistic.
2. Assess your situation.
3. Get ready for the upturn.
4. Get closer to your customers.
5. Watch the stock market.
6. Always have more cash, not less.
7. Be aggressive.

Three more ...

1. Tough economies will pare the field of weak competitors
2. Tough economies provide cover for certain behaviors and decisions (customers, suppliers, and employees)
3. Everything is up for grabs. Use this as a business development opportunity.
How Others Have Coped

• GE: Communicating inside and outside
• Nalco: Motivating employees to cut costs
• Avon: Changing marketing to reflect the times
• Waste Management: Getting customers to share the pain

What is your Company Doing?

Limiting travel
Layoffs
Deferring new hiring
Reengineering processes
Changing terms with suppliers
Streamlining offerings
Reducing R&D
Excuse to restructure

What Opportunities is your Company Considering?

- Restructuring for efficiency
- Targeting new customers
- Encouraging entrepreneurial...
- Negotiating better terms w/suppliers
- Improving current products/services
- Creating new products/services

What can Happen During a Recession?
When will we recover?