

Plenary Session Three

Thought Leadership on Risk and Change



Session Moderator
ECC Board Member

Meg Lassarat

CFO

Mustang

41st Annual ECC Conference, September 9 -12, 2009, Bastrop, Texas



engineering and construction contracting association

The Perfect Storm

Navigating Through the Turbulence of Risk and Change



Thought Leadership on Risk and Change

The New York Times
Expect the World[®]



 **LG Electronics**



American Airlines





Jerry R. Strawser

*Dean,
Mays Business School*

Texas A&M University



Dr. William H. Glick

*Dean and H. Joe Nelson III Professor of Management at
the Jesse H. Jones Graduate School of Business*

Rice University



Doing Business in the “Reset” Economy



Doing Business in the “Reset” Economy

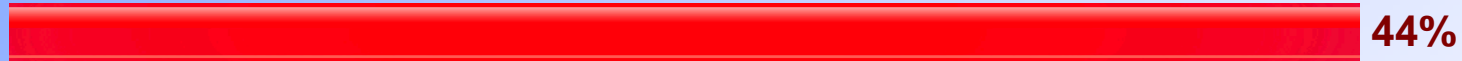
**Jerry Strawser, Dean
KPMG Chair in Accounting
Mays Business School
Texas A&M University**

In the last 6 months, have things:

1. Gotten much better



2. Gotten a little better



3. Stayed about the same



4. Gotten a little worse



5. Gotten much worse



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%

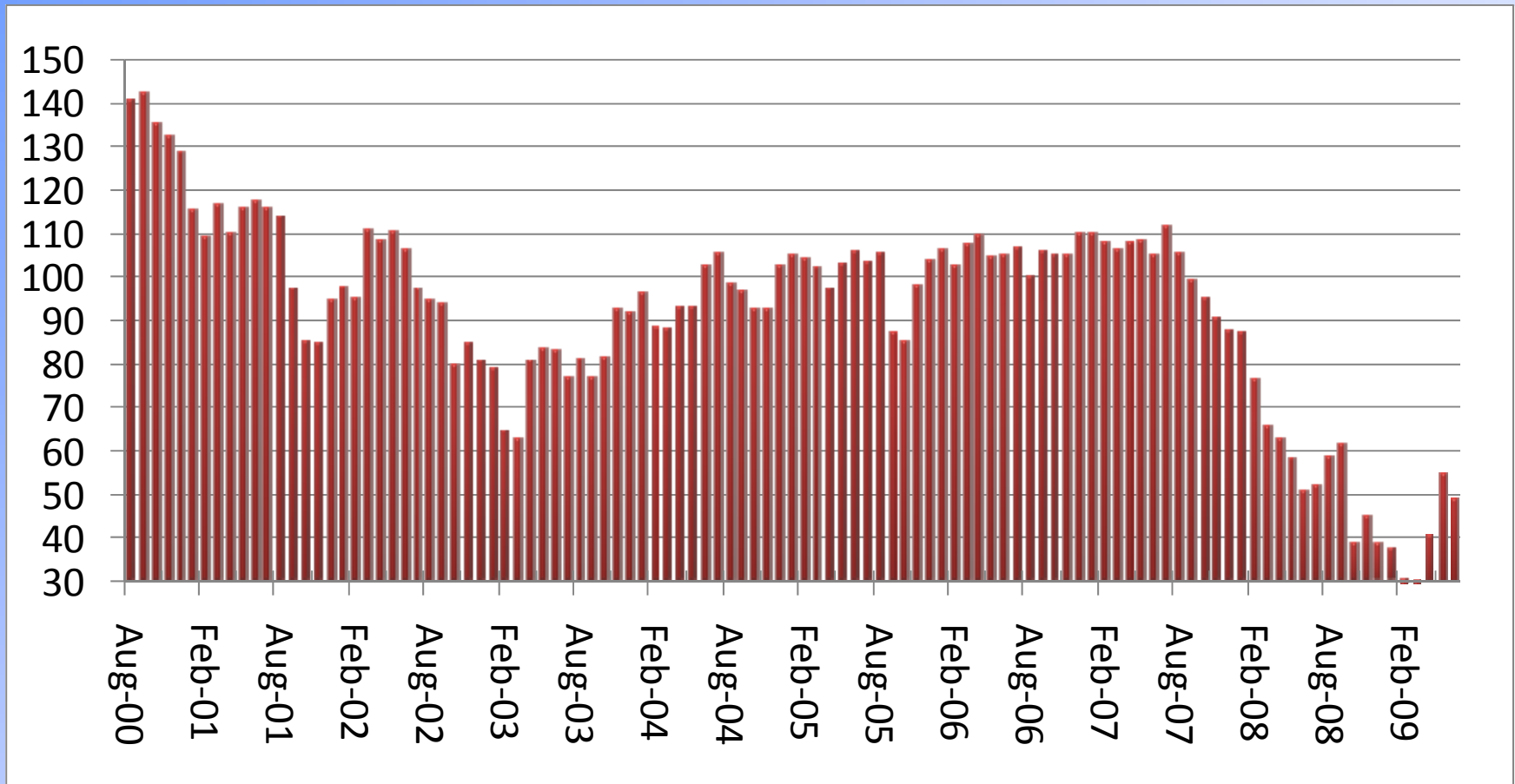
4. Never

20%

So What Happened?



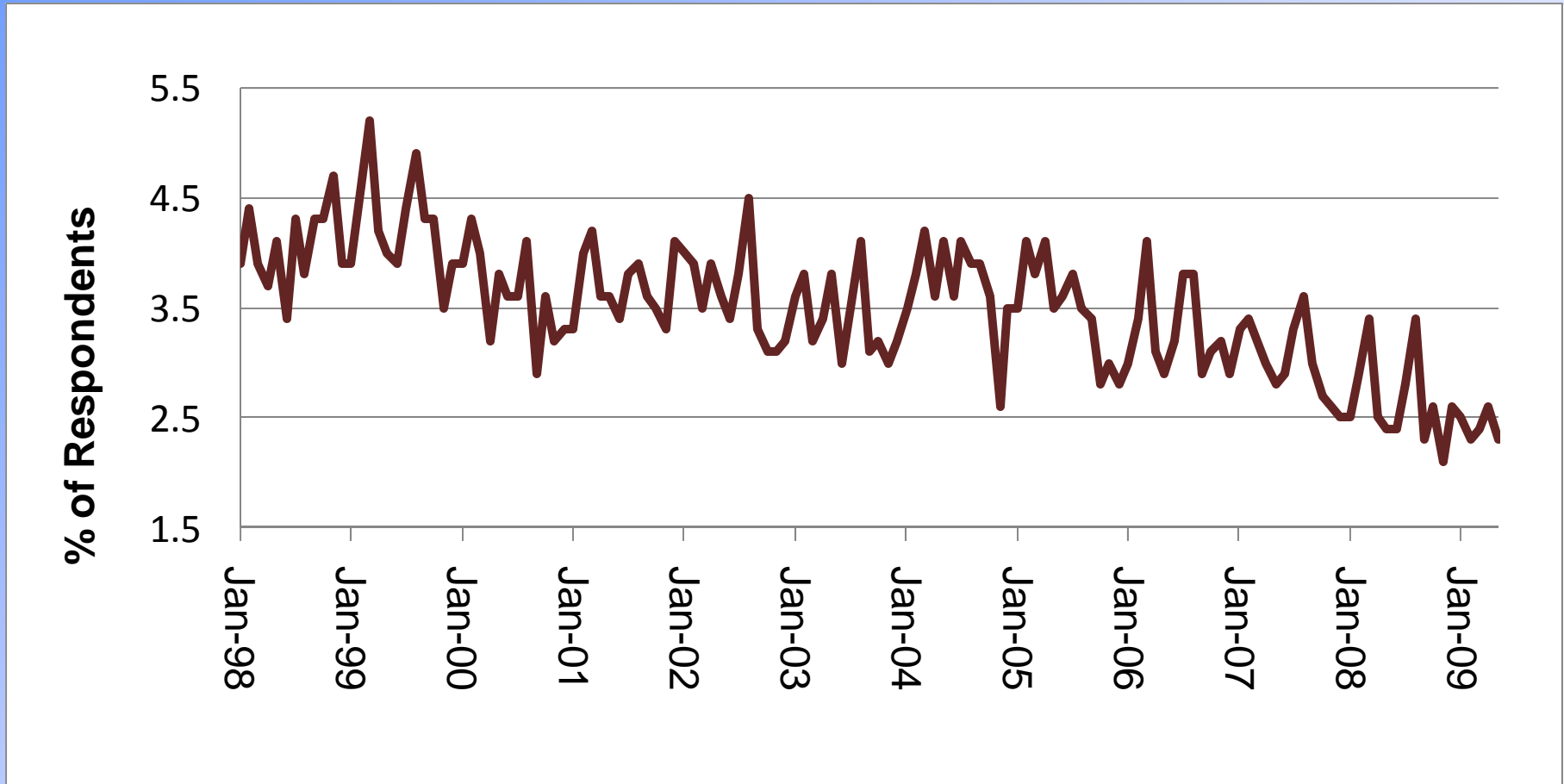
Consumer Confidence Index



Source: www.conference-board.org/

Source: The Conference Board

People Who Plan to Buy a Home in the Next Six Months

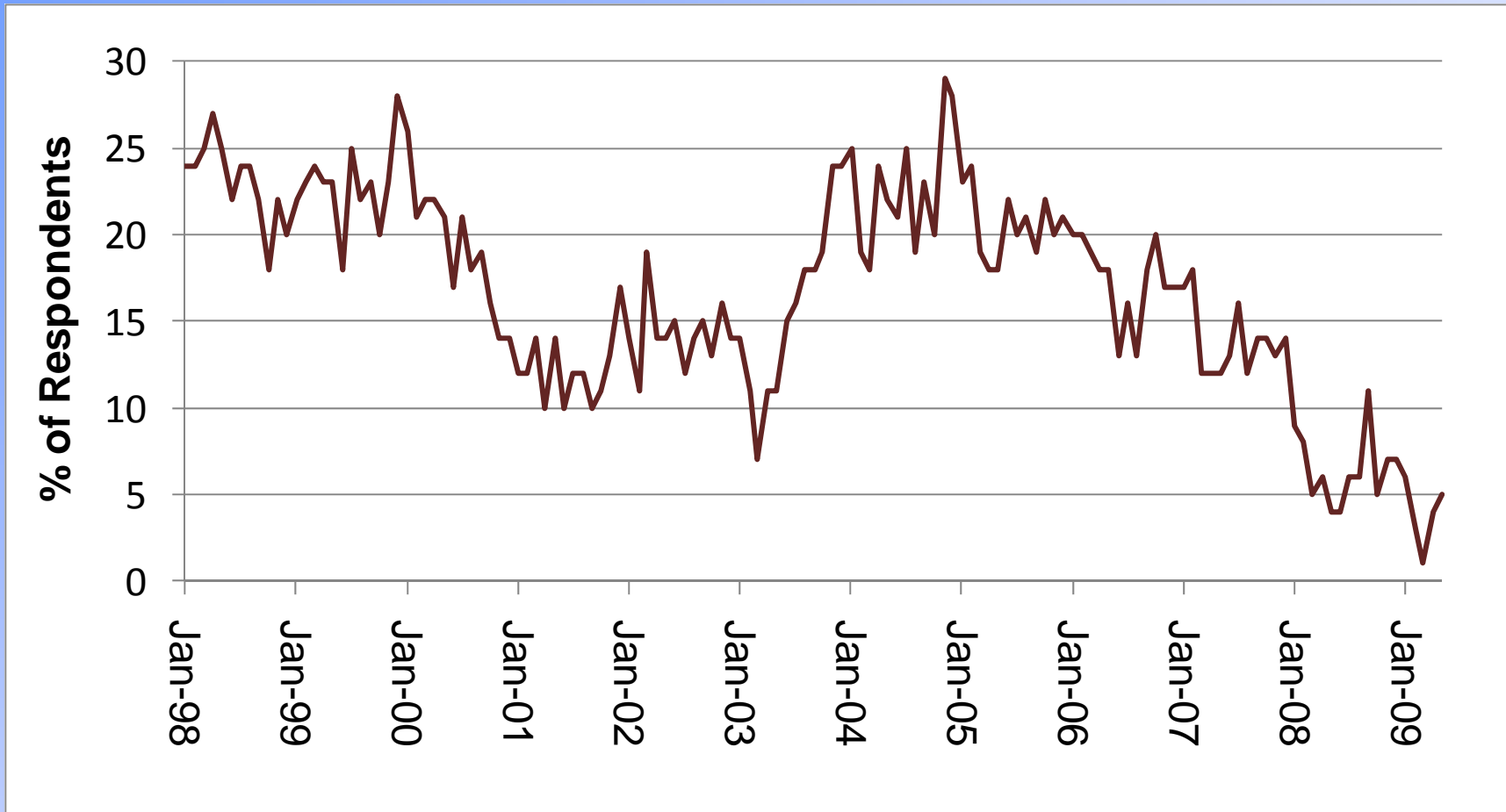


Source: www.haver.com

Source: The Conference Board

Small Business Outlook

“Now Is A Good Time To Expand”



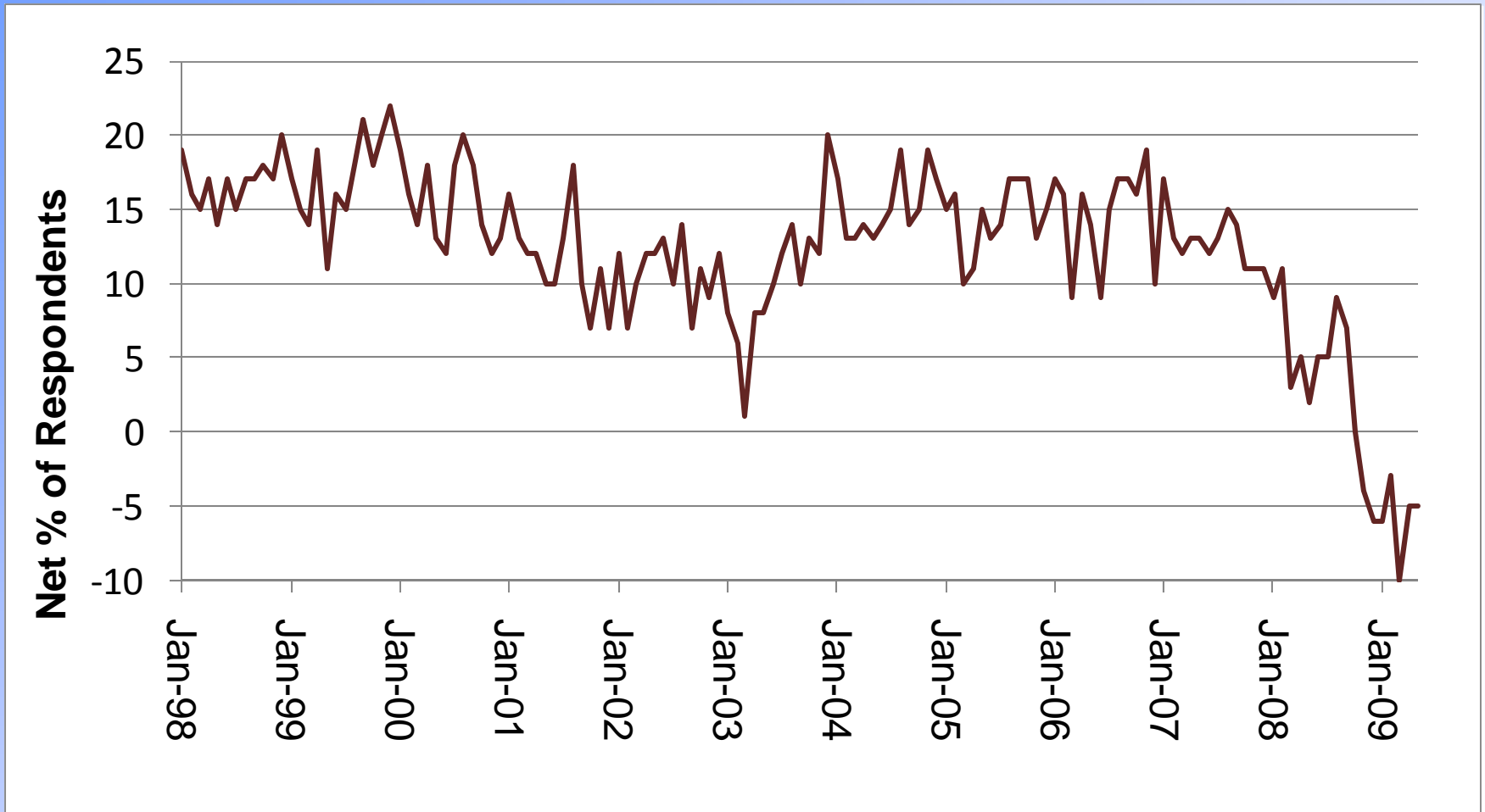
Source: www.haver.com

National Federation of Independent Business



Small Business Outlook

“Planning To Hire People In The Next Six Months”

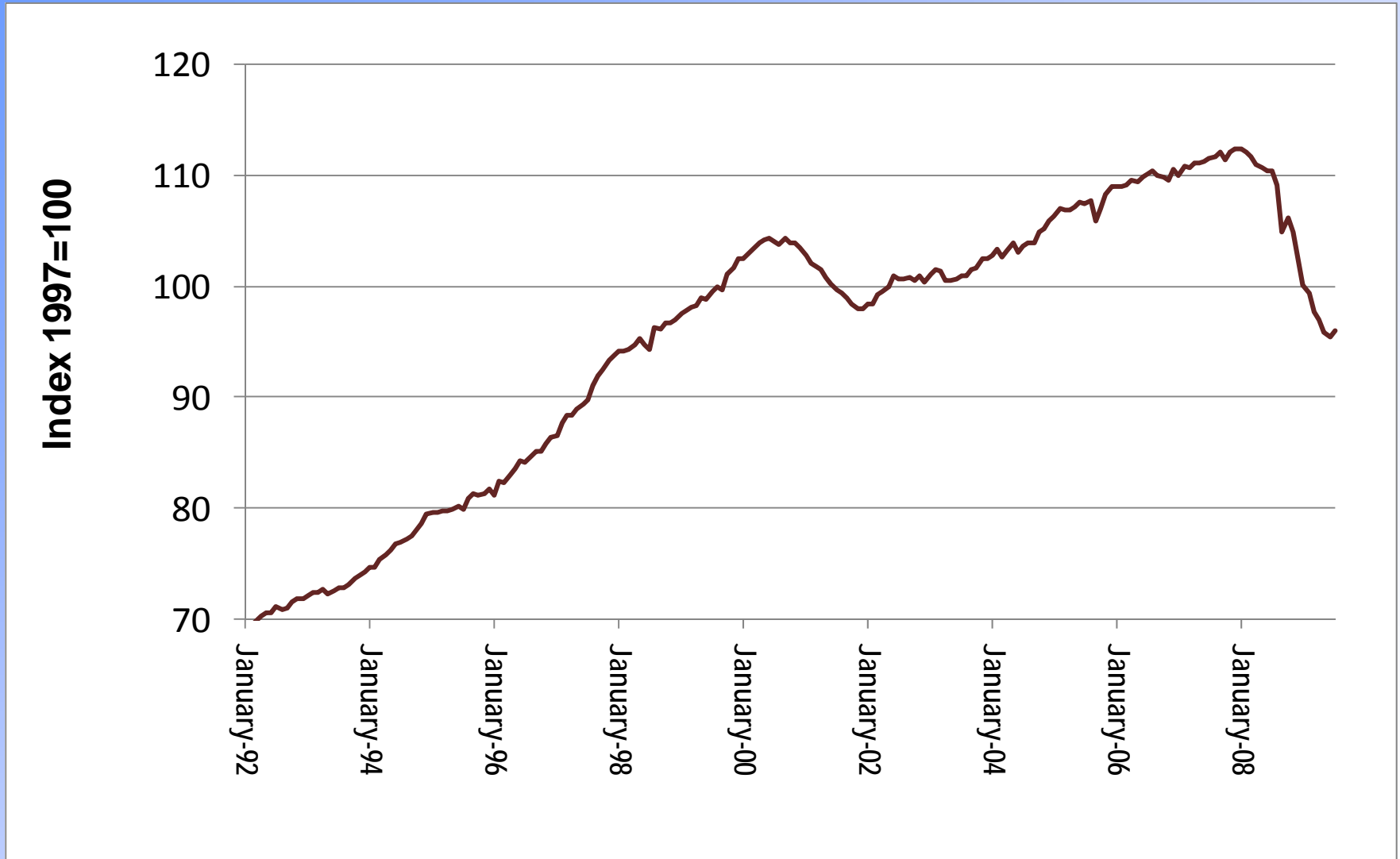


Source: www.haver.com

National Federation of Independent Business



Industrial Production Index



Source: St. Louis Federal Reserve

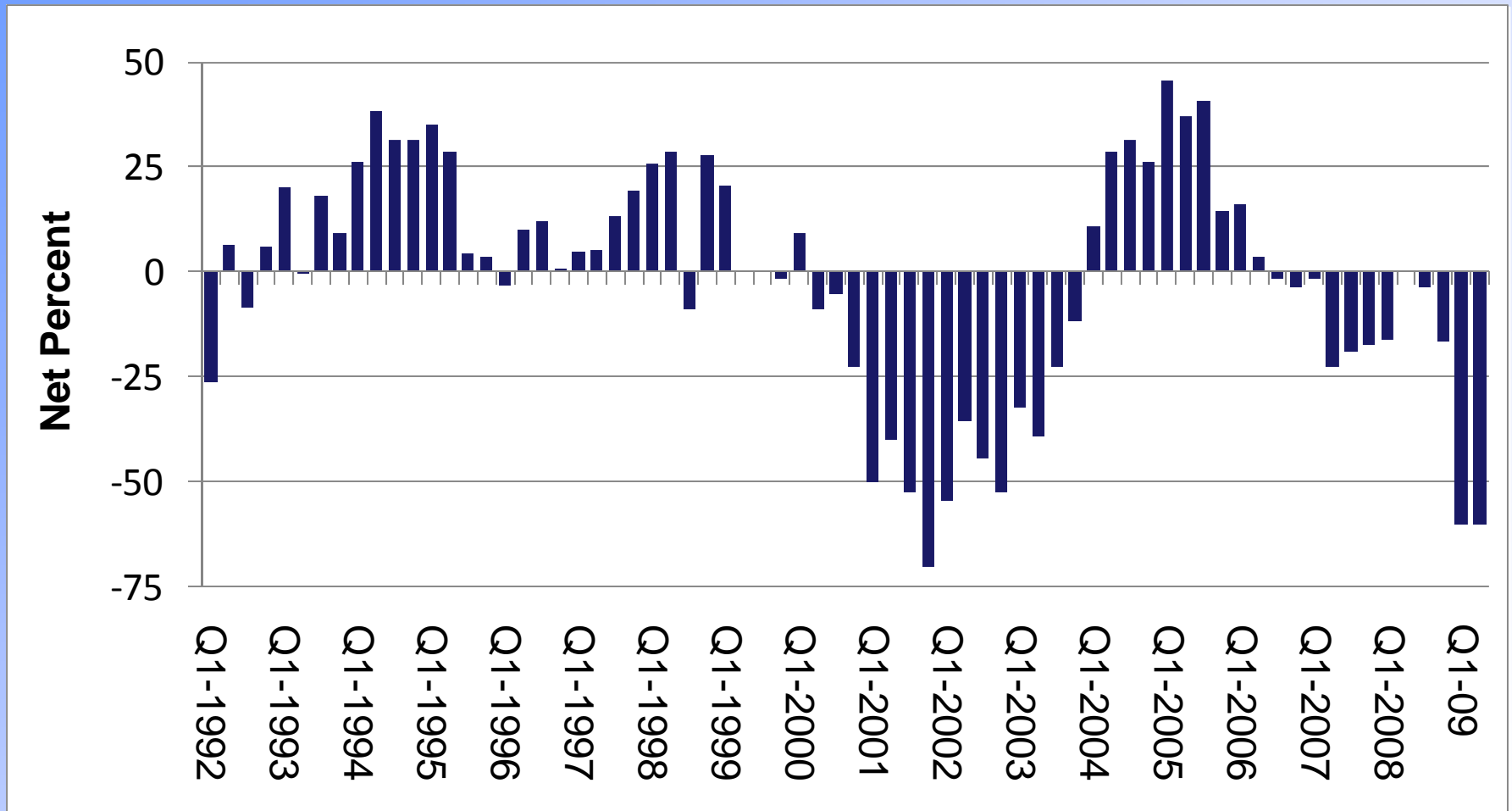
Capacity Utilization: Manufacturing



Source: St. Louis Federal Reserve

Source: Federal Reserve Board

Banks Reporting Stronger Loan Demand From Large Firms

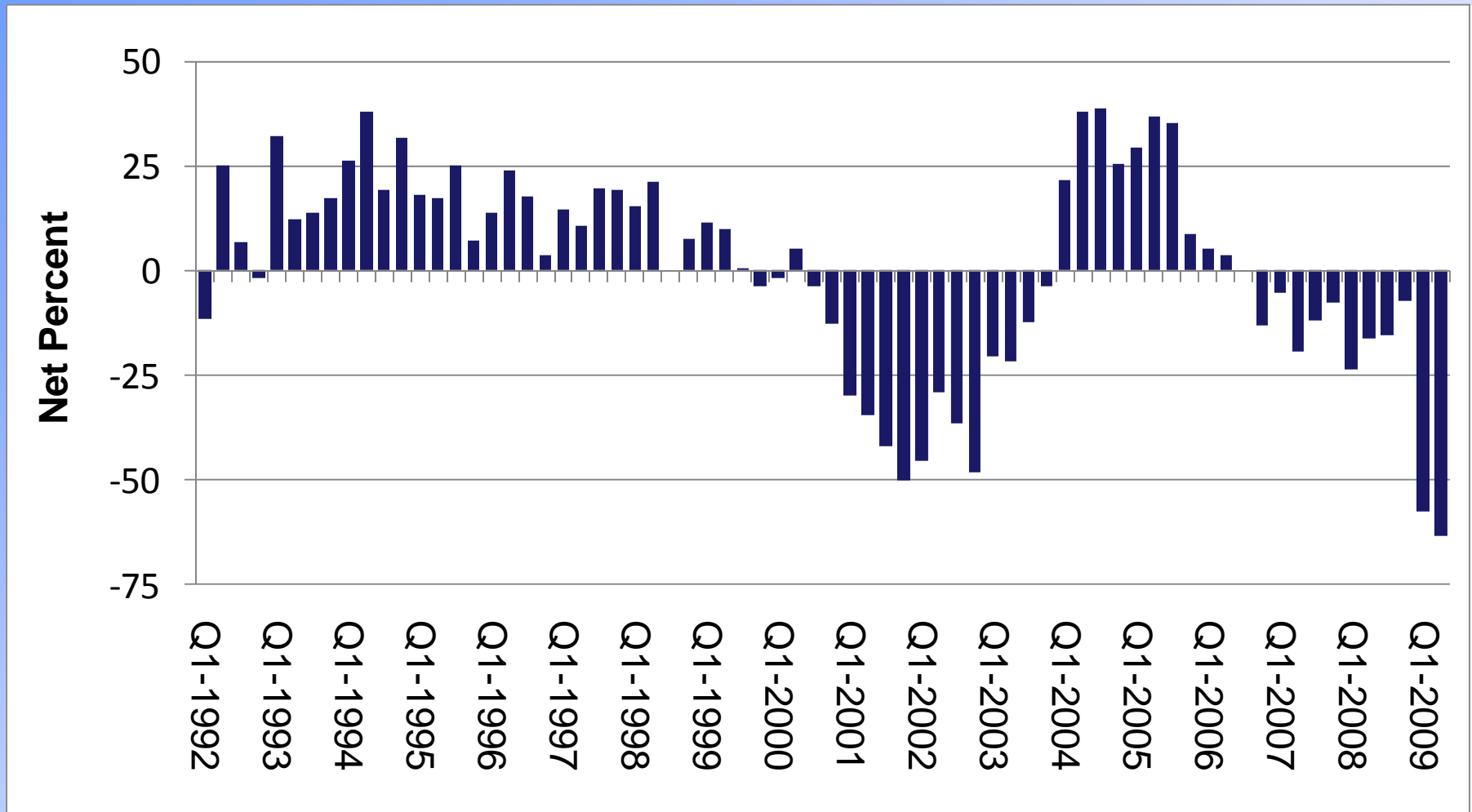


Source: www.haver.com

Federal Reserve Senior Loan Officer Survey



Banks Reporting Stronger Loan Demand From Small Firms

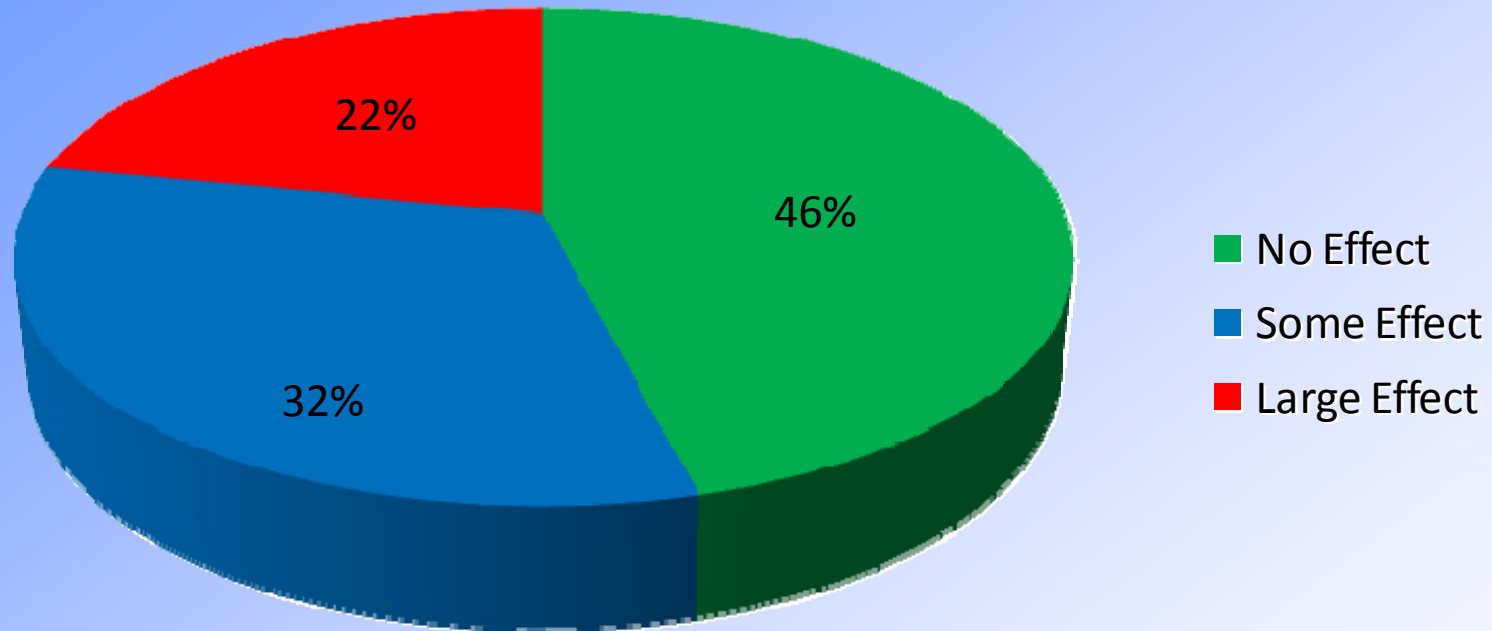


Source: www.haver.com

Federal Reserve Senior Loan Officer Survey



The Credit Crunch

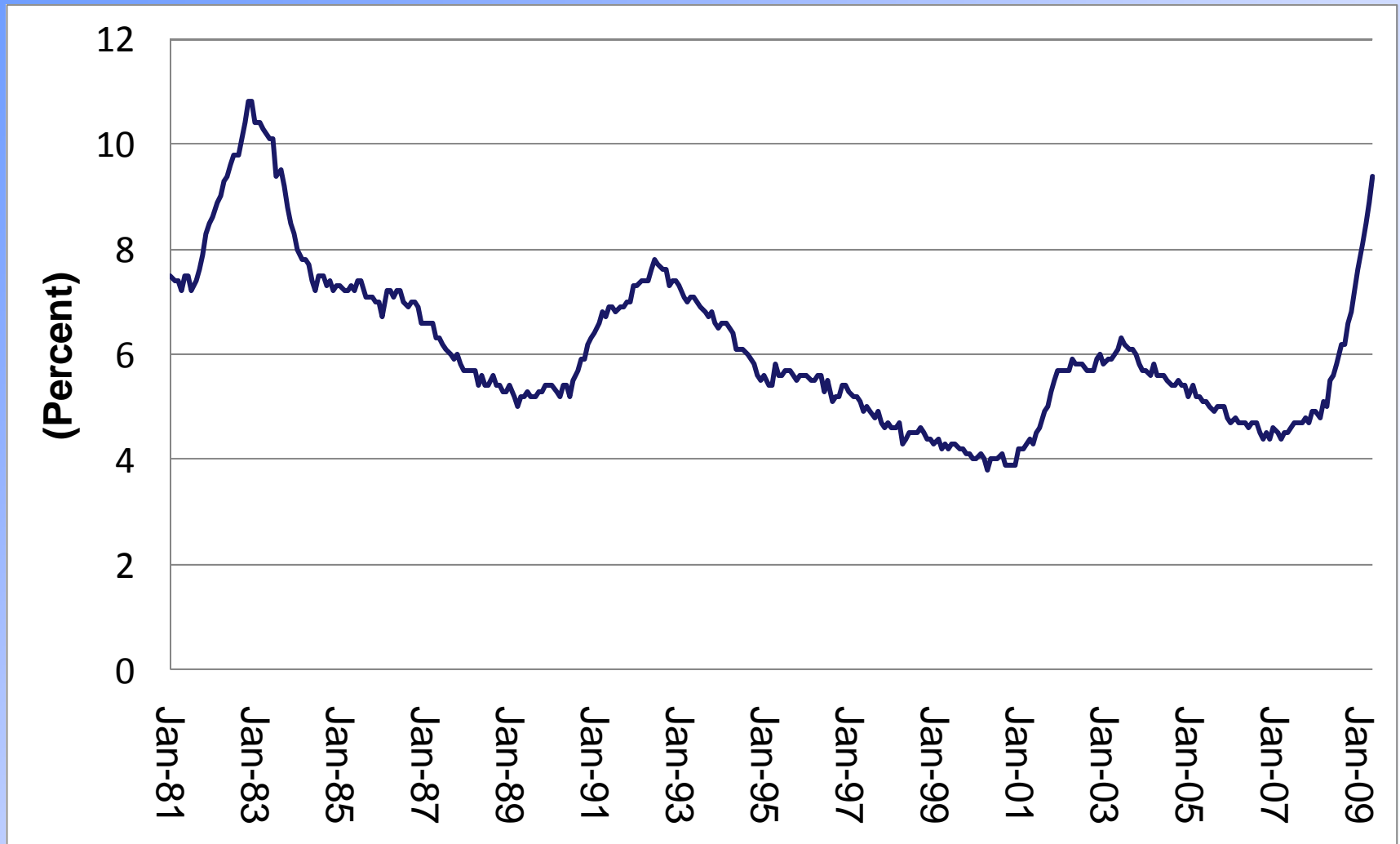


For those affected:

- Reduced availability (58%)
- Increased cost (49%)

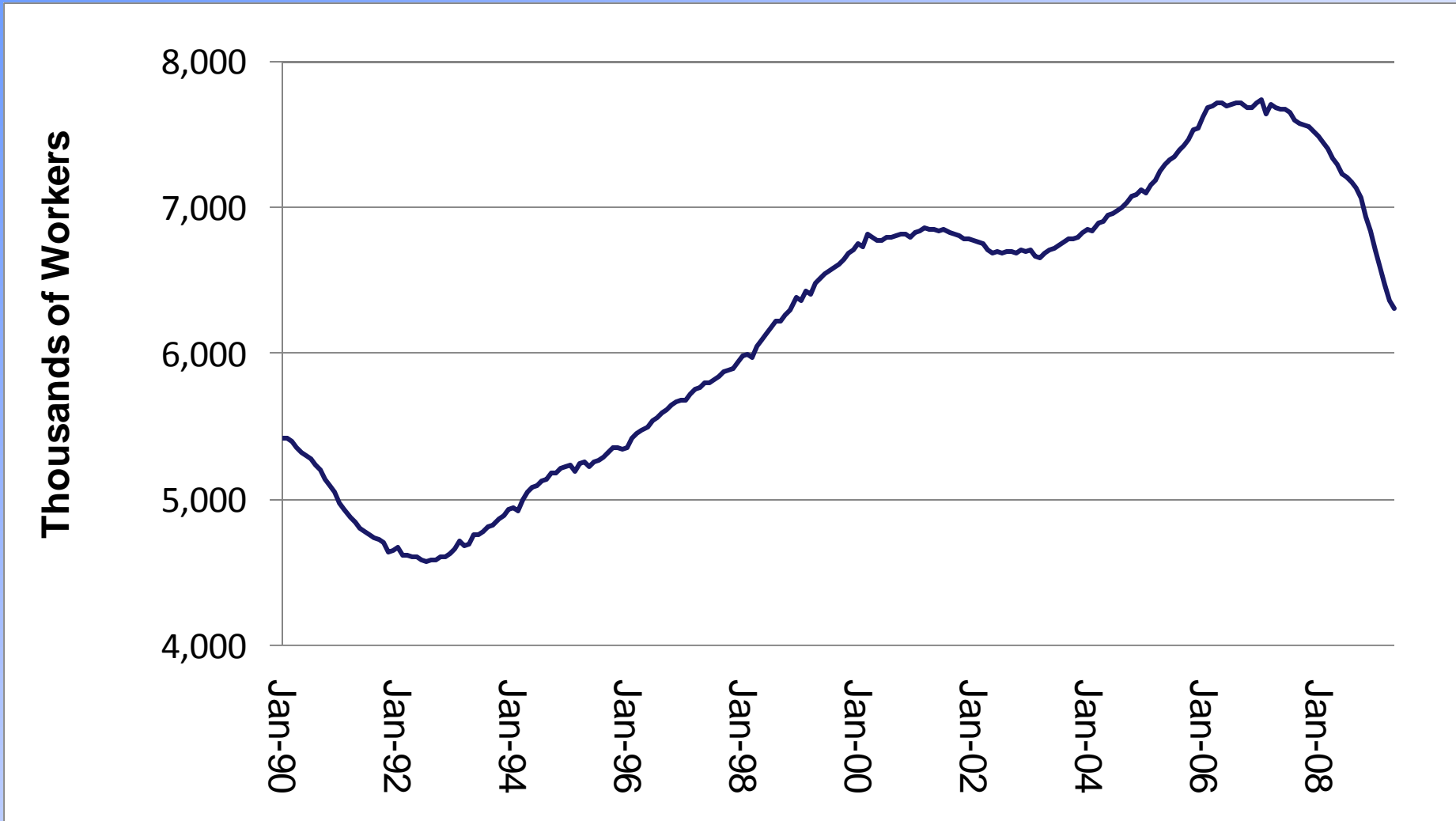
Source: “Business Outlook Survey, CFO, July/August 2009, p. 26.

US Civilian Unemployment Rate



Source: St. Louis Federal Reserve

US Employment: Construction

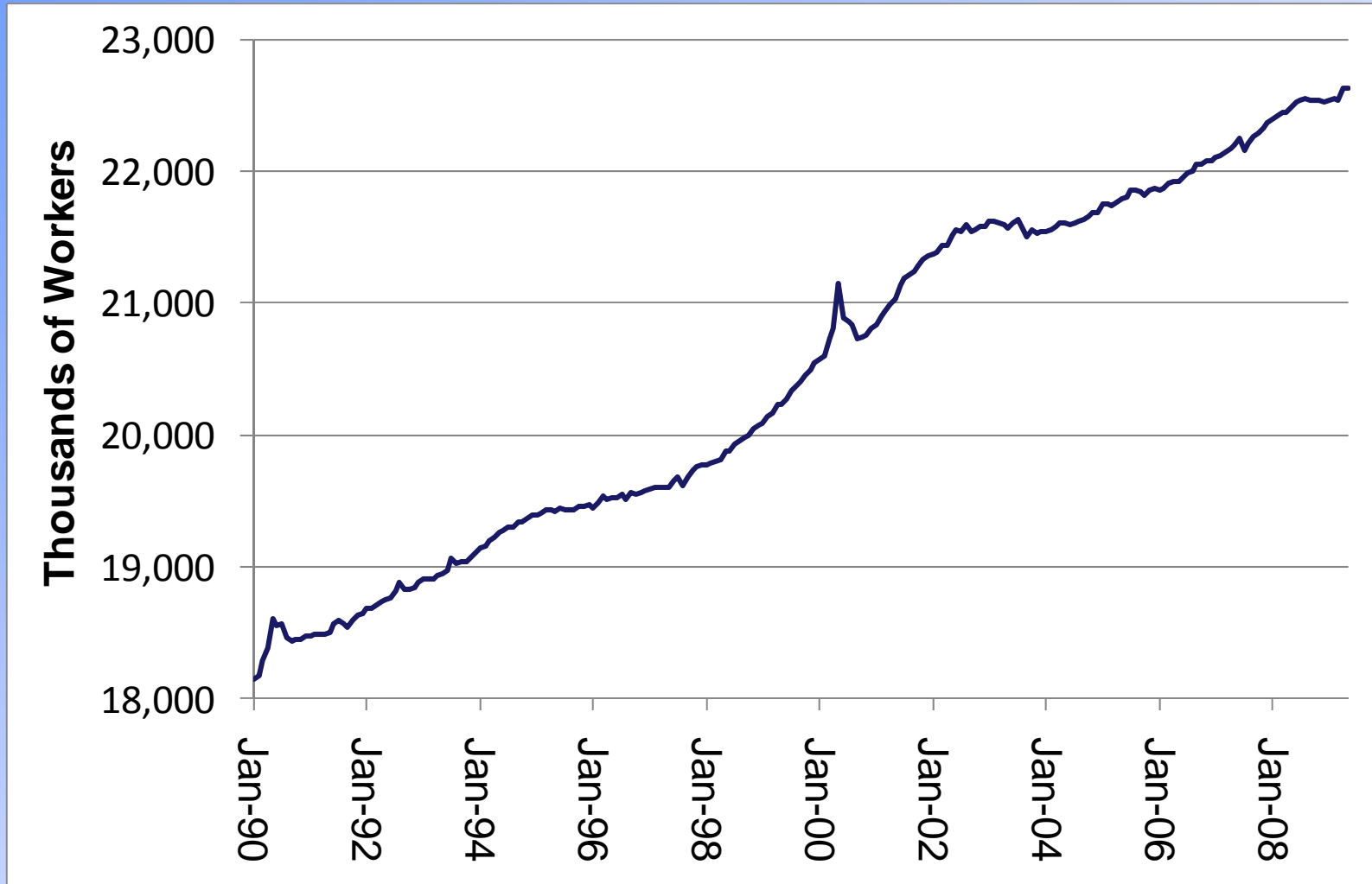


Source: St. Louis Federal Reserve

Source: Bureau of Labor Statistics



US Employment: Government

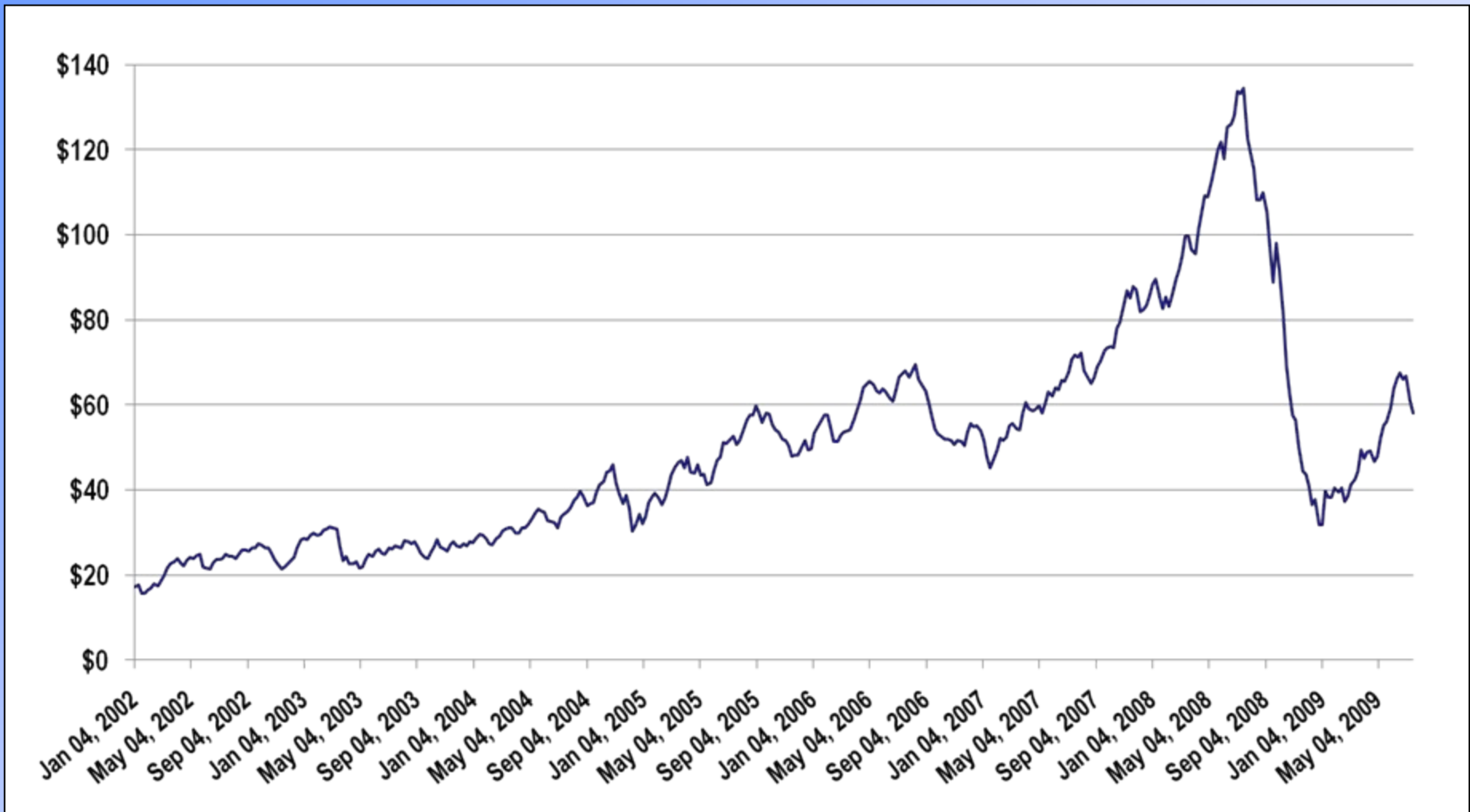


Source: St. Louis Federal Reserve

Source: Bureau of Labor Statistics



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?

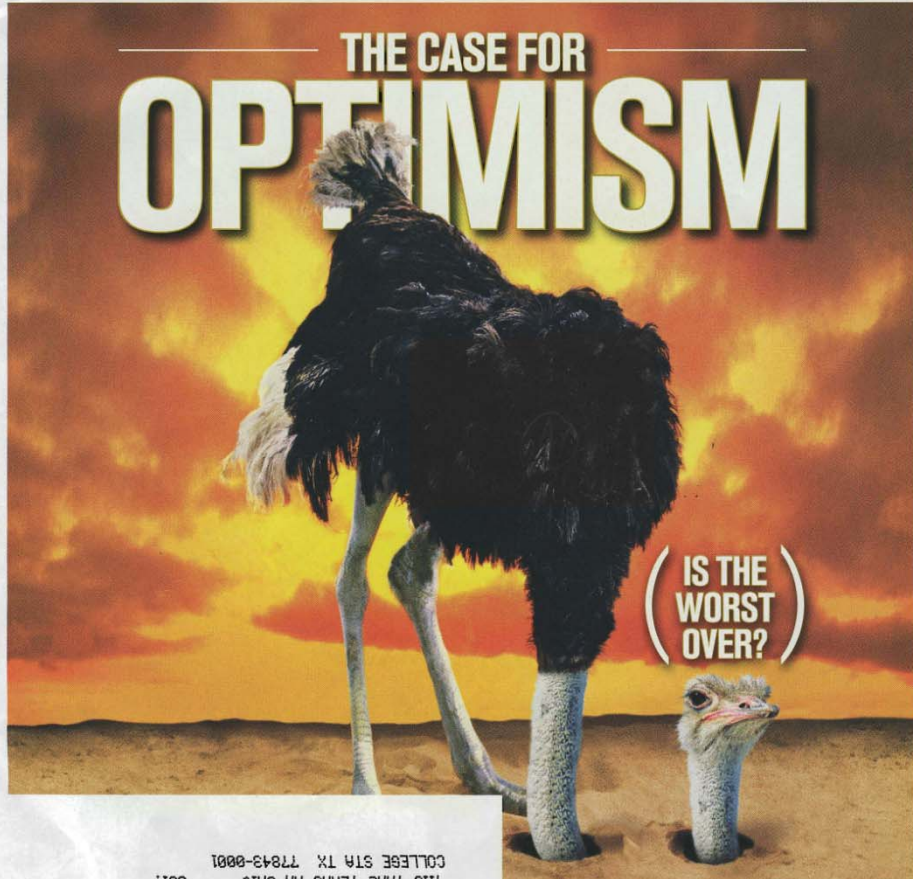


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THE CASE FOR OPTIMISM



(IS THE
WORST
OVER?)

COLLEGE STA TX 77843-0001

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.

Source: “Silicon Valley Survivor,” *Wall Street Journal*, July 25-26, 2009, p. A11.

Three more ...

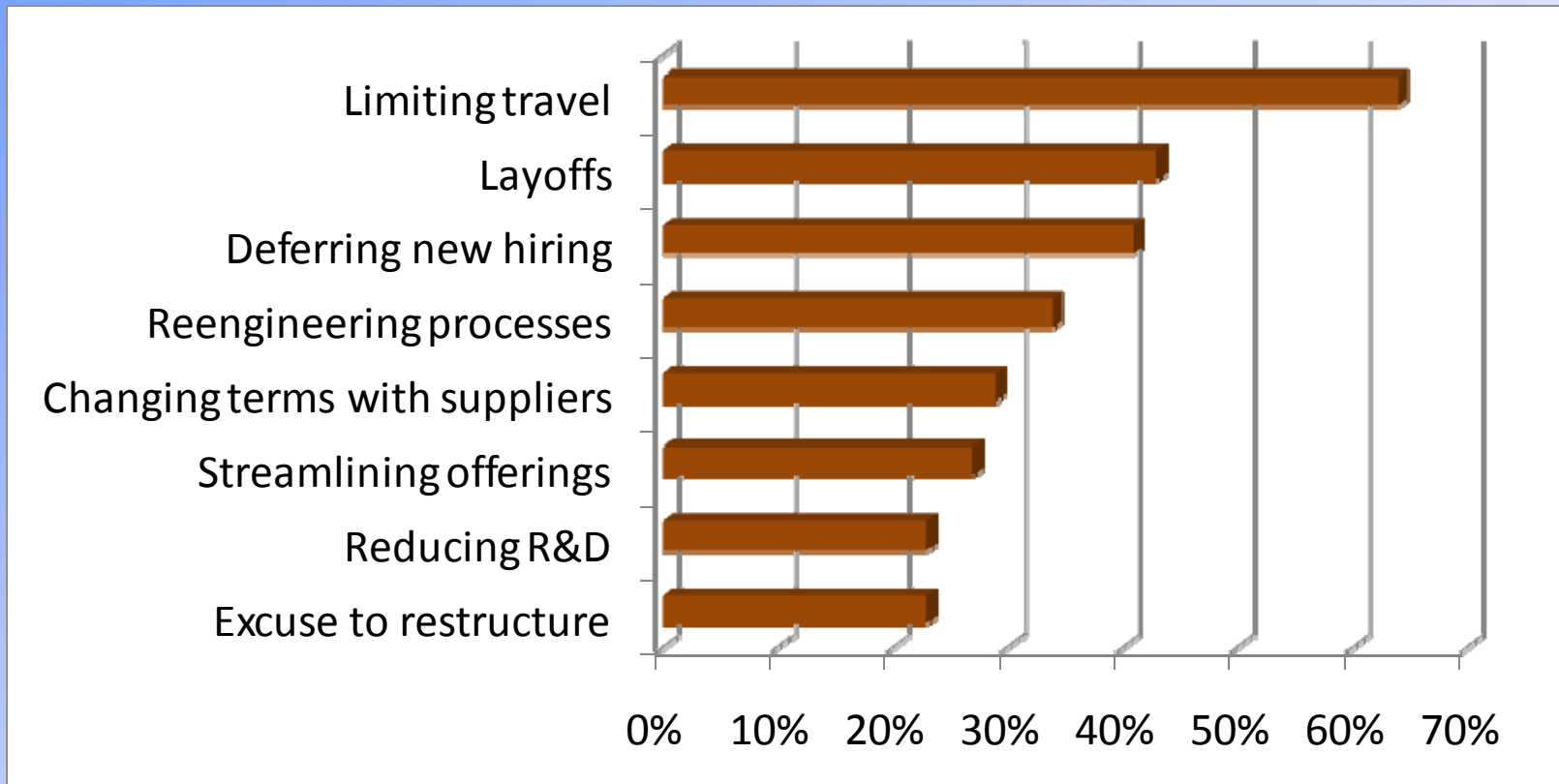
- 1. Tough economies will pare the field of weak competitors**
- 2. Tough economies provide cover for certain behaviors and decisions (customers, suppliers, and employees)**
- 3. Everything is up for grabs. Use this as a business development opportunity.**

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**

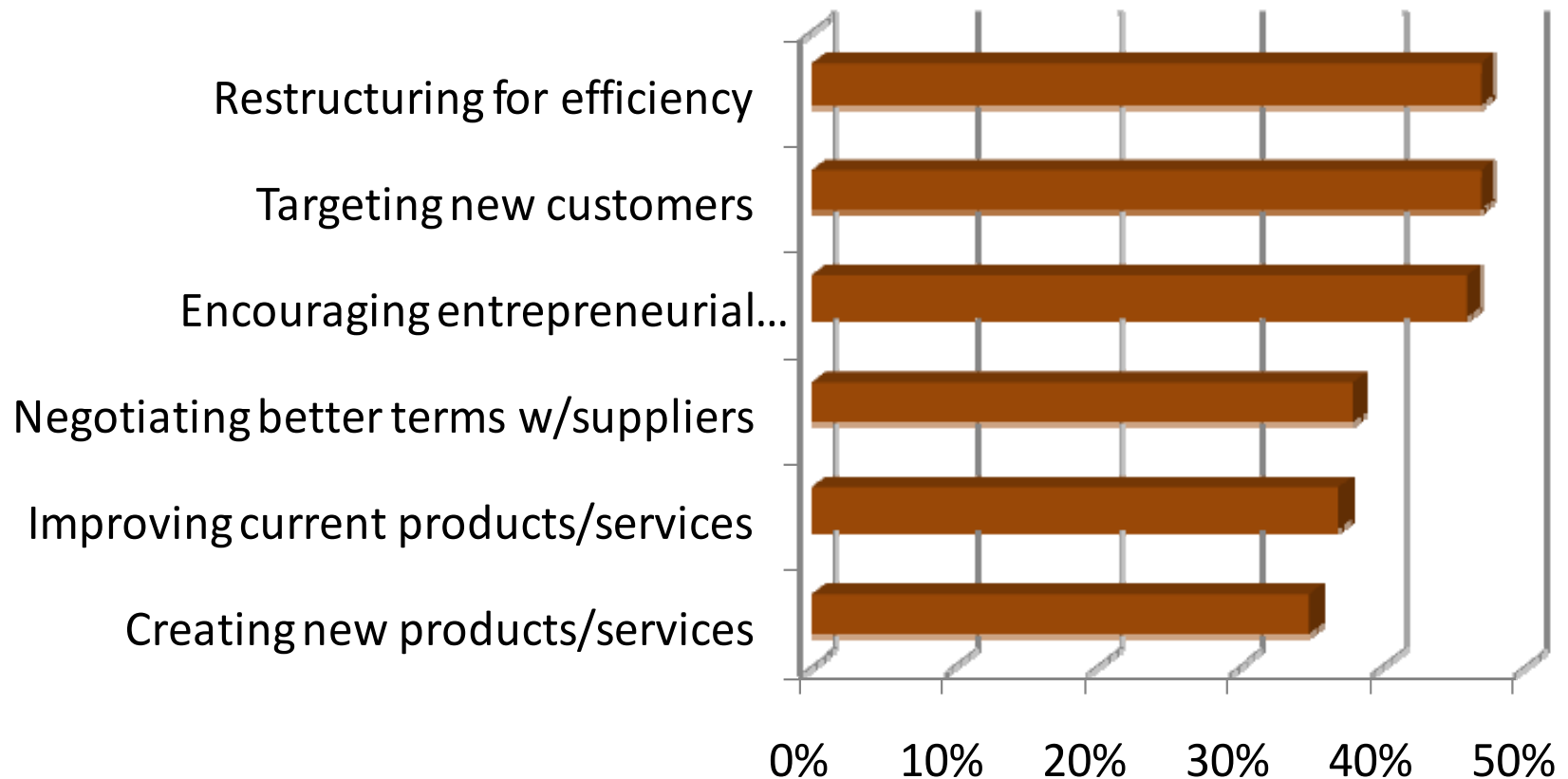
**Source: “My Recovery Playbook,” *Fortune*,
August 31, 2009, pp. 61-66.**

What is your Company Doing?



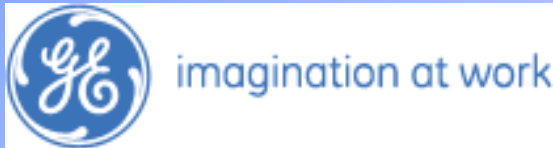
Source: “How Bleak is the Landscape?,”
Harvard Business Review, July-August 2009,
92-93.

What Opportunities is your Company Considering?

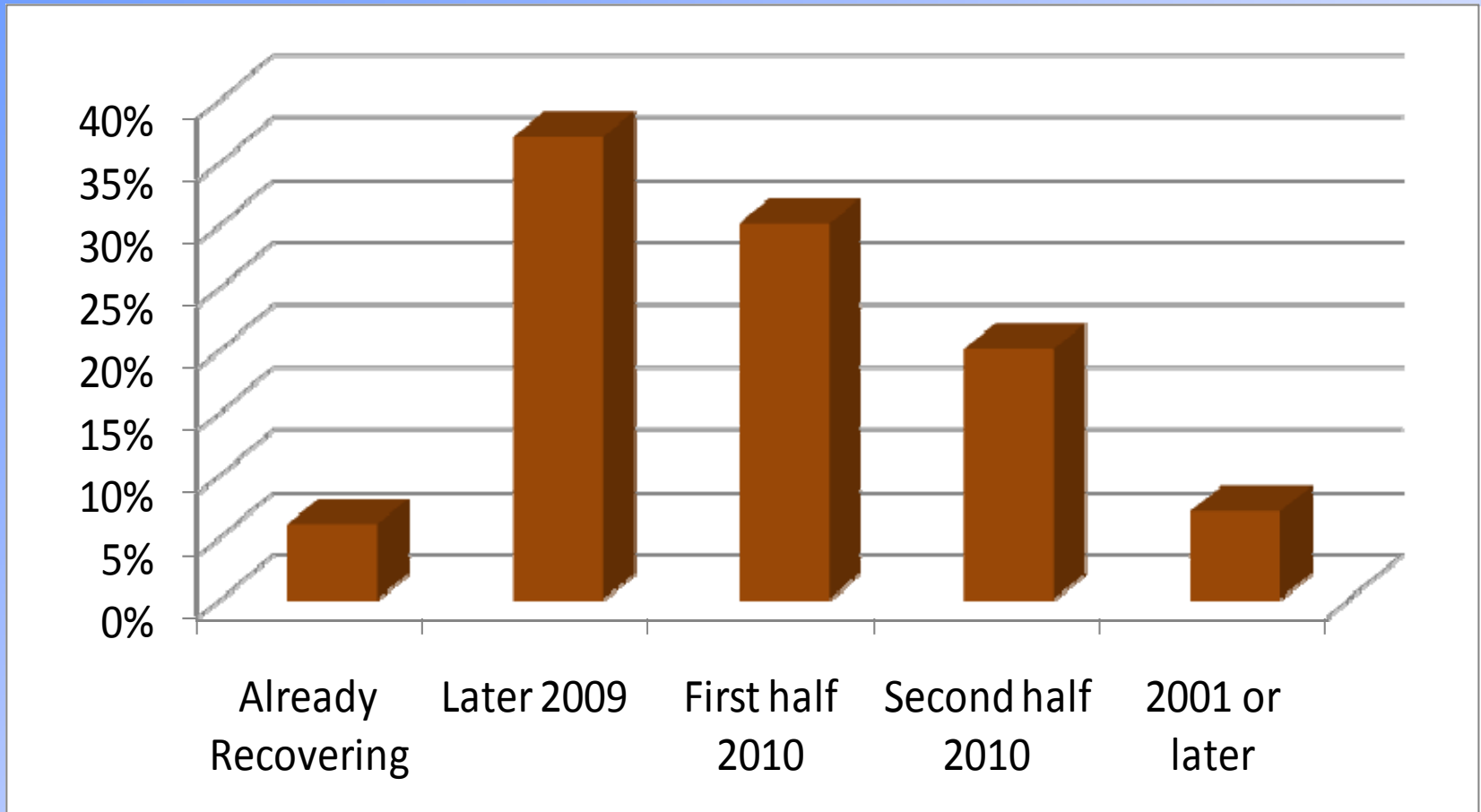


Source: “How Bleak is the Landscape?,”
Harvard Business Review, July-August 2009,
92-93.

What can Happen During a Recession?



When will we recover?



Source: “Business Outlook Survey, CFO, July/August 2009, p. 24.