BUSINESS AS UNUSUAL

Gaining Advantage in a Dynamic Project Landscape

42ND ANNUAL ECC CONFERENCE

SEPT. 1ST–4TH
2010

RITZ CARLTON GRANDE LAKES

ORLANDO, FLORIDA
BUSINESS AS UNUSUAL...

A COMPETITIVE OUTLOOK FOR 2010, AND BEYOND

STEPHANE GARELLI
PROFESSOR AT IMD AND AT THE UNIVERSITY OF LAUSANNE, SWITZERLAND, DIRECTOR WORLD COMPETITIVENESS CENTER

ORLANDO
2 SEPTEMBER 2010
« THE TROUBLE WITH OUR TIMES IS THAT THE FUTURE IS NOT WHAT IT USED TO BE. »

PAUL VALERY, 1871 - 1945
I DO NOT ANTICIPATE ANY SERIOUS PROBLEMS AMONG THE LARGE INTERNATIONALLY ACTIVE BANKS

28 FEBRUARY 2008

IN TODAY’S REGULATORY ENVIRONMENT IT IS VIRTUALLY IMPOSSIBLE TO VIOLATE RULES

20 OCTOBER 2007
IN THE BACKGROUND...
TWO DEFINING MOMENTS

24 OCTOBER 1907

J.P. MORGAN & OTHER BANKERS

15 SEPTEMBER 2008

H.PAULSON TREASURY

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STEPHANE GARELLI
AN ECONOMY UNDER SURVEILLANCE...

THE NEW POWER OF THE STATE

STAKEHOLDER  SHAREHOLDER
A WORLD OF STATE CAPITALISM?...

OUR ECONOMY GROWS AT NIGHT...

WHEN THE GOVERNMENT IS SLEEPING!

AN INDIAN SAYING
A CRISIS IN THREE ACTS

**ACT I**
FINANCIAL CRISIS
VALUE DESTROYED
SHARES
- $50'000bn
LOANS
SAVINGS
HOUSES
2008

**ACT II**
ECONOMIC CRISIS
GDP DESTROYED
WORLD
- 5%
ECONOMY
2009

**ACT III**
SOCIAL CRISIS
JOBS DESTROYED
WORLD
- 50 MILLION
EMPLOYMENT
2010
GOOD NEWS

IT IS PRACTICALLY OVER!

BAD NEWS

WE HAVE TO PAY FOR THE BILL...
THE COST OF THE CRISIS

$7,200bn

RECAPITALIZATION, GUARANTEES, TOXIC ASSETS, etc.

27% OF GDP

27% OF GDP
ONE BILLION DOLLARS HERE,
ONE BILLION DOLLARS THERE

SOON OR LATER,
WE SHALL BE TALKING
ABOUT MONEY!

RONALD REAGAN,
1911 - 2004
1999: +$236bn

2009: -$1,845bn

2010: -$1,379bn

-$4 BILLION A DAY!

SOURCE: CONGRESSIONAL BUDGET OFFICE
A WORLD OF SINNERS

BUDGET DEFICITS AS A % OF GDP

Source: OECD
US NATIONAL PUBLIC DEBT: $12.2 TRILLION
86% OF GDP

US TOTAL DEBT: $54.6 TRILLION
(HOUSEHOLD, BUSINESS, FEDERAL, STATE AND LOCAL)
$177,124 per citizen

UNFUNDED LIABILITIES: $106.7 TRILLION
(SOCIAL SECURITY, MEDICARE, ETC.)
$346,373 per citizen

SOURCE. THE US DEBT CLOCK ORG.
UP AND AWAY...

G20 DEBT as a % of GDP

2007  114%
2010  106%
2014  78%

+ $9,000bn

DEBT + INTEREST PAYMENTS % of GDP

USA 2%
EU 3%
BREAKING POINTS...

SMALL 🇺🇸 BANKS

7'000 ≈ $1bn

SOVEREIGN 🇪🇺 DEBT

GREECE

SPAIN

PORTUGAL

2'200bn EUROS
THE PREVAILING SYSTEM:

EVERYTHING!

IMMEDIATELY!

WITH THE MONEY OF THE OTHERS!
A SYSTEM WHEREBY A BANK THAT CAN NOT PAY GETS ANOTHER GOVERNMENT THAT CAN NOT PAY TO GUARANTEE THAT IT CAN PAY!

CHARLES DICKENS
1812 - 1870
HOW TO FIND MONEY?

- PRINT
- BORROW
- SELL

OR

TAXES?
A GOVERNMENT

BIG ENOUGH
TO GIVE YOU
EVERYTHING
YOU WANT

IS STRONG ENOUGH
TO TAKE
EVERYTHING
YOU HAVE

THOMAS JEFFERSON
1743 - 1826
THE FUTURE OF CURRENCIES

1.28
0.90

US$ vs EURO

0.90
2002
2010

WORLD CURRENCY HOLDINGS

80%
60%
30%
20%

1977
1989
2010

STEPHANE GARELLI
THE NEXT BIG ONE?

RECESSIONS

July 1981 – November 1982 14 months
July 1990 – March 1991 8 months
March 2001 – November 2001 8 months
December 2007 – July 2009 19 months

EVERY 9-10 YEARS…

(32 Recessions since 1854)

NEXT?

2018 - 2020?
THE ECONOMIC CRISIS
WHAT FINALLY HAPPENED?

BEFORE

OVERCAPACITIES?

AFTER
THE WORLD ECONOMY
ANNUAL % CHANGE (12 month period)

NOSE DIVING OR LEVELLING-OFF?
(compared to previous quarter)

+0.4%  +3.9%
+4.5%  +9.0%
+2.6%  +1.5%
+1.6%

Q2
Q1

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STEPHANE GARELLI
THE WORLD ECONOMIC WEATHER MAP

1/3 chance W

UNCERTAIN

OVERCAST

WINDY

HEAT WAVE

IMPROVING

IMPROVING

NOT IN SYNC ANYMORE
TWO TYPES OF ECONOMY:

1. REPLACEMENT ECONOMY

A PURCHASE REPLACES AN EXISTING PRODUCT

« DRAMATIC » INNOVATION

1 BILLION PHONES = $12bn
THE OTHER ECONOMY...

2. FIRST BUY ECONOMY

A PURCHASE INTRODUCES A NEW PRODUCT

EMERGING MARKETS

PURCHASING POWER

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STEPHANE GARELLI
ANOTHER LOOK AT IT...

I NEED IT!

I WANT IT!
THE THREAT OF UNEMPLOYMENT

**TOTAL UNEMPLOYMENT**

- USA: 9.5%
- France: 10%
- Germany: 7.6%
- Brazil: 7.0%
- Netherlands: 5.5%
- Switzerland: 3.8%

**YOUTH UNEMPLOYMENT**

- Spain: 42.9%
- France: 23.3%
- EU: 20.7%
- Italy: 18.5%

SELECTED EUROPEAN UNION COUNTRIES
IN SUMMARY...

« IT IS A STATISTICAL RECOVERY

AND A HUMAN RECESSION! »

LAWRENCE H. SUMMERS
(1954 - )
SO...
WHERE IS THE MONEY?
A NEW SOUTH – SOUTH BLOCK….

GLOBAL ECONOMIC OUTPUT = 32%

56% CHINESE EXPORTS = EMERGING ECONOMIES

HI TECH
PROJECTS
BRANDS
RAW MATERIALS
MONEY
SIZE
WHO IS HAVING THE MONEY?

Foreign currency reserves

- China: $2454bn
- Japan: $1019bn
- Russia: $456bn
- Switzerland: $362bn
- India: $282bn
- South Korea: $270bn
- Brazil: $257bn

Euro 520bn

US TREASURY BONDS

Euro TREASURY BONDS
THE POWER OF WEALTH SOVEREIGN FUNDS

TOTAL FUNDS WORLDWIDE: $3809bn

- ABU DHABI INVESTMENT AUTHORITY: $627bn
- GOVERNMENT PENSION FUND: $445bn
- SAMA FOREIGN HOLDINGS: $431bn
- CHINA INVESTMENT CORPORATION: $289bn
- GOVERNMENT OF SINGAPORE INVESTMENT CORP.: $248bn
- KUWAIT INVESTMENT AUTHORITY: $203bn
- NATIONAL WELFARE FUND: $168bn
- NATIONAL SOCIAL SECURITY FUND: $146bn
- HONG KONG MONETARY AUTHORITY INVESTMENT: $139bn
- TEMASEK HOLDINGS: $122bn
NEW PRIORITIES FOR MONEY

FINANCIAL ASSETS

GOVERNMENT BONDS

INDUSTRIAL ASSETS

INFRASTRUCTURE

LOCAL AND REGIONAL

LOCAL COMPANIES

EVERYWHERE

$700bn in the Gulf Region

$700bn

21 out 22 Chinese top corp. state financed

21 out 22

Chinese corp. In Africa

700

Chinese top corp. state financed

AT HOME

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STEPHANE GARELLI
EMERGING GLOBAL BRANDS...

The World's Largest Corporations

GLOBAL

EMERGING ECONOMIES

93
THE FOUR PILLARS OF GROWTH

EMERGING MARKETS

MIDDLE CLASS
MARKET PROSPECTS FOR 2050s

A GENERATION AWAY (just as the 70s...)

[Images of people from different eras, including a young person in a mugshot]
Population in millions

<table>
<thead>
<tr>
<th>Region</th>
<th>2008</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTH AMER.</td>
<td>337</td>
<td>392</td>
</tr>
<tr>
<td>EUROPE</td>
<td>731</td>
<td>628</td>
</tr>
<tr>
<td>LATIN AMER.</td>
<td>577</td>
<td>809</td>
</tr>
<tr>
<td>AFRICA</td>
<td>973</td>
<td>1766</td>
</tr>
<tr>
<td>ASIA</td>
<td>4054</td>
<td>5258</td>
</tr>
</tbody>
</table>
THE EMERGENCE OF A NEW MIDDLE CLASS

1,428 Mo  →  2,644 Mo  →  3,600 Mo
1990  2008  2030

My Dream!
HOUSING

TRAVEL

HEALTHCARE

BUSINESS MODEL EXISTS

1990  2008  2030

ELECTRONICS

BRANDS

BETTER FOODS

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STEPHANE GARELLI
### The Power of Consumption

#### Household Consumption % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>71%</td>
</tr>
<tr>
<td>UK</td>
<td>64%</td>
</tr>
<tr>
<td>India</td>
<td>54%</td>
</tr>
<tr>
<td>Russia</td>
<td>48%</td>
</tr>
<tr>
<td>China</td>
<td>38%</td>
</tr>
</tbody>
</table>

#### Car Sales in 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Sales 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>30.2 Mo</td>
</tr>
<tr>
<td>UK</td>
<td>15.0 Mo</td>
</tr>
<tr>
<td>India</td>
<td>8.4. Mo</td>
</tr>
<tr>
<td>Russia</td>
<td>5.7. Mo</td>
</tr>
<tr>
<td>China</td>
<td>5.7. Mo</td>
</tr>
</tbody>
</table>

*Source: General Motors*
THE URBANISATION IMPACT

POPULATION LIVING IN CITIES

1800
1950
2030
150 MILLION
3 BILLION
150 CITIES = 30% OF WORLD GDP!

60%
40%
20%
2%
60%
WORLD CITIES (people)

1900
2008
150 MILLION
3 BILLION

1950
2030
THE FOUR PILLARS OF GROWTH

- Emerging Markets
- Emerging « Less » Poors
- Middle Class
- New Bus. Model
THE EMERGENCE OF THE »LESS POORS »

BETWEEN $500 AND $3’000

THE $100 - $200 PC

THE $2500 CAR

MICROFINANCE

MOBILE MONEY

FROM PHILANTHROPIA TO A BUSINESS MODEL?
THE FOUR PILLARS OF GROWTH

- EMERGING MARKETS
- EMERGING «LESS» POORS
- CLEAN TECHNOLOGY
- MIDDLE CLASS
- NEW BUS. MODEL
- SUSTAINABILITY
THE COMMODITIES COME BACK!

1999 - 2009

PAST 12 MONTH

INDUSTRIALS +20.7%

FOOD +6.3%

Source: The Economist

LEAD 378%

GOLD 308%

SUGAR 270%

COPPER 269%

OIL 202%

GAS 108%

CORN 104%

NICKEL 94%

Source: Bloomberg

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STEFHANE GARELLI
BECAUSE OF CHINA’S APPETITE...

AS A % OF WORLD CONSUMPTION

ALUMINIUM 19%

COPPER 20%

STEEL 27%

COAL 31%

CEMENT 47%

FISH 33%
OIL AS A % OF WORLD CONSUMPTION

CHINA
8.5%
86 Mo b/d

INDIA
3.0%
130 Mo b/d

2009
2030

45%
AND FROM THERE?

BUT

300 LITERS OF METHANE PER DAY!

60% AGRICULTURAL LANDS ARE FOR ANIMAL FEED

15’000 LITERS OF WATER FOR 1 KG OF BEEF
ECOLOGICAL FOOTPRINT

TOYOTA LAND CRUISER
4.6-LITRE

A DOG
MEDIUM-SIZED

0.41 HECTARES
10,000 Km
164 Kg
OF MEAT
95 Kg
OF CEREALS

SOURCE: Robert and Brenda VALE, Victoria University, of Wellington, New Zealand
THE FOUR PILLARS OF GROWTH

EMERGING MARKETS
MIDDLE CLASS

EMERGING « LESS » POORS
NEW BUS. MODEL

CLEAN TECHNOLOGY
SUSTAINABILITY

AGE WELLNESS
ANOTHER LIFE?

LIFE EXPECTANCY

INCREASES
5 HOURS PER DAY

STEPHANE GARELLI
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THRIVING THROUGH A BIG BLACK HOLE
THE WAY FORWARD?

THINK GLOBALLY
ACT LOCALLY
PANIC INTERNALLY!
BACK TO PRODUCTIVITY

1980...
WORKING BETTER
REENGINEERING

1990...
WORKING CHEAPER
OUTSOURCING

2000...
WORKING ELSEWHERE
GLOBALIZATION

2010...
WORKING SIMPLER
« THERE IS NOTHING SO USELESS AS DOING EFFICIENTLY SOMETHING THAT SHOULD NOT BE DONE AT ALL… »

PETER DRUCKER, 1909 - 2005
STUCK IN THE MIDDLE...

MORE REGULATIONS

COMPLIANCE

ENVIRONMENT

HEALTH

« MORE OF LESS »

SIMPLICITY

TRANSPARENCY

ACCOUNTABILITY
« EVERYTHING SHOULD BE MADE AS SIMPLY AS POSSIBLE BUT NOT SIMPLER ! »

ALBERT EINSTEIN, 1879 - 1955
CHANGING THE MINDSET

COMPETENCIES AND SKILLS TO WIN!
AN EXPERIENCE AROUND A PRODUCT

ONE CUP - MANY PRICES
SELLING SOMETHING ELSE...

WE GIVE THE POSSIBILITY FOR A 43 YEAR OLD ACCOUNTANT TO DRESS IN BLACK LEATHER,

AND TO RIDE THROUGH TOWN AND SCARE EVERYBODY!

RICHARD TEERLINK
Former CEO, Harley-Davidson
A PIECE OF WISDOM…

IT'S NOT WHAT HAPPENS TO YOU THAT MATTERS,

BUT HOW YOU REACT TO IT!

EPICICTETUS
55- 135
A SENSE OF TRYING...

« WE STUDY A GOOD IDEA UNTIL IT BECOMES A BAD ONE ! »

AN ANONYMOUS CEO
THE DANGER OF « OVERTHINKING »

RALPH GULDAHL
1911- 1987

1937- 1939
- TWO US OPEN
- ONE MASTERS

A BOOK…

GROOVE YOUR GOLF
by RALPH GULDAHL
CONFIDENCE IS WHAT YOU HAVE BEFORE YOU UNDERSTAND THE PROBLEM!

WOODY ALLEN, 1935 - JUST DO IT…
TODAY, \textbf{CHANGES IN SOCIETY} \textbf{HAVE A DEEPER IMPACT ON COMPANIES} THAN \textbf{CHANGES IN MANAGEMENT}

PETER DRUCKER, 1909 - 2005
THE DAY WILL COME WHEN EVERYONE WILL BE “FAMOUS” FOR FIFTEEN MINUTES...

ANDY WARHOL
1930-1987
A SENSE OF ETHIC?

NEVER DO WRONG

ESPECIALLY WHEN SOMEBODY IS LOOKING!

MARK TWAIN, 1835 - 1910
RISK IS GOOD FOR YOU...

HE THAT IS TOO SECURE IS NOT SAFE!

THOMAS FULLER, 1608 - 1661
RAISE AMBITION…

« AT 6, I WANTED TO BE A COOK

« AT 7, I WANTED TO BE NAPOLEON

SINCE THEN, MY AMBITION HAS GROWN STEADILY ! »

SALVADOR DALI ( 1904 – 1989)
TIMING IS EVERYTHING

NOT IF IT IS RIGHT
BUT WHEN IT IS RIGHT

IT IS VERY WRONG TO BE RIGHT BEFORE EVERYONE ELSE!

MONTAIGNE, 1533 - 1592
THE SPIRIT OF COMPETITIVENESS…

JEAN-BAPTISTE CHARCOT
1867 - 1936

POURQUOI –PAS?

WHY NOT?
MENTALITY
BUSINESS AS UNUSUAL

Gaining Advantage in a Dynamic Project Landscape

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engineering and construction contracting conference