

BUSINESS AS UNUSUAL

Gaining Advantage in a Dynamic Project Landscape



BOARD MEMBER

Luncheon Speaker Introduction

JEFF REILLY

ConocoPhillips



42ND ANNUAL ECC CONFERENCE

SEPT. 1ST–4TH 2010 - RITZ CARLTON GRANDE LAKES - ORLANDO, FLORIDA

engineering and construction contracting conference

BUSINESS AS UNUSUAL

Gaining Advantage in a
Dynamic Project Landscape

SEPT. 1ST–4TH
2010

RITZ CARLTON
GRANDE LAKES

ORLANDO,
FLORIDA

42ND ANNUAL ECC CONFERENCE

engineering and construction contracting conference



BUSINESS AS UNUSUAL

Gaining Advantage in a Dynamic Project Landscape



Luncheon Speaker

STÉPHANE GARELLI

*Professor, Institute of Management
Development*

University of Lausanne Business School



42ND ANNUAL ECC CONFERENCE

SEPT. 1ST–4TH 2010 - RITZ CARLTON GRANDE LAKES - ORLANDO, FLORIDA

engineering and construction contracting conference



BUSINESS AS UNUSUAL...

A COMPETITIVE OUTLOOK FOR 2010, AND BEYOND

L

42nd ANNUAL CONFERENCE



engineering and construction contracting association



ORLANDO
2 SEPTEMBER
2010

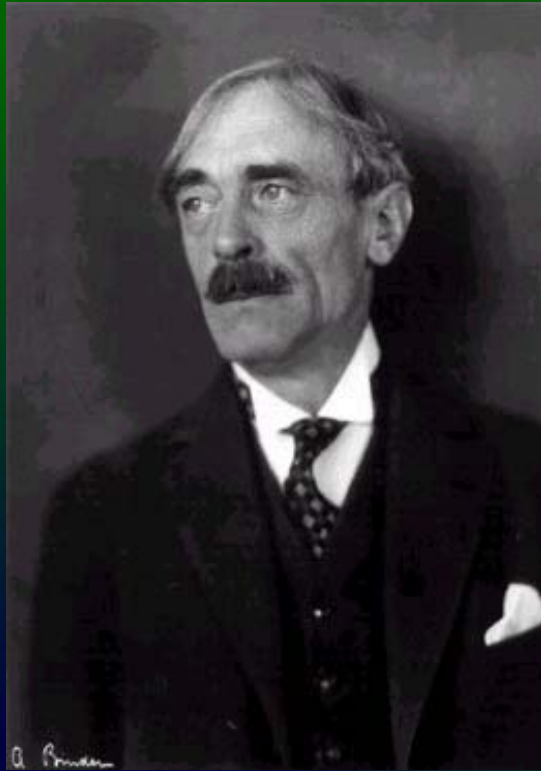
STEPHANE GARELLI

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



42nd ANNUAL CONFERENCE, 2 SEPTEMBER 2010

STEPHANE GARELLI



**« THE TROUBLE
WITH OUR TIMES
IS THAT THE FUTURE
IS NOT
WHAT IT USED TO BE.. »**

PAUL VALÉRY, 1871 - 1945





GREAT FORECAST...



**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



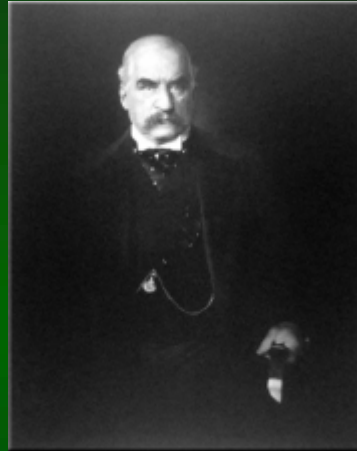


IN THE BACKGROUND...

TWO DEFINING MOMENTS



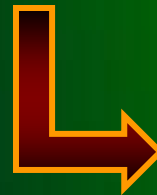
24 OCTOBER 1907



**J.P. MORGAN
& OTHER BANKERS**



15 SEPTEMBER 2008



**H. PAULSON
TREASURY**

42nd ANNUAL CONFERENCE, 2 SEPTEMBER 2010

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**

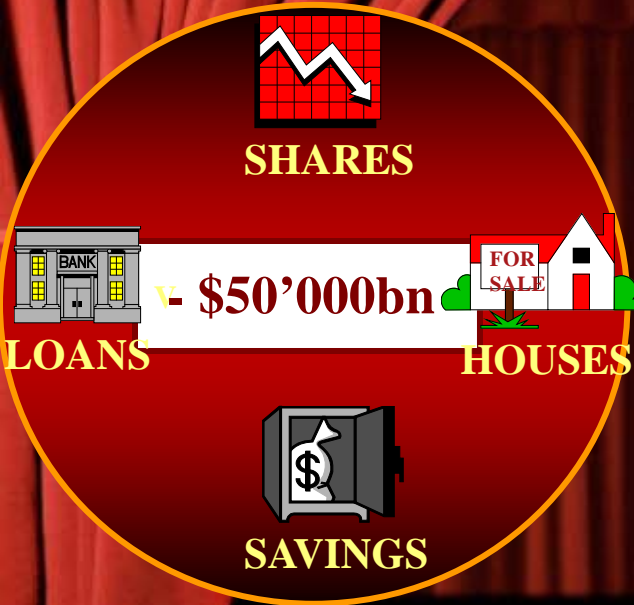
ACT II

**ECONOMIC
CRISIS**

ACT III

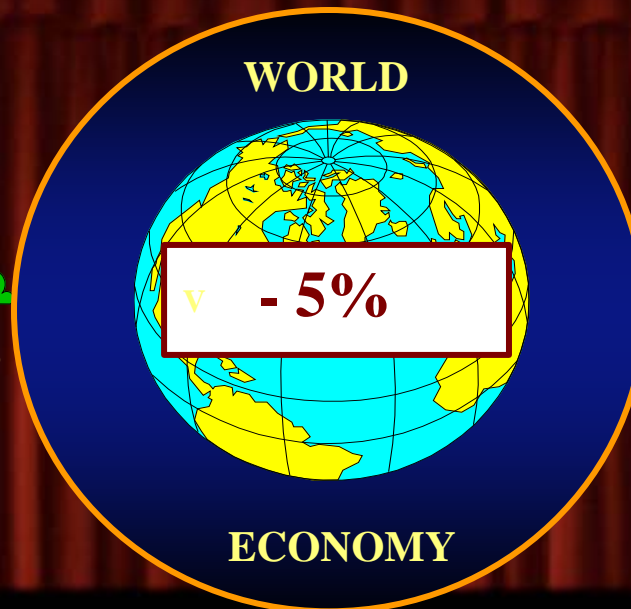
**SOCIAL
CRISIS**

VALUE DESTROYED



2008

GDP DESTROYED



2009

JOBS DESTROYED



2010





ACT I



THE FINANCIAL CRISIS



42nd ANNUAL CONFERENCE, 2 SEPTEMBER 2010

STEPHANE GARELLI



THE FINANCIAL CRISIS

GOOD NEWS



**IT IS PRACTICALLY
OVER!**

BAD NEWS

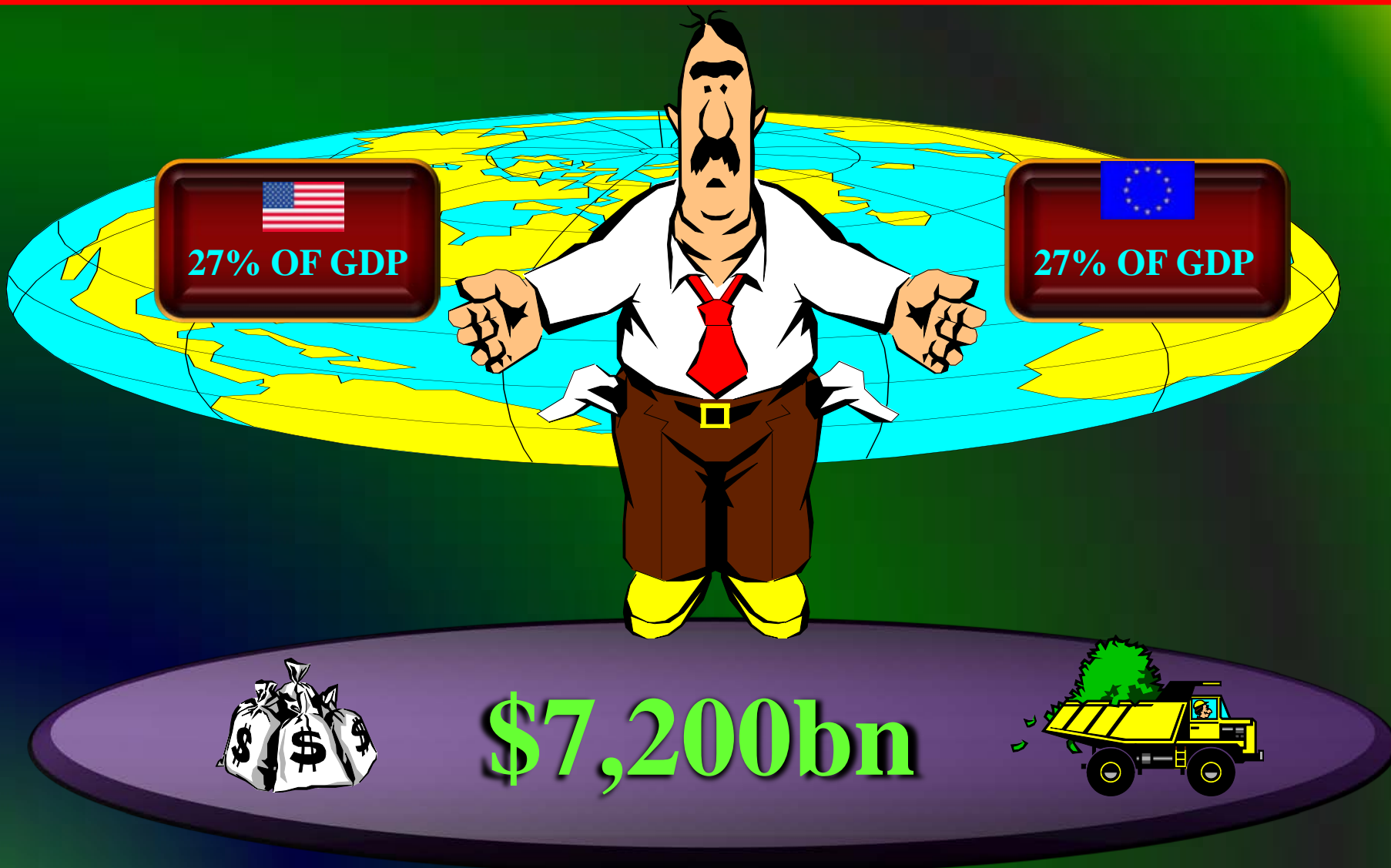


**WE HAVE TO PAY
FOR THE BILL...**





THE COST OF THE CRISIS



RECAPITALIZATION, GUARANTEES, TOXIC ASSETS, etc.



**ONE BILLION DOLLARS HERE,
ONE BILLION DOLLARS THERE**

**SOON OR LATER,
WE SHALL BE TALKING
ABOUT MONEY!**

**RONALD REAGAN,
1911 - 2004**





US BUDGET DEFICITS: THE LEGACY....

1999



+\$236bn

2009

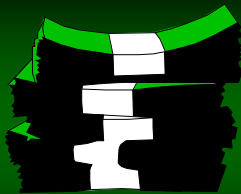


- \$1,845bn

2010

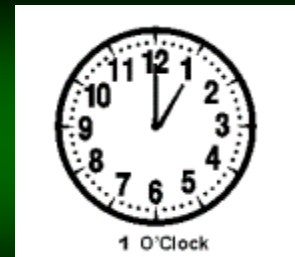


-\$1,379bn



2010

-\$4 BILLION A DAY!



SOURCE: CONGRESSIONAL BUDGET OFFICE

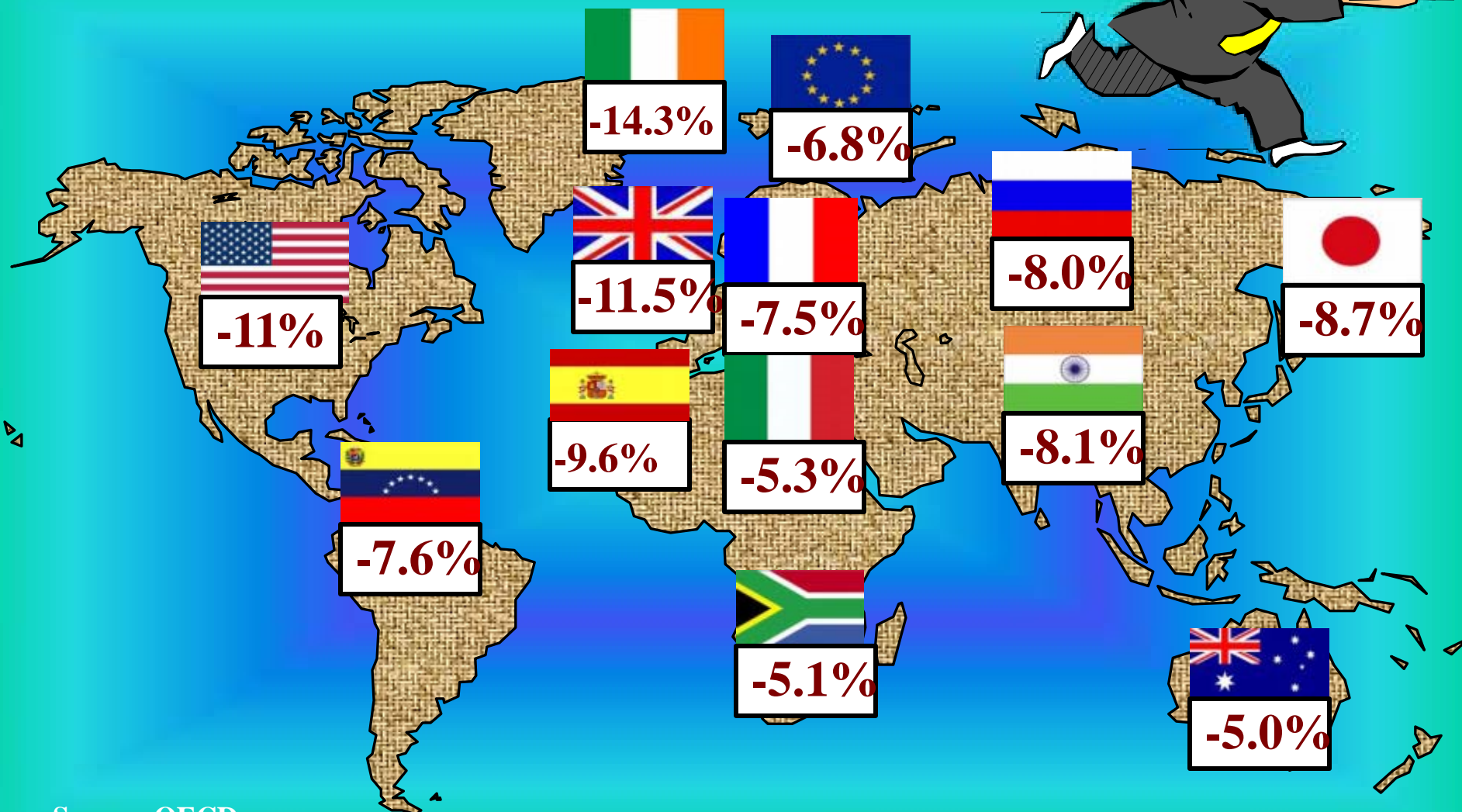
42nd ANNUAL CONFERENCE, 2 SEPTEMBER 2010

STEPHANE GARELLI



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:

(HOUSEHOLD, BUSINESS, FEDERAL, STATE AND LOCAL)

\$54.6 TRILLION
\$177,124 per citizen



UNFUNDED LIABILITIES:

(SOCIAL SECURITY, MEDICARE, ETC.)

\$106.7 TRILLION
\$346,373 per citizen

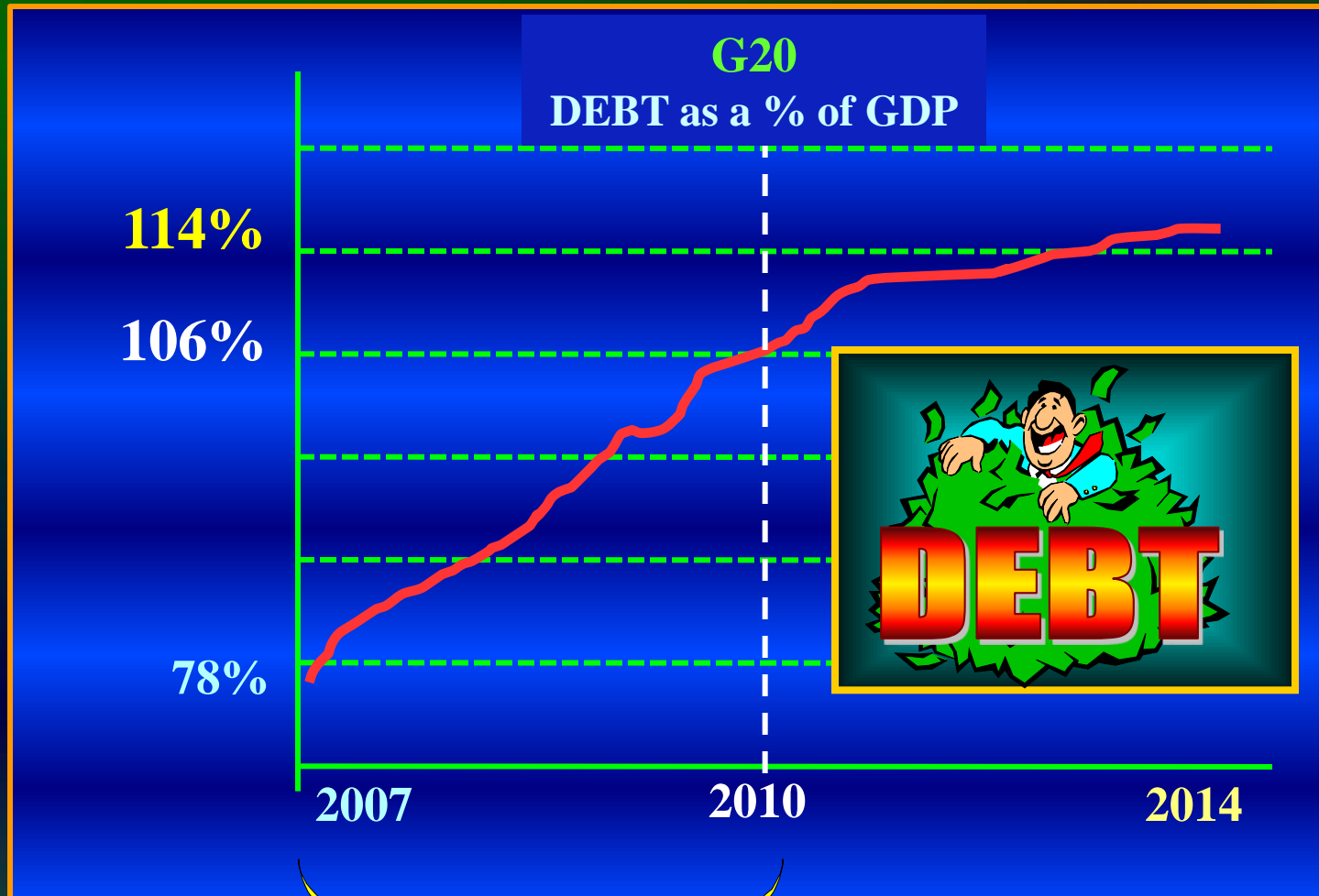


SOURCE. THE US DEBT CLOCK ORG.





UP AND AWAY...



DEBT
+
INTEREST
PAYMENTS
% of GDP



2%



3%

+ \$9,000bn



BREAKING POINTS...



SMALL  BANKS



7'000 \approx \$1bn

SOVEREIGN  DEBT



GREECE



SPAIN



PORTUGAL

2'200bn EUROS





THE PREVAILING SYSTEM:

EVERYTHING!



IMMEDIATELY!



**WITH THE MONEY
OF THE OTHERS!**





CREDITWORTHINESS?

A SYSTEM WHEREBY

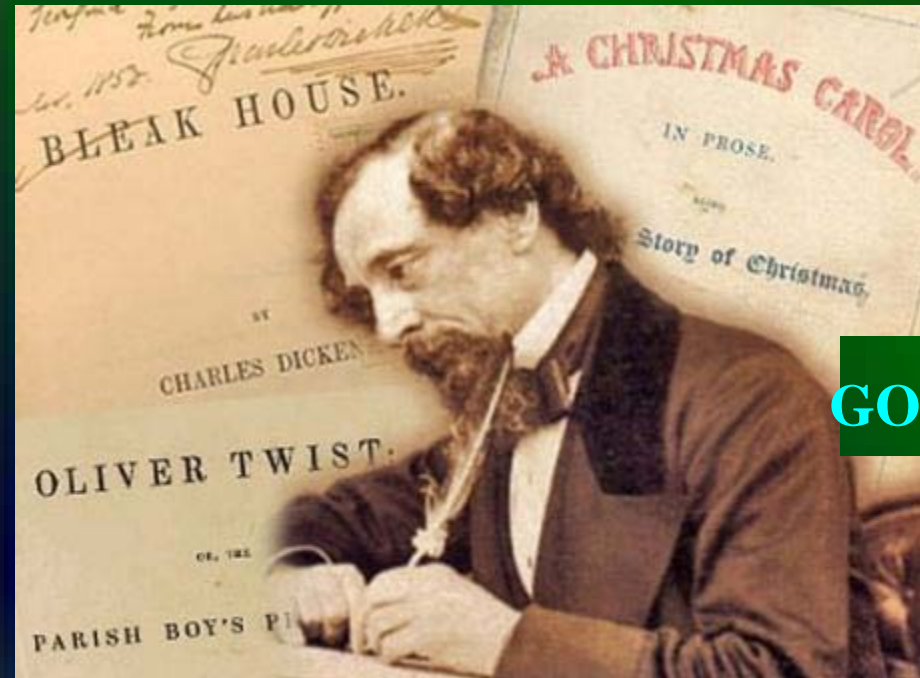
A **BANK THAT** CAN NOT PAY

GETS ANOTHER

GOVERNMENT THAT CAN NOT PAY

TO GUARANTEE
THAT IT CAN PAY!

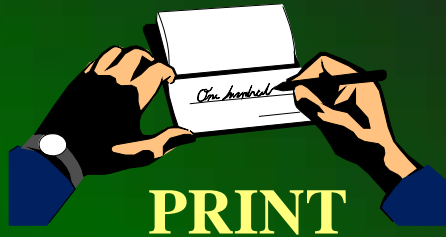
CHARLES DICKENS
1812 - 1870





HOW TO FIND MONEY?

OR

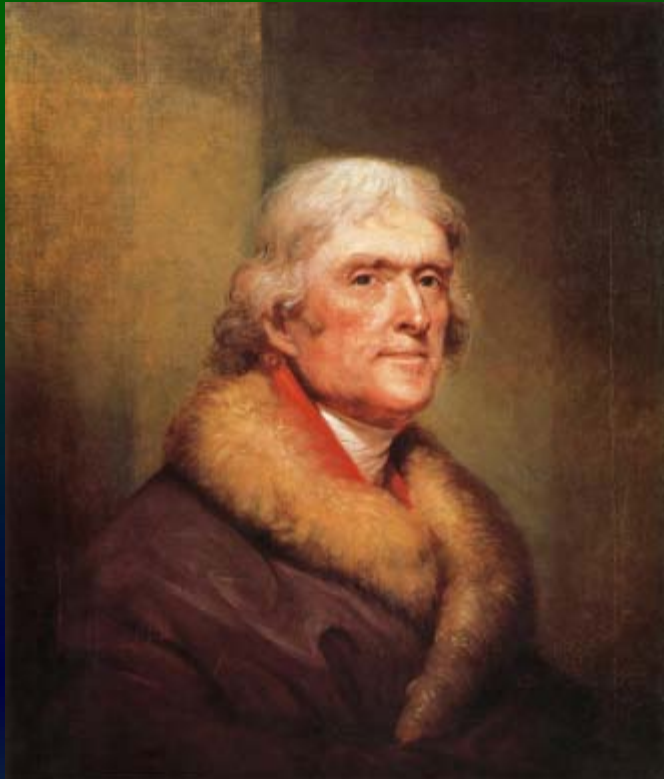


BORROW



SELL





THOMAS JEFFERSON
1743 - 1826

A GOVERNMENT

**BIG ENOUGH
TO GIVE YOU
EVERYTHING
YOU WANT**

**IS STRONG ENOUGH
TO TAKE
EVERYTHING
YOU HAVE**

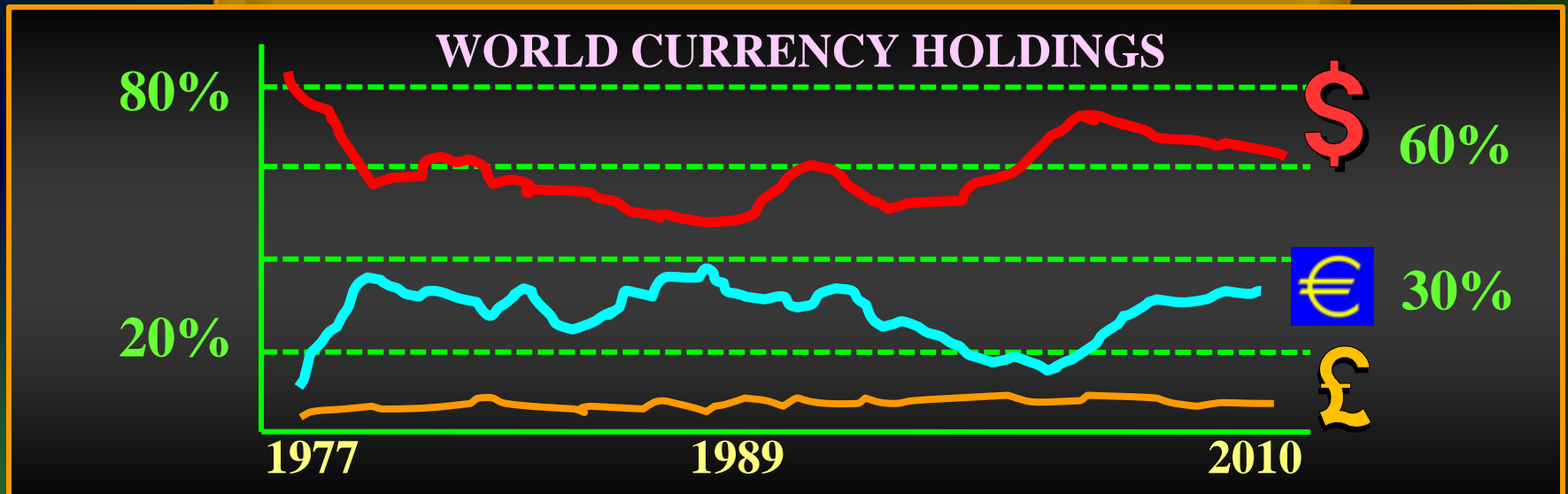




THE FUTURE OF CURRENCIES

£ 1.56 ¥ 0.012 ?

¥ 0.146 ?





THE NEXT BIG ONE?



RECESSIONS

July 1981

July 1990

March 2001

December 2007

– November 1982

– March 1991

– November 2001

– July 2009

14 months

8 months

8 months

19 months

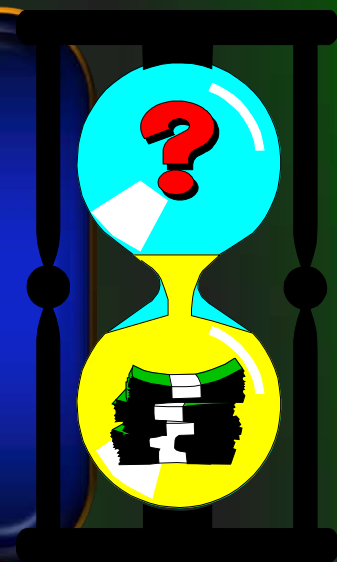
EVERY
9- 10 YEARS...

(32 Recessions since 1854)



NEXT?

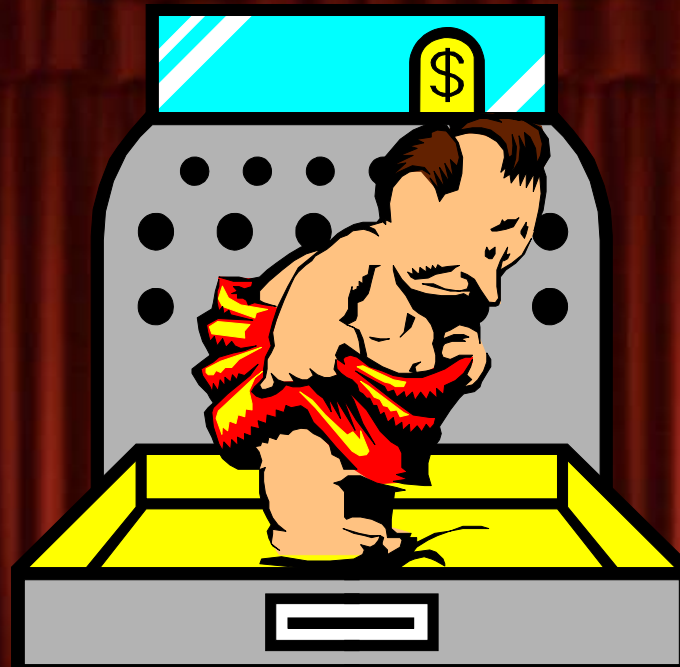
2018 -2020?





ACT II

2009



THE ECONOMIC CRISIS



42nd ANNUAL CONFERENCE, 2 SEPTEMBER 2010

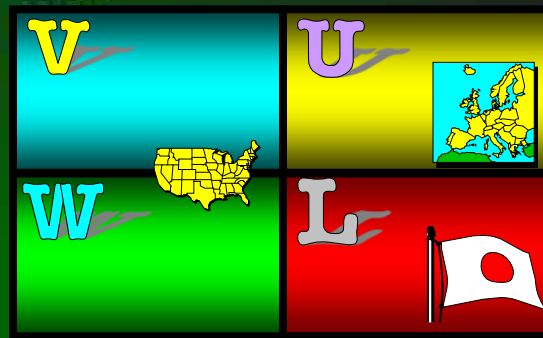
STEPHANE GARELLI



WHAT FINALLY HAPPENED?



BEFORE



AFTER



OVERCAPACITIES?

THE WORLD ECONOMY

ANNUAL % CHANGE (12 month period)

Q2

Q1

EURO AREA

SWE

SPA

ITA

AUS

GERMA

FRA

BELG

-0

VENEZ



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



+0.4%



+3.9%



+4.5%



+9.0%



+2.6%



+1.5%



+1.6%



**Q2
+2.4%**



ARGENTINA

CHINA

10.3



THE WORLD ECONOMIC WEATHER MAP





TWO TYPES OF ECONOMY:



1. REPLACEMENT ECONOMY



A PURCHASE
REPLACES
AN EXISTING PRODUCT



1 BILLION PHONES = \$12bn



« DRAMATIC » INNOVATION





THE OTHER ECONOMY...

2. FIRST BUY ECONOMY



A PURCHASE
INTRODUCES
A NEW PRODUCT



EMERGING MARKETS



PURCHASING POWER



KEYNES

ANOTHER LOOK AT IT...



I NEED IT!



I WANT IT!



ACT III

2010



THE SOCIAL CRISIS



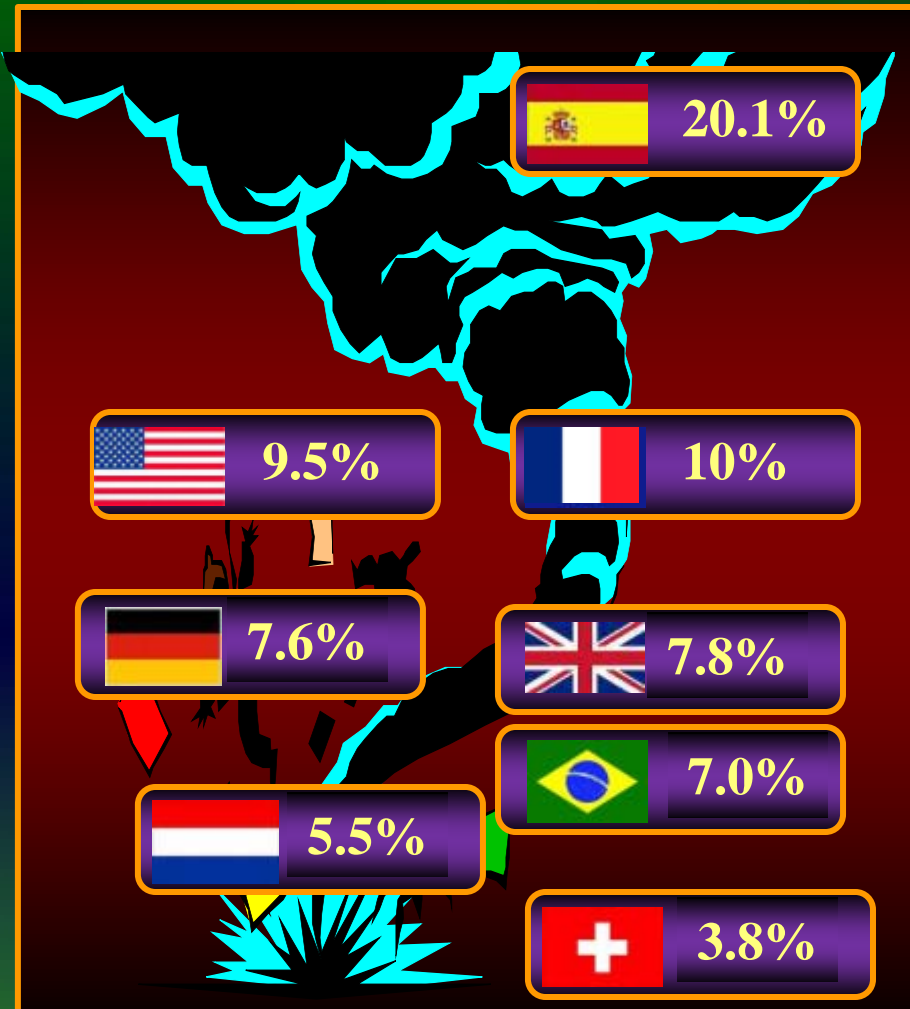
42nd ANNUAL CONFERENCE, 2 SEPTEMBER 2010

STEPHANE GARELLI

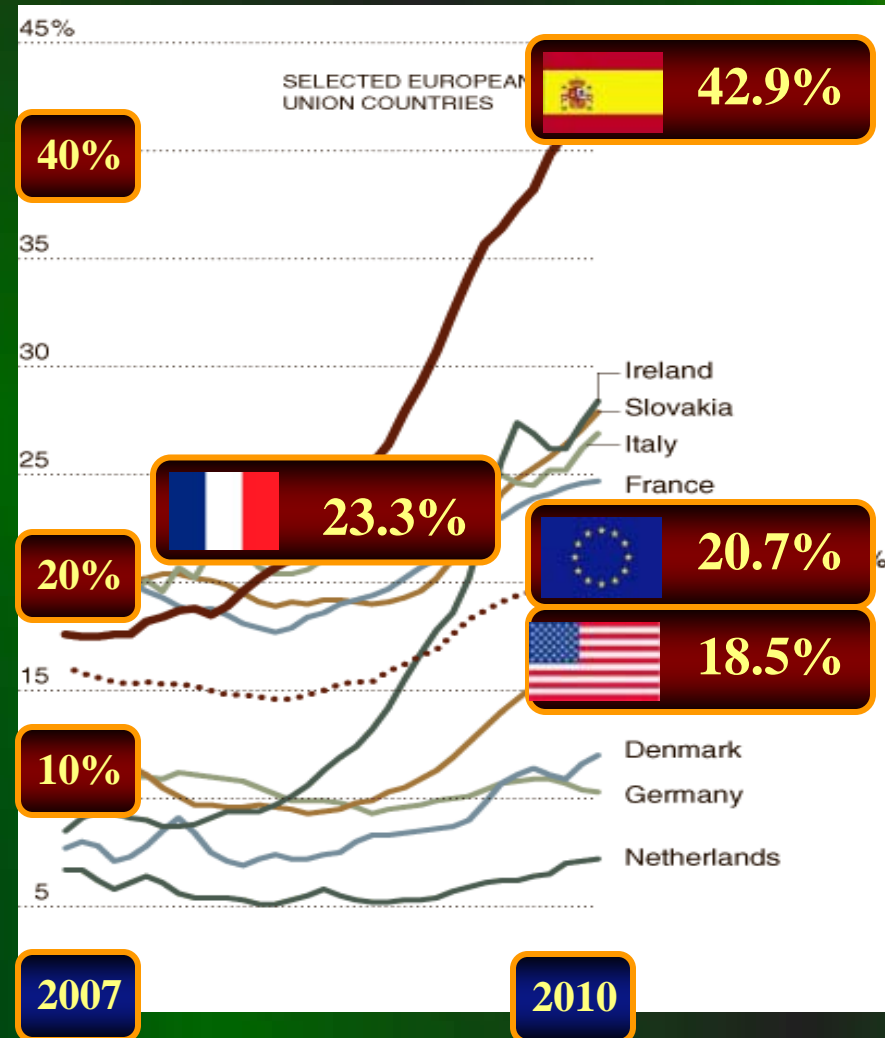
THE THREAT OF UNEMPLOYMENT



TOTAL UNEMPLOYMENT



YOUTH UNEMPLOYMENT





IN SUMMARY...



LAWRENCE H. SUMMERS
(1954 -)

« IT IS
A STATISTICAL
RECOVERY

AND
A HUMAN
RECESSION! »





**SO...
WHERE IS THE
MONEY?**



A NEW SOUTH – SOUTH BLOCK....

GLOBAL ECONOMIC OUTPUT = 32%

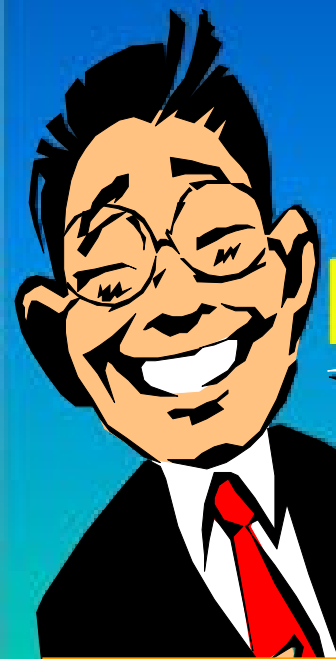


56% CHINESE EXPORTS = EMERGING ECONOMIES



WHO IS HAVING THE MONEY?

Foreign currency reserves



\$2454bn



\$1019bn



\$456bn



\$362bn



\$282bn



\$270bn



\$257bn

\$877bn



US TREASURY BONDS

Euro 520bn



EURO TREASURY BONDS



THE POWER OF WEALTH SOVEREIGN FUNDS



	<u>ABU DHABI INVESTMENT AUTHORITY</u>	\$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



TOTAL FUNDS WORLDWIDE: \$3809bn



NEW PRIORITIES FOR MONEY

FINANCIAL ASSETS



GOVERNMENT BONDS

\$700bn
in the
Gulf Region

INFRASTRUCTURE



LOCAL AND REGIONAL

INDUSTRIAL ASSETS

700
Chinese corp.
In Africa



EVERYWHERE

21 out 22
Chinese top corp.
state financed

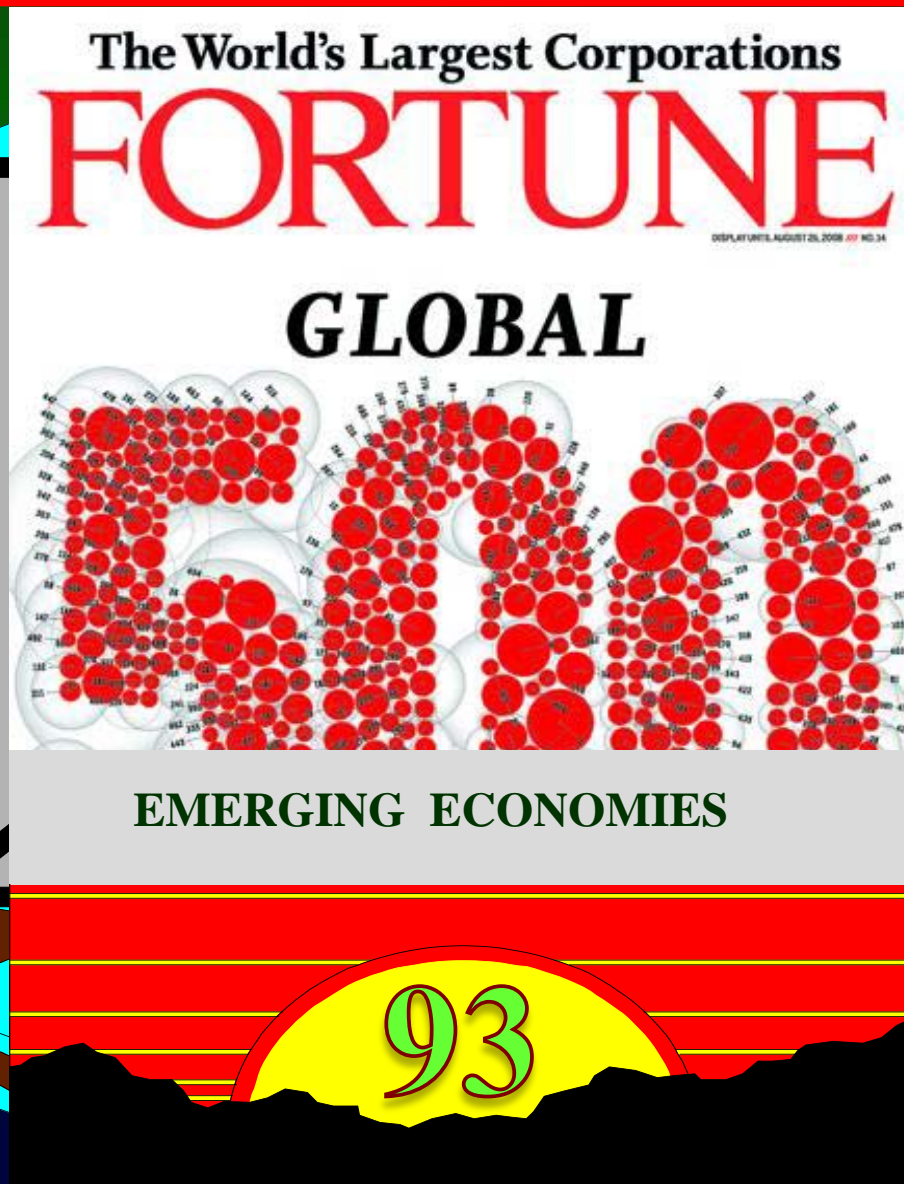
LOCAL COMPANIES



AT HOME



EMERGING GLOBAL BRANDS...





THE FOUR PILLARS OF GROWTH

**EMERGING
MARKETS**

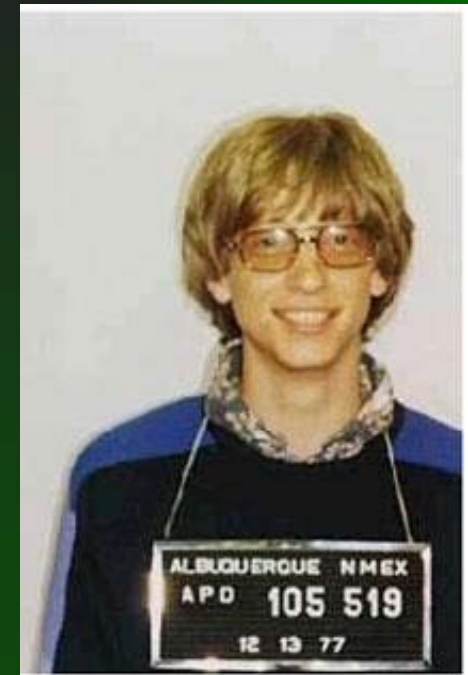
MIDDLE CLASS





MARKET PROSPECTS FOR 2050s

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





THE WORLD TODAY, AND TOMORROW...



Population in millions

2008

2050

337

392

NORTH AMER.

731

628

EUROPE

5258

4054

ASIA

577

809

LATIN AMER.

973

1766

AFRICA



THE EMERGENCE OF A NEW MIDDLE CLASS

1,428 Mo \Rightarrow 2,644 Mo \Rightarrow 3,600 Mo

1990 2008 2030



BRANDS



ELECTRONICS



BETTER FOODS

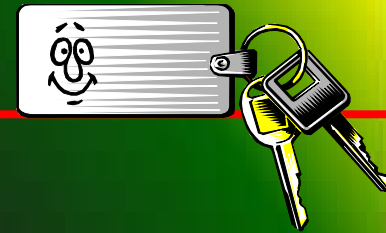
BUSINESS MODEL EXISTS

42nd ANNUAL CONFERENCE, 2 SEPTEMBER 2010

STEPHANE GARELLI



THE POWER OF CONSUMPTION



CAR SALES IN 2020

HOUSEHOLD CONSUMPTION

US 71%

UK 64%

INDIA 54%

RUSSIA 48%

CHINA 38%

% of GDP



30.2 Mo



15.0 Mo



8.4. Mo



5.7. Mo



5.7. Mo

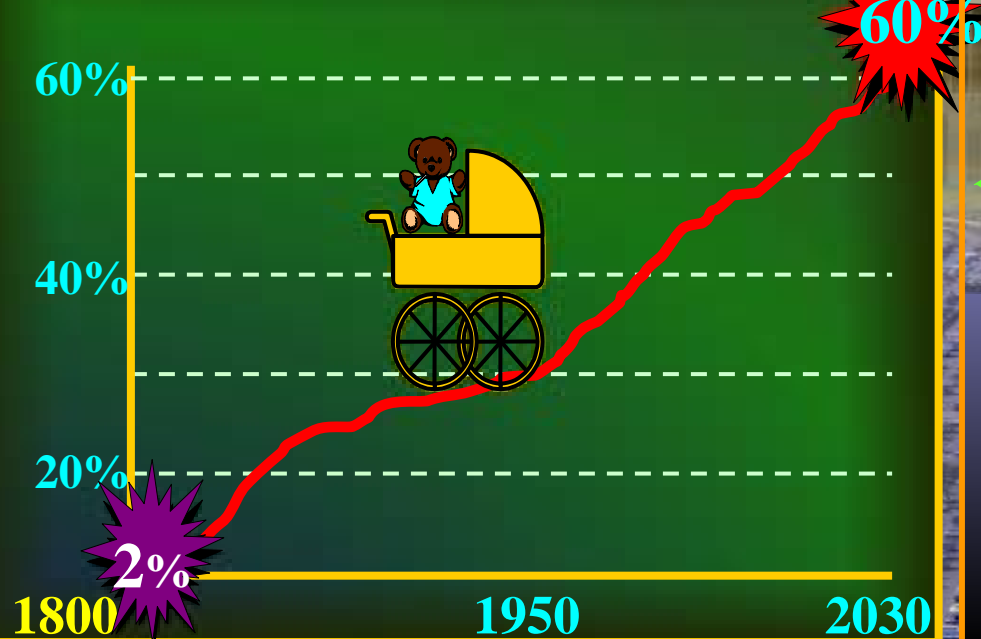


SOURCE: GENERAL MOTORS

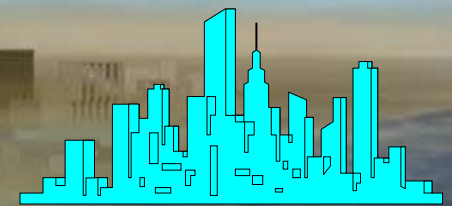


THE URBANISATION IMPACT

POPULATION LIVING IN CITIES



WORLD CITIES
(people)



1900

150 MILLION

2008

3 BILLION



150 CITIES = 30% OF WORLD GDP!



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

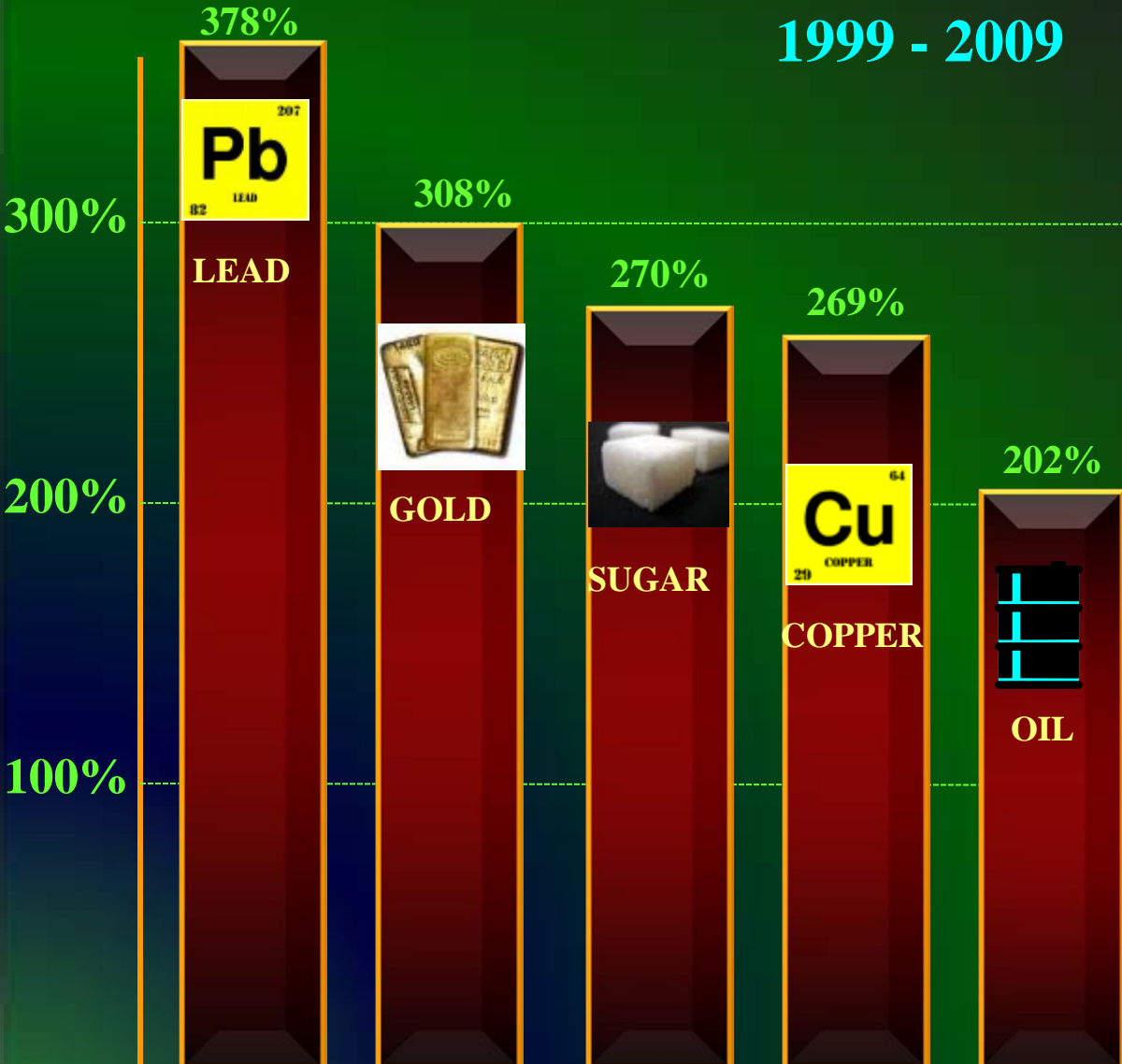
NEW BUS. MODEL

SUSTAINABILITY





THE COMMODITIES COME BACK!



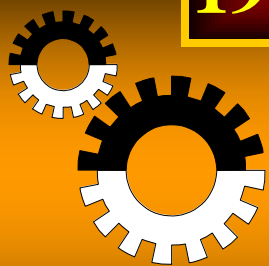
Source: Bloomberg



BECAUSE OF CHINA'S APPETITE...

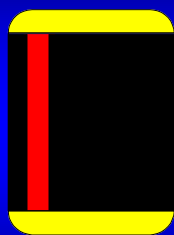


ASA % OF WORLD CONSUMPTION



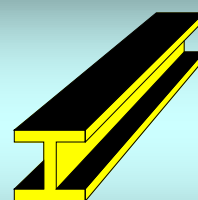
19%

ALUMINIUM



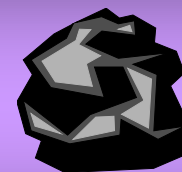
20%

COPPER



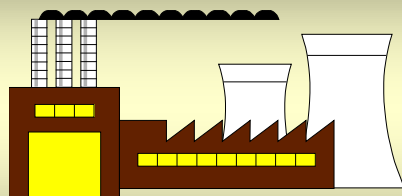
27%

STEEL



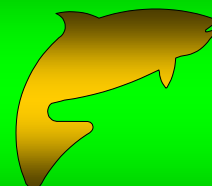
31%

COAL



47%

CEMENT



33%

FISH



OIL AS A % OF WORLD CONSUMPTION

CHINA



8.5%

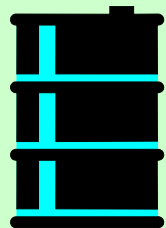
INDIA



3.0%

2009

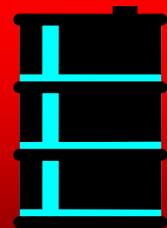
2030



86 Mo b/d



45%



130 Mo b/d



AND FROM THERE?



**300 LITERS
OF METHANE
PER DAY!**



**60%
AGRICULTURAL LANDS
ARE FOR ANIMAL FEED**



**15'000 LITERS
OF WATER
FOR 1 KG OF BEEF**





LAW OF UNEXPECTED CONSEQUENCES...

ECOLOGICAL FOOTPRINT

ANNUAL

TOYOTA LAND CRUISER
4.6-LITRE



0.41
HECTARES

10,000 Km

A DOG



0.84
HECTARES

164 Kg
OF MEAT
95 Kg
OF CEREALS

MEDIUM-SIZED

SOURCE: Robert and Brenda VALE, Victoria University, of Wellington, New Zealand





THE FOUR PILLARS OF GROWTH

**EMERGING
MARKETS**

**EMERGING
« LESS » POORS**

**CLEAN
TECHNOLOGY**

**AGE
WELLNESS**

MIDDLE CLASS

NEW BUS. MODEL

SUSTAINABILITY

ANOTHER LIFE?

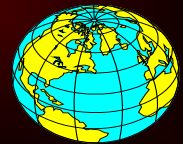
LIFE EXPECTANCY



**INCREASES
5 HOURS PER DAY**



THRIVING THROUGH A BIG BLACK HOLE





THE WAY FORWARD?

THINK GLOBALLY
ACT LOCALLY
PANIC INTERNALLY!



GLASBERGEN



BACK TO PRODUCTIVITY

1980...



**WORKING
BETTER**



REENGINEERING

1990...



**WORKING
CHEAPER**



OUTSOURCING

2000...



**WORKING
ELSEWHERE**



GLOBALIZATION

2010...



**WORKING
SIMPLER**



SIMPLIFICATION OF THE BUSINESS MODEL



REMOTE CONTROL



IPOD





NEW: REDUCING COMPLEXITY...



« 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 SIMPLE
AS POSSIBLE**

BUT NOT SIMPLER ! »

ALBERT EINSTEIN, 1879 - 1955



CHANGING THE MINDSET



COMPETENCIES AND SKILLS

TO WIN!





AN EXPERIENCE AROUND A PRODUCT

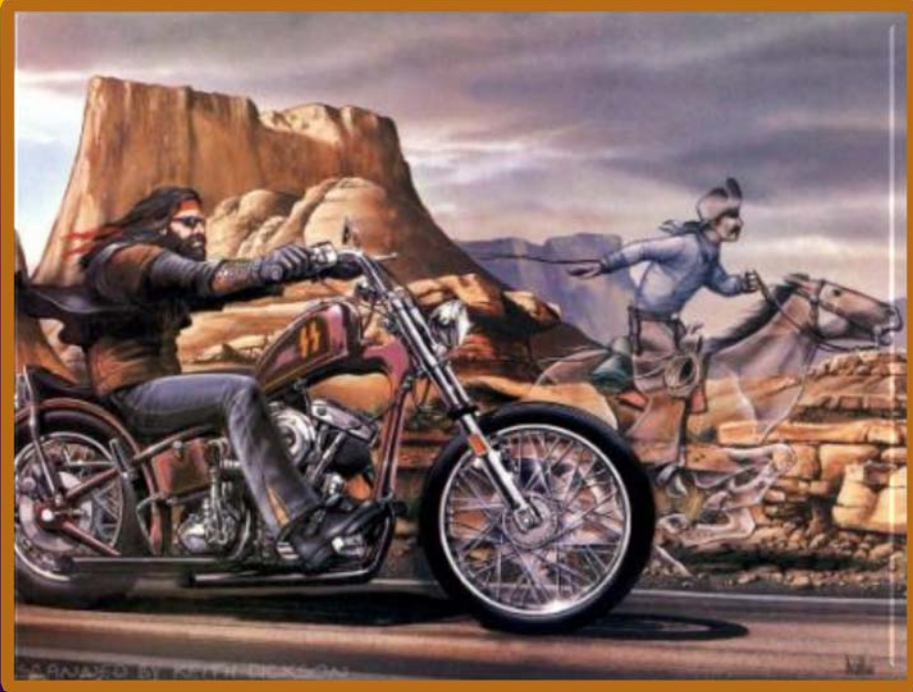


ONE CUP - MANY PRICES





SELLING SOMETHING ELSE...



**WE GIVE
THE POSSIBILITY
FOR
A 43 YEAR OLD
ACCOUNTANT**

**TO DRESS
IN BLACK LEATHER,**

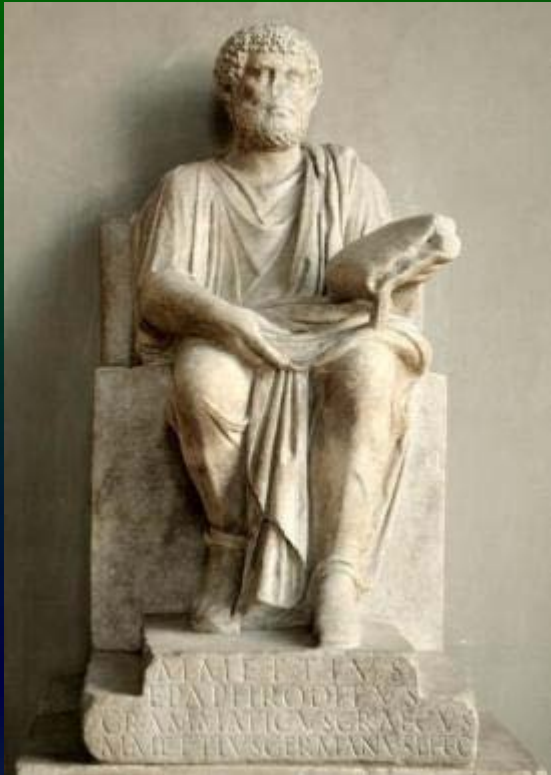
**AND TO RIDE THROUGH TOWN
AND SCARE EVERYBODY!**



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!

EPICTETUS
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

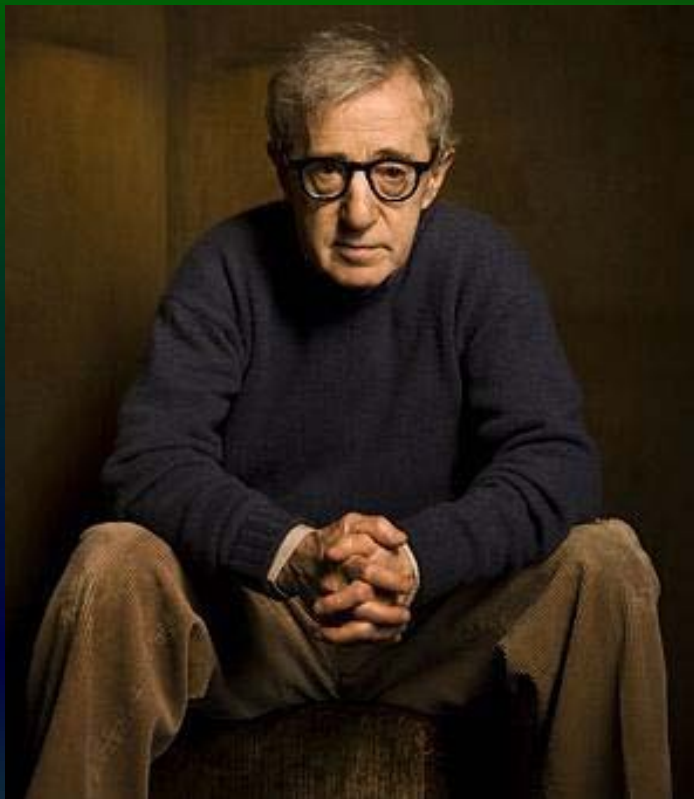


A BOOK...





JUST DO IT...



CONFIDENCE
IS
WHAT YOU HAVE

BEFORE
YOU UNDERSTAND

THE PROBLEM!

WOODY ALLEN, 1935 -





**TODAY,
CHANGES
IN SOCIETY**

**HAVE A DEEPER
IMPACT ON COMPANIES**

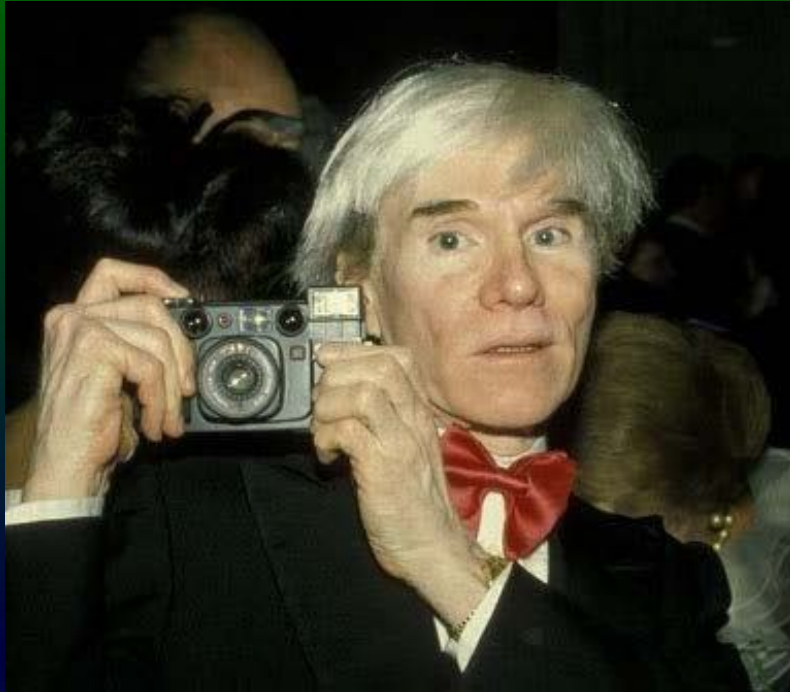
**THAN
CHANGES
IN MANAGEMENT**

PETER DRUCKER, 1909 - 2005





MANAGE « YOUR « BRAND...



THE DAY WILL COME
WHEN
EVERYONE

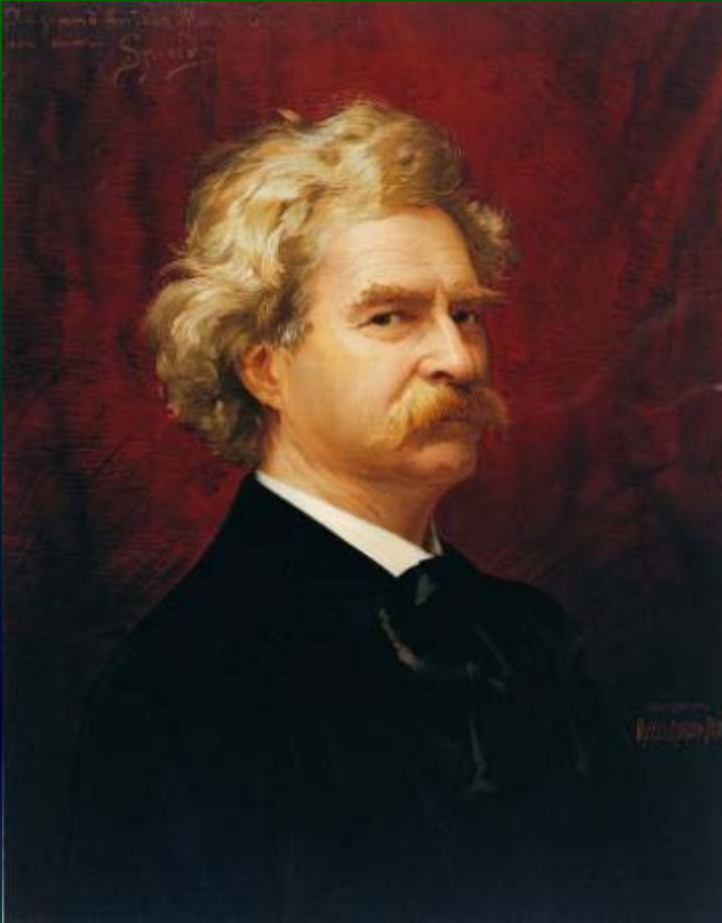
WILL BE “FAMOUS”
FOR
FIFTEEN MINUTES...

ANDY WARHOL
1930-1987





A SENSE OF ETHIC?



**NEVER
DO WRONG**

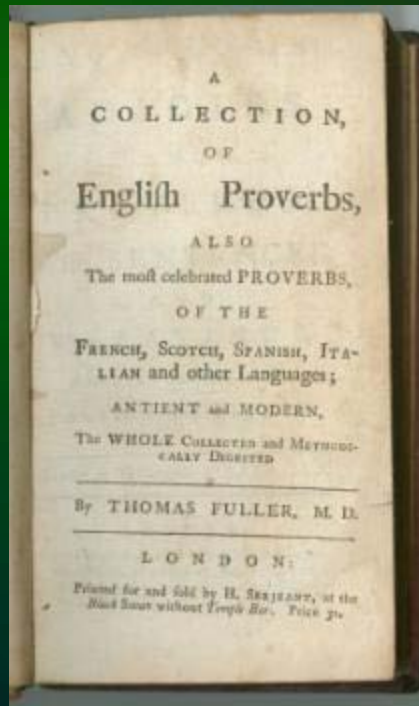
**ESPECIALLY
WHEN SOMEBODY
IS
LOOKING!**

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 DALÍ (1904 – 1989)





TIMING IS EVERYTHING

NOT **IF** IT IS RIGHT

BUT **WHEN** IT IS RIGHT



LAKER AIRWAYS
AUGUST 1978



NEWTON - Apple
AUGUST 1993

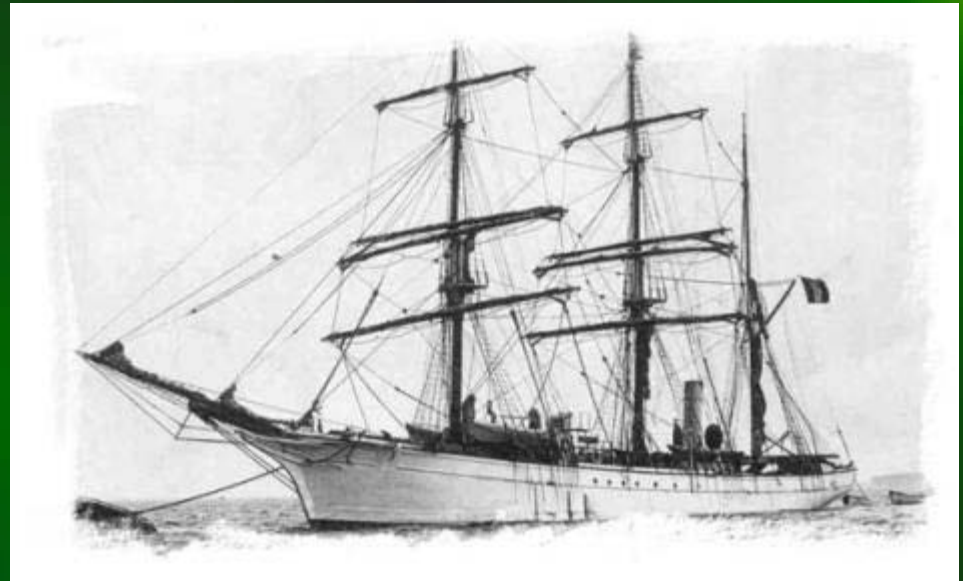


**IT IS VERY WRONG
TO BE RIGHT
BEFORE EVERYONE
ELSE!**

MONTAIGNE,
1533 - 1592



THE SPIRIT OF COMPETITIVENESS...



POURQUOI –PAS?

JEAN-BAPTISTE CHARCOT
1867 - 1936

WHY NOT?
MENTALITY



BUSINESS AS UNUSUAL

Gaining Advantage in a
Dynamic Project Landscape

SEPT. 1ST–4TH
2010

RITZ CARLTON
GRANDE LAKES

ORLANDO,
FLORIDA

42ND ANNUAL ECC CONFERENCE



engineering and construction contracting conference