PerspECtive

ECC 2019 Keynote

Stéphane Garelli
Founder
IMD World Competitiveness Center

Theme:
Win Together to Share Success NOW!

Year: 2019
Date: Aug. 28-31
Location: The Broadmoor Colorado Springs, CO
A COMPETITIVENESS OUTLOOK FOR 2019, AND BEYOND

NOTHING IS CERTAIN, BUT EVERYTHING IS URGENT

COLORADO SPRINGS
30 AUGUST
2019

STEPHANE GARELLI

PROFESSOR EMERITUS AT IMD AND AT THE UNIVERSITY OF LAUSANNE, SWITZERLAND,
FOUNDER WORLD COMPETITIVENESS CENTER
09.00am: SHARES RISE IN EARLY TRADING

10.00am: SHARES PLUNGE ON NEWS THAT IT ROSE IN EARLY TRADING
SLOWING DOWN
OR
ELSE?
MIXED SIGNALS...

GDP GROWTH
12 MONTH PERIOD
Q2
Q1

- 3.3%  +0.8%  +1.3%  +2.3%
- 6.2%  +5.8%  +0.1%  +0.4%
+1.1%  +1.2%  +1.7%  +5.0%
+2.1%  +0.9%  +1.7%  +5.0%

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IN WHICH DIRECTION?

QUARTER TO QUARTER GDP GROWTH

Q2
-0.8%
-0.3%
+0.8%
+4.1%
+6.6%
+1.8%
+0.5%

Q1
+2.1%
+0.4%
-0.6%
-0.9%
-3.2%
-3.3%
-1.2%
LIFE AFTER THE TOP OF THE CYCLE

BULL MARKET: 9 MARCH 2009

ENERGY COST

BREXIT

GEOPOLITICS

EXCHANGE RATES

INTEREST RATES

PROTECTIONNISM

MORE TENSIONS = MORE VOLATILITY

MORE TENSIONS = MORE VOLATILITY

2019
THE ANXIETY INDEX…

Currencies against $ since January 1st, 2019

-40% -10% 0 +20%

NEGATIVE YIELDS ON BONDS $15tn WORLD-WIDE
THE DOMINO EFFECT: example the oil price

COMPANIES’ BREAK-EVEN PRICE

$70
$60
$50
$40
$30
$20
$10

MARKET PRICE

BALANCING THE BUDGET

$160
$130
$110
$90
PRIVATE CONSUMPTION: A ROLLER COASTER?

= 60% – 70% OF GDP

= 40% OF GDP

RESILIENT, BUT FOCUSED IN TIME:

11.11 GLOBAL SHOPPING FESTIVAL

SALES

BLACK FRIDAY

CYBER MONDAY

HOLIDAYS
THE WORLD ECONOMY

THE THREAT FOR PROTECTIONISM
PROTECTIONISM?
FROM JOB PROTECTION
TO NATIONAL SECURITY

1990

2018

US SANCTIONS ON CHINESE IMPORTS
SEPT-OCT 2019: $550bn

CHINESE SANCTIONS ON US IMPORTS
AUGUST 2019: $185bn
WHAT IS THE “NATIONALITY” OF A PRODUCT?

“UNTANGLING” GLOBALIZATION

STEEL, ALUMINIUM... MANY COMPONENTS

FREE or $200bn

From GEOGRAPHICAL ORIGIN...

To ADDED-VALUE?
THE NEXT IMPORTANT ISSUE?

HIGHER TARIFFS?

MARKET ACCESS

Trade as % of GDP

0.9%  3.9%
WE OUTSOURCED IT TO INDIA, AND THEY OUTSOURCED TO CHINA
WHO OUTSOURCED TO KOREA WHO OUTSOURCED TO MEXICO,
AND THEN, THEY OUTSOURCED IT BACK TO US…
An “OBSOLETE” ASSESSMENT?
ARE WE MISSING SOMETHING?

THE “MATERIAL” ECONOMY

GDP, INFLATION etc.

THE “IMMATERIAL” ECONOMY

?
INFLATION ON THE RADAR SCREEN...

CONSUMING PRICE INDEX

5%

4%

3%

2%

1%
THE IMPACT OF TECHNOLOGY ON INFLATION

THE OLD WORLD

DATA COLLECTED MONTHLY

COMPANIES ADAPT TO PRICES

THE NEW WORLD

E-COMMERCE (2018)

REVENUES = $1,782bn

USERS = 2,76bn

DYNAMIC PRICING ALGORITHMS

PRICES ARE CONTINUOUSLY ADAPTED (DAILY, HOURLY...)

COMPANIES ARE PRICE MAKERS

Source: Stephen Chan, HBR, Dec 2016, Statista 2018

COLORADO SPRINGS, 30 AUGUST 2019

STEPHANE GARELLI
BETTER DATA?

SPACE TECHNOLOGY

INDEXING THE PHYSICAL WORLD

ONLINE TECHNOLOGY

DAILY INFLATION USING ONLINE PRICES
TWO OPPOSITE HISTORICAL TRENDS?

CONSUMER PRICES

WEAKER

ASSETS PRICES

STRONGER
INFLATION IS PAYING $30 FOR A HAIRCUT WHICH USED TO COST $20 WHEN YOU HAD HAIR...
A BURNING PLATFORM?

TECHNOLOGY GOES BEYOND TECHNOLOGY
WHO OWNS THE TECHNOLOGY HIGHWAY?

TECHNOLOGY

PLATFORM

DATA

MARKETS

facebook

Alphabet

amazon

Alibaba Group

Tencent
BRANCHING OUT OF THE HIGHWAY?

CLOUD COMPUTING, RETAIL FOOD, etc.

ADVERTISING

BATTERIES

WATCHES

ELECTRONIC PAYMENT
LOCKING UP CUSTOMERS?

A PROPRIETARY ECOSYSTEM

PRODUCTS

SERVICES

PAYMENT

“YOU HAVE THE CHOICE, PROVIDED IT IS OURS”
COMPANIES BEHAVING AS NATIONS?

CITIZENSHIP

• OUR RULES
• OUR DATA

• EXCLUSIVE BELONGING
WHO WILL BE YOUR COMPETITORS TOMORROW?

WHERE WILL THEY COME FROM?
THE NEW BUSINESS MODELS
BUSINESS MODELS ARE TRIGGERED BY TECHNOLOGICAL REVOLUTIONS

AGRICULTURE 9000 years 4500 years 200 years STEAM ENGINE

PERSONAL COMPUTING
INTERNET
MOBILE TELECOM
ARTIFICIAL INTELLIGENCE

IN ONE LIFE TIME
WHAT TECHNOLOGY IS ALL ABOUT?

AUTOMATION
- ROBOTS, ARTIFICIAL INTELLIGENCE

SHARING
- C TO C, PEER TO PEER

CONVERGENCE
- AGRICULTURE, STATISTICS

CONNECTIVITY
- INTERNET OF THINGS

MOBILITY
- MEDICAL

LOCATION
- SATELLITES, SENSORS
WHAT IS A SALE?

SALE:

*The exchange of*

1. a commodity
2. for money
THE NEW “BUSINESS” MODELS

NO MONEY

PERSONAL DATA

NO OWNERSHIP

facebook

Google

Microsoft Office 365

NETFLIX

Spotify
A NEW TREND?

NO\(^{(N)}\) PROFIT

(WEWORK)
WE DON’T DO ANYTHING;
WE ARE JUST ATTRACTIVE
TO HIGH RISK INVESTORS
STEPHANE GARELLI
COLORADO SPRINGS, 30 AUGUST 2019

BUSINESS MODELS PRESSURED BY CUSTOMERS

- CIRCULAR

LIFE EXTENSION

HOW MANY PRODUCTS IN A HOME?

HOW MANY MORE?

RECYCLING

RAW MATERIAL / ENERGY

TRASH
CORPORATE OWNERSHIP

REDISTRIBUTING

THE CARDS...
HOW GLOBAL COMPANIES USE THEIR LIQUIDITIES

$2,200bn
(2018)

M&A = $3,490bn
(2018)

INVESTMENTS?

DIVIDENDS

SHARE BUYBACKS

CONSOLIDATION
BIG USERS OF MONEY: SOVEREIGN WEALTH FUNDS

OBJECTIVE

- PROFIT … and
- CORPORATE GOVERNANCE
- POLITICAL INFLUENCE?
INDEX FUNDS

Exchange Traded Funds

Mutual Funds

TOGETHER LARGEST SHAREHOLDERS:

88% of S&P 500

BLACKROCK

Vanguard

STATE STREET

COMMON OWNERSHIP IMPACT…
A WORLD OF NEW ENTERPRISES

EMERGING GLOBAL BRANDS

FAMILY BUSINESS (% ABOVE $1BN)

19-25%

65%

40%

GULF REGION

CHINA

67%

40%

INDIA

85%

AFRICA

SOUTH EAST ASIA

COLORADO SPRINGS, 30 AUGUST 2019

STEPHANE GARELLI
A BLACK HOLE ECONOMY?

Can “small” companies grow “big”?

Stephane Garelli

Colorado Springs, 30 August 2019

Technology

Innovation

Money
A BLACK HOLE in FINANCE?

MARKET CAPITALIZATION ($tn)  Top 10 global companies, May 2019

TECHNOLOGY  $1tn $2tn $3tn $4tn $5tn
BANKS  
PHARMA  
OIL & GAS  
BEVERAGES  
PERSONAL GOODS  
AUTO & PARTS  
CHEMICALS  

“OVER CAPITALIZATION”  
OF THE SAME COMPANIES
MAKING SENSE OF VALUE
A UNUSUAL ADVICE…

“PLEASE DON’T CONFUSE ME WITH FACTS!”

Anonymous banker…
SOFT DATA (STOCK MARKET)?

“ANIMAL SPIRITS?”

REVENUES

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesla</td>
<td>US$17bn</td>
</tr>
<tr>
<td>Ford</td>
<td>US$159bn</td>
</tr>
</tbody>
</table>

PRODUCTION (cars)

<table>
<thead>
<tr>
<th>Company</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesla</td>
<td>est 235,000</td>
</tr>
<tr>
<td>Ford</td>
<td>6,700,000</td>
</tr>
</tbody>
</table>

MARKET CAPITALIZATION

<table>
<thead>
<tr>
<th>Company</th>
<th>Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesla</td>
<td>US$39bn</td>
</tr>
<tr>
<td>Ford</td>
<td>US$39bn</td>
</tr>
</tbody>
</table>
WHAT DO PEOPLE WANT?
“FEW PEOPLE KNOW HOW TO THINK,

BUT EVERYONE WANTS TO HAVE AN OPINION”
A GOOD EXCUSE...

ABDUCTED BY ALIENS

6,900,000! entries
BACK TO THE FUNDAMENTALS
THE FRIDGE SYNDROME

IN THE OFFICE

CYBER-SECURITY
BLOCKCHAINS
CRYPTO-CURRENCIES
ARTIFICIAL INTELLIGENCE
FAST MOVING

HOME

SLOW MOVING
IN THE END, THERE IS ALWAYS A PRODUCT

SORRY, WE CANNOT EMAIL YOUR PIZZA
AS ATTACHMENT
THERE IS A TIME FOR INNOVATION...

TAKING THE PLANE...

AND A TIME FOR EXCELLENCE IN IMPLEMENTATION
1. THE UNSOLVED ISSUE: ENERGY

PROCESSING POWER (GOOGLE)

STORAGE POWER (AMAZON)

DELIVERY POWER (FEDEX)

SELF DRIVING CARS

20% MORE ENERGY: AI

440 kWh

20 Wh

ULTIMATE WEAPON

UNPLUG!
2. THE UNSOLVED ISSUE: UNEMPLOYMENT
STILL A LONG WAY TO GO...

CONCEPTUAL

ASSEMBLING AN IKEA CHAIR

20 MINUTES

DEXTERITY?
CAN IT BE CONTROLLED?
HOW FAR TO REGULATE?

PERSONAL DATA PROTECTION

ACCESS TO DATA

PRIVATE

PUBLIC

BEFORE I WRITE MY NAME ON THE BOARD, I NEED TO KNOW HOW YOU ARE GOING TO USE IT?
Stephane Garelli
Colorado Springs, 30 August 2019

Apple Media Services
Terms and Conditions

US Declaration of Independence

"Please read the Agreement carefully. To confirm your understanding and acceptance of the Agreement, click "Agree.""
“IT WILL BE OF LITTLE HELP TO THE PEOPLE…

IF THE LAWS ARE SO VOLUMINOUS THAT THEY CANNOT BE READ!

OR SO INCOHERENT THAT THEY CANNOT BE UNDERSTOOD!»

JAMES MADISON
1751 - 1836
THEN, PEOPLE THINK DIFFERENTLY!

THE MEANING OF A “YOUTHQUAKE”
"MEISM"
Self
Fulfillment
and
"Narcissism..."

THE “SELFIEs”
GENERATION
ESCAPING REALITY...

Time spent with a screen

SMARTPHONE

TV

PC

TABLET

10 HOURS, 39 MINUTES.

90% CHECK SMARTPHONE

WITHIN 15min. WAKING UP

65% PREFER LOSING THEIR CAR

RATHER THAN THEIR PHONE

Source: Nielsen Audience Report, Huffington Post, 2017
UNDERSTANDING MILLENNIALS (age 18-35)

"MEISM"
Self
Fulfillment
and
"Narcissism..."

LITTLE
AFFILIATION
Political, Religious...
CONCERNED
State of the World
A BUSINESS THAT MAKES NOTHING BUT MONEY IS A POOR BUSINESS!

HENRI FORD
1863 - 1947
UNDERSTANDING MILLENNIALS (age 18-35)

“MEISM”
Self Fulfillment and “Narcissism…”

ENTITLEMENT
Demanding And Intrusive

LITTLE AFFILIATION
Political, Religious…

CONCERNED State of the World
“IF I SEEM UNDULY CLEAR TO YOU..."

YOU MUST HAVE MISUNDERSTOOD WHAT I SAID"

ALAN GREENSPAN
1926 -
UNDERSTANDING MILLENNIALS (age 18-35)

MEISM
Self
Fulfillment
and
“Narcissism…”

ENTITLEMENT
Demanding
And
Intrusive

LITTLE
AFFILIATION
Political, Religious…
CONCERNED
State of the World

OWNERSHIP
(SHARING)
“Free is Cool!”
I LOVE YOUR MOVIES
I HAVE PIRATED THEM ALL
THERE IS NO FREE LUNCH...

IF YOU THINK THAT A PRODUCT IS FREE

THEN YOU ARE THE PRODUCT!

TIM COOK, CEO APPLE
“HOW CAN I TRUST YOUR INFORMATION WHEN YOU ARE USING...
SUCH AN OUTDATED TECHNOLOGY!”

42% OF USERS ARE OLDER THAN 45 YEAR OLD
THE RIGHT MINDSET...
IT'S NOT WHAT HAPPENS TO YOU THAT MATTERS,

BUT HOW YOU REACT TO IT!

EPICURUS
55-135

RESILIENCE...
CHANGE IS PART OF US…

“QUALITY” CHANGE

NEANDERTAL = 1’600 cm³

TODAY = 1.400 cm³

“ONGOING” CHANGE

MOST OF YOUR BODY CELLS ARE RENEWED WITHIN

3 YEARS!

BRAIN

CELLS
CHANGE BEFORE A CRISIS?

“SO FAR SO GOOD ...”
Stephane Garelli
Colorado Springs, 30 August 2019

Sophistication
Complexity

Peter Drucker, 1909 - 2005

« There is nothing so useless as doing efficiently something that should not be done at all… »

A Tipping Point…
« ON THE OTHER SIDE, THE WATER IS SUPPOSED TO BE ON THE OTHER SIDE! »

BE POSITIVE...

I HAVE SPENT MOST OF MY LIFE WORRYING ABOUT THINGS THAT NEVER HAPPENED!

MARK TWAIN
1835 - 1910
BUT BEWARE OF THE LAW

OF “UNINTENDED CONSEQUENCES”

OLD DELHI – BRITISH COLONIAL TIME

RAISING SNAKES

SNakes BACK IN THE STREETS

REWARD
A WORLD OF INTERFERENCE...

« IN FOOTBALL,
EVERYTHING IS COMPLICATED
BY THE PRESENCE
OF THE OTHER TEAM! »

JEAN PAUL SARTRE,
1905 - 1980