

## 2010 AND BEYOND: The real issues that could make or break your business

### Quick Points: An overview in 120 seconds

In this executive briefing I will identify what I believe to be the real issues that could fundamentally reshape your business as we enter the post-recession world. None of these issues will be a surprise to those who have followed my writings and blog since the collapse of Lehman's – this is really an executive summary of my thoughts and observations over the last 12 months. The real issues, all of which are inter-linked, are:

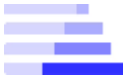
- ISSUE #1: **GOODBYE GLOBALISATION, HELLO LOCALISATION.** There are too many forces pushing against globalisation for you to bet on the end of history and a harmonised world. Even academics are divided upon the issue of the sustainability of a single global society. Remember too that we have not suffered a global recession, we are in the midst of a series of localised depressions, recessions, recoveries or in some cases, just mere slowdowns.
- ISSUE #2: **CHANGE COMES IN PHASES.** Unlike some, I don't see a simple 'bounce back'. The real effects of the recession in terms of your markets and the behaviours of your customers will take between three to five years to appear. Understanding and monitoring four key phases of change must be a central task for any customer focused organisation.
- ISSUE #3: **FROM LUXURY TO SECURITY. FROM CONSUMERISM TO REPLETION.** Customer needs (both in consumer and business markets) will change. How they change will largely be determined by the direction taken by globalisation. For some, purely Web based customer management strategies may prove problematic in at least one of the future new worlds that lie ahead.
- ISSUE #4: **BIG BROTHER, MY FRIEND.** Some large corporate brands have been tarnished – especially in the financial sector. There is some emerging evidence that new consumers may trust central government more than large corporations.
- ISSUE #5: **CSR – A NEW GENERIC STRATEGY?** In the face of new regulation, many especially in financial services, will find it difficult to gain competitive advantage. Is corporate social responsibility the answer?
- ISSUE #6: **BACK TO THE PAST – THE FRUITS OF CREATIVE DESTRUCTION.** Amongst all the doom and gloom there is the prospect of quite massive levels of innovation, bringing with it opportunity. But you may have to move quickly. So, in what shape are you to innovate?
- ISSUE #7: **THE DEATH OF 'WHAT WORKED BEFORE'.** Be careful about extrapolating from the past. The datasets and variables have changed.
- ISSUE #8: **BEWARE OF STRESS.** It's going to take time to get through this. So are you taking care of your staff?

Each of these issues has implications for your business in 2010, these implications are summarised at the end of this executive briefing.

### Learning from 2009

The 14 or so months from September 2008 hold terrifying memories. Many assumptions about the world of business that were never questioned have been consigned to the gutter. But these months hold important learning points and clues too as to the way that the business world will change and evolve. I have looked back over these months and I would like to put forward eight key issues that your business really must consider as it moves ahead. Most of you will be thinking about business planning for 2010 and beyond – an ideal opportunity to debate each issue and identify the potential impact on your strategy for the future. To those of you who have followed my writing and blogs, none of these issues will be a surprise – so treat them as an executive summary.

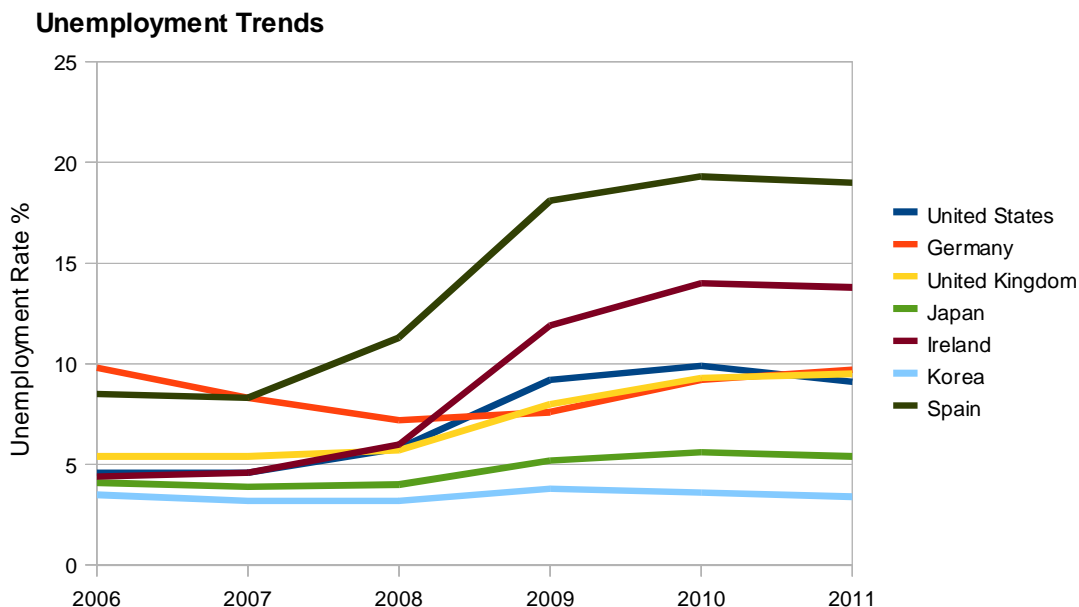
I will now introduce each issue.



**ISSUE #1: GOODBYE GLOBALISATION, HELLO LOCALISATION**

Before the downturn, most of us assumed that globalisation was an unstoppable force and would, in turn, bring wealth and security to all. We probably also assumed that US-Western definitions of capitalism would prevail and be accepted in most, if not all, emerging economies. Capitalism would bring wealth to all, so who would want to reject it? Some of the hard lessons that we have learnt are:

- Many don't see US-Western based versions of capitalism or even democracy as ultimate panaceas [1] [2].
- The wheels could very easily come off the globalisation train. Forces on the geo-political front will be major drivers of corporate strategy in the decade ahead. Just consider the impact of (a) a failed military excursion in Afghanistan and the resultant ripples through Asia and Russia, (b) calls for protectionist measures from developed economies with now staggeringly high unemployment levels and (c) the struggle for energy security. All could be stumbling blocks in the path of globalisation.
- We don't yet have the mechanisms to control a globally inter-connected economy.
- This has not been a *global* recession. It has been a series of *localised* depressions, recessions or mere slowdowns as the following unemployment trends, sourced from the November 2009 OECD forecasts, demonstrate:



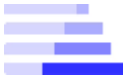
Source: OECD [http://www.oecd.org/statisticsdata/0,3381,en\\_2649\\_34109\\_1\\_119656\\_1\\_1\\_1,00.html](http://www.oecd.org/statisticsdata/0,3381,en_2649_34109_1_119656_1_1_1,00.html) accessed 19 November 2009

Some countries have suffered only slightly and temporarily (Korea), others have yet to reach the peak (UK, Germany, US) yet still others face the prospect of a slow climb down from socially destructive levels of unemployment (Ireland, Spain).

- But even at a country level we have learnt that there are very significant local variations. Visiting some cities it is hard to imagine that we are in the midst of an economic crisis, but travel a few miles and the reality is everywhere [3].

In summary issue #1 tells us:

(a) Not to assume that we will return to a period of benign globalisation and bet the future of our companies on just *one* picture of the future. You should now start to consider say three broad futures and what they mean for your business:



- *"The World is One"*: The best possible outcome. We learn to settle differences. The G20, led by a newly aligned G2 (China and US), acts as the architect of a new level of globalised order.
- *"The World is a Jigsaw"*: Uneasiness and instability fill the vacuum left by a dis-empowered US. Energy, resource needs and historic differences grate together to produce a divided world.
- *"The World as Segments"*: We respect differences, but countries align and gravitate together around common values and resources. Global trade continues, but tariffs, regulations and other inhibiting factors rise.

(b) That we need to construct strategy very, very, much on a localised basis. Significant country to country and within country differences will remain with us for the foreseeable future. Now is a time to get really close to our marketplaces and customers.

## ISSUE #2: CHANGE COMES IN PHASES

It may be wrong to think that recovery will come in one phase. In terms of opportunities and changing customer needs, my proposition is that it will come in phases.

As we have seen, calling the crisis 'a recession' is too simplistic a label.

For some (China, India and possibly Brazil), it is a catalyst to increased economic and political dominance. To others, it speeds a decline from the halcyon days (US, UK, Spain). For others, early dreams are dashed (Ireland, Eastern Europe). Many, including the US, face the task of rebuilding their economies to move away from financial services towards more tangible export-led sectors. Others realise that certain sectors, such as construction and real estate, may never reach their pre-recession levels of importance.

So recovery will be a complex process and will vary again at the local level.

In all, I propose that you will observe change in four key phases:

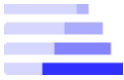
*#1: Shock and Horror.* This is what we've just been through. Nobody expected a downturn as sharp and deep as the one that hit us. As this came 'out of the blue' we all reacted with shock and took immediate, short-term steps to protect our businesses and our livelihoods. These steps included, typically, cutting back on entertainment, travel and training budgets. These were understandable, but reactive changes. These were short-term changes, not ones to base new, long-term strategies on.

*#2: Acceptance.* This is where most of us are now. If recovery takes a long time, then this will be the most important phase. Consumer behaviour may be reshaped *permanently* and businesses will have to radically rethink their strategies to cope with a period of change and low economic growth.

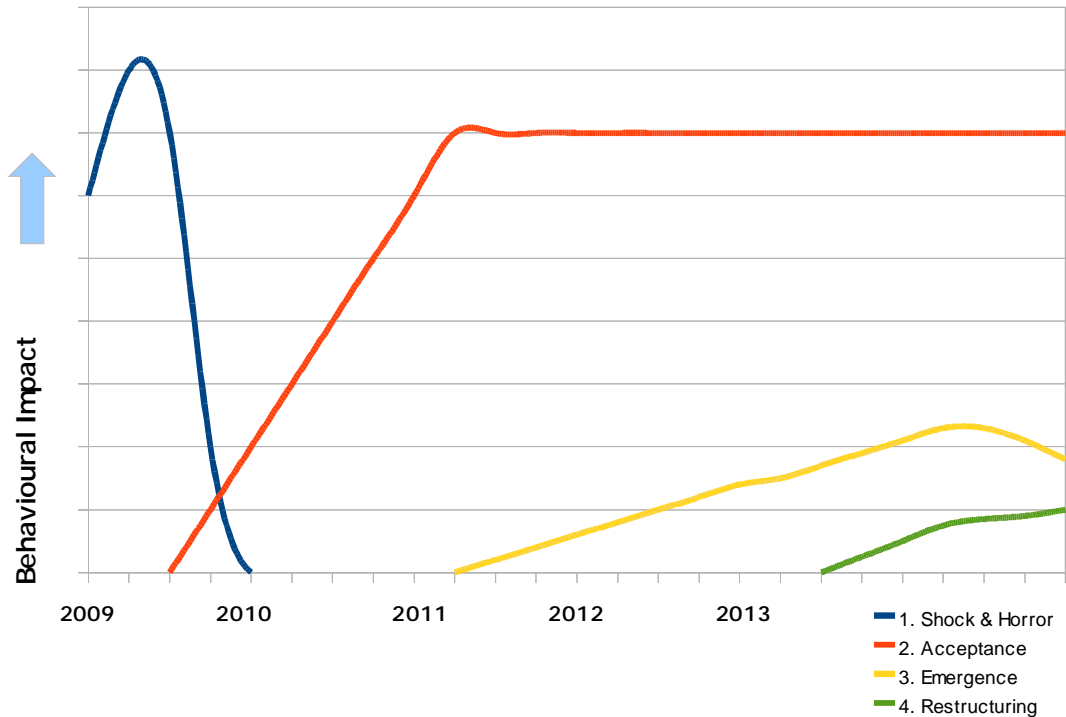
*#3: Emergence.* In time, real recovery will take place. But as we talking about behaviours, we need to talk about recovery in employment terms. Unlike some observers, I do not believe that capitalism is fatally wounded. It may change, but it will still be a permanent part of our lives. So, the steps that are now being taken to stimulate confidence and growth will bear fruit. A sustained recovery and increasing confidence will eventually appear but in different forms in different countries.

*#4: Restructuring.* New industries will emerge to fill the gaps left by the dying sectors. Energy and bio-technology are just two examples. This will be a period of innovation.

The timing of these phases will vary at least on a country by country basis. As we have seen, each has its own particular macro-economic problems. Overleaf you will find the guess that I took in respect of the UK. Note that customers' behavioural impact is on the vertical axis. So looking at the blue curve, representing 'Shock and Horror', the initial reaction to the crisis, we see that there is a large but *temporary* behavioural impact. The red curve is the

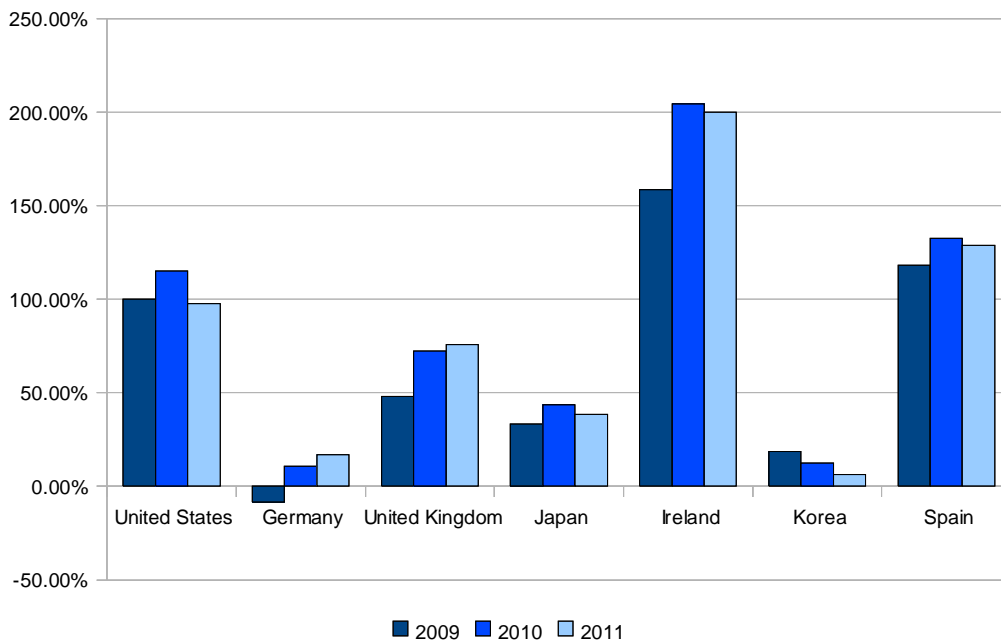


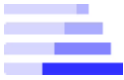
really important one. Here, customers' needs and attitudes will be shaped by the time that it takes unemployment firstly to stabilise and then to reduce. The behavioural impact is permanent I will argue. So, probably from now to 2011 is the time to be out there sensing the changes and responding to them. The yellow line follows employment recovery. There is, I propose an impact, but not as large as 'Acceptance'. Finally, the green line reflects the impact of economic restructuring – the emergence of innovative, new industry sectors.



We can get a feel of the potential depth of behavioural shift by looking at shifts in projected unemployment rates (OECD November 2009 projections) for the period 2009-2011, using the pre-recession year 2007 as a baseline:

Unemployment Rates: Percentage movement over 2007 levels





As they say, a picture paints a thousand words. The major questions of course are (a) how long it will take to reach pre-recession employment rates; (b) what industry sectors will grow to provide employment and (c) how attitudes, behaviours and needs will change. Clearly, in some cases, countries may not return to the wealth levels that they enjoyed before the recession until 2015 – 2016[4]. So, for some, slow recovery becomes the status quo, a normal state, not a passing phase.

Issue #2 tells us that now is the time to go out and research what is happening in your marketplace and what it means for your long-term strategy. Customer needs, behaviours and attitudes are about to be redefined, not on a global, but a local level.

**ISSUE #3: FROM LUXURY TO SECURITY. FROM CONSUMERISM TO REPLETION.**

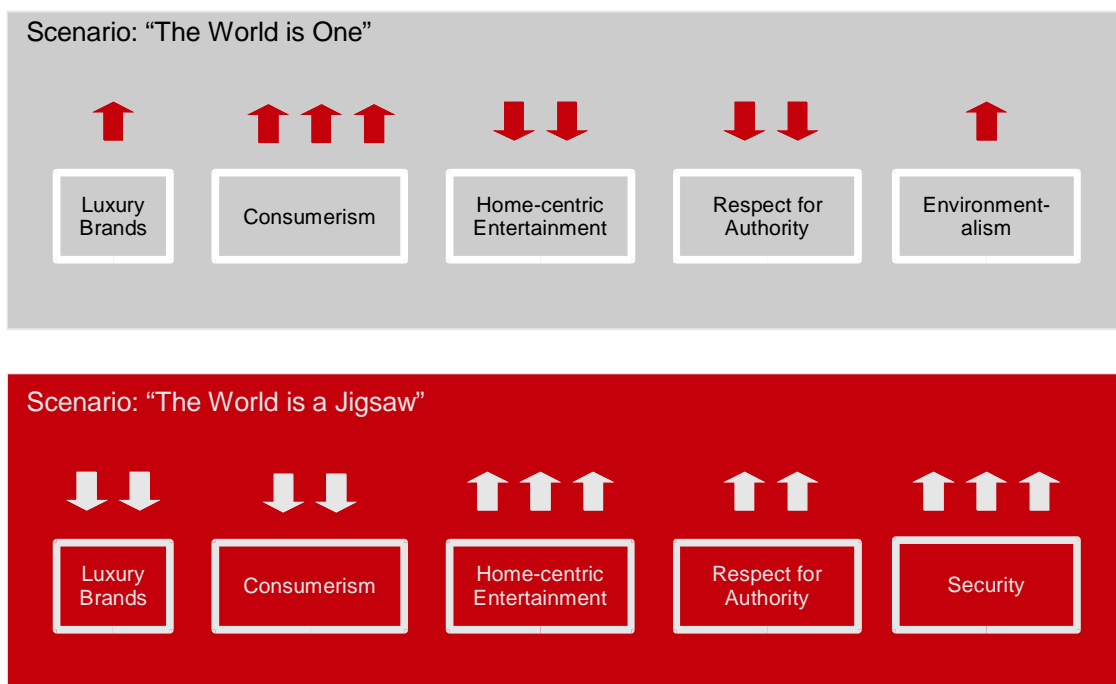
Quite a few observers have been talking about the impact of the recession on consumer behaviour. One of the first was John Quelch[5] who predicted the fall of luxury brands and the rise of the 'experience'. In other words, family and friends based experiences and memories become more important than brand-based displays of wealth and success.

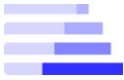
There are two problems with many of these predictions.

Firstly, they do not go deep enough and question some fundamental principles. There is the emerging view that consumers may be approaching saturation point. A confluence of a bombardment of new (primarily technology based) products, time limitations and resource shortages – amongst other factors – could limit the market for the next big breakthrough[6]. So we cannot just assume that consumerism will march steadily onwards and that there will be a market for the next big breakthrough.

The second problem is that these predictions are not scenario specific. As we have seen, the business world could move in a number of directions and nobody knows for sure where it will actually go. But importantly, customer needs could vary considerably in these different future worlds as I illustrate below:

**Potential Emerging Trends: Different worlds contrasted**





Here the arrows indicate the potential shifts. You can see that I suggest that customer needs will be completely different in two equally probable future worlds. In the best possible picture, 'The World is One', consumer confidence rebounds leading the world's economy into a new period of growth. The world feels safer too, people travel more and materialism spirals. But in another possible future, 'The World is a Jigsaw', things are different. The world is a less stable place, economic recovery is slow. Personal experiences and protection of the family and the home rise to key positions.

Again, this means that a key priority in 2010 is to understand how customers' needs, attitudes and behaviours are changing. But we really need now to start to understand how our strategy must change to accommodate these equally probable, but totally different, future worlds.

#### **ISSUE #4: BIG BROTHER, MY FRIEND**

This is already an emerging issue, that I first picked up in July, when I looked at research focusing upon Generation X (the offspring of the 'baby boomers') in the US[7]. These findings indicated a growing mistrust of large corporations but an increasing disposition to trust the State - 'big brother' - to care for us in an uncertain world. Some of the key findings were:

- Rejection of military force to solve external problems and threats to the US.
- Belief that the state should step into protect the economy.
- Decreasing support of "free market" solutions. 42% agreed that "our current economic problems show what happens when you rely too much on markets and reduce regulations on corporations".
- Progressive views on climate change, energy, sustainable living and the role of government as the 'central protector'.
- The view that past policies have benefited primarily the rich.

Rebuilding trust must therefore be high on the agenda of large organisations caught up in or on the periphery of the banking crisis. This leads one to wonder if increasingly depersonalised and distant distribution and customer relationship strategies really will work in the financial services sector. Which leads me on to issue #5.

#### **ISSUE #5: CSR – A NEW GENERIC STRATEGY?**

There is now emerging evidence that corporate social responsibility (CSR) could become a new differentiator[8]. Traditionally, we may have viewed CSR as just a corporate level issue.

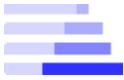
But if we reflect upon the findings briefly summarised under issue #4, there is a strong indication that we should consider CSR at the product and customer segment levels. In other words, CSR may become an important new differentiator to join the ranks of product features, price and service, all more traditional value proposition differentiators.

#### **ISSUE #6: BACK TO THE PAST – THE FRUITS OF CREATIVE DESTRUCTION**

There is always a great silver lining to any recession – the fruits of creative destruction. Nature and business abhor vacuums so a great opportunity for strategic innovation will appear at some point – just as financial services emerged to become a key employer in the UK following the decline of the manufacturing sector in the late 1970s. Now, however, the challenge is for the developed economies to reduce their dependence upon (I) what is now seen to be as a volatile financial services sector and (II) domestic consumer fuelled demand [9],[10]. All these economies face the challenge and opportunity of finding and building new export-led sectors.

Some of the mooted new opportunities exist in:

- Energy.
- Bio-technology. DNA research could produce a new generation of treatments for example.



- The broad need for the developed countries to 'rebalance' their economies away from a services bias to a tangible, export-led foundation.

So we will be faced with new industry sectors and changing customers needs, attitudes and behaviours. Now therefore seems a good time to dust off your organisation's innovative capabilities.

#### **ISSUE #7: THE DEATH OF 'WHAT WORKED BEFORE'**

All this tells us is that the world has changed and will continue to change in, as yet, unknown ways.

So, relying on what worked before might not be the best idea.

A better course of action may be to treat 2010 as the year of exploration, when the organisation focuses on finding out how attitudes, behaviours and needs really are starting to change. It's a good time too to consider strategy in not just one but three future worlds.

#### **ISSUE #8: BEWARE OF STRESS**

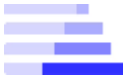
This could a long recovery and bumpy recovery[11].

Research that I conducted with colleagues earlier this year, pointed to the levels of stress that employees were experiencing. Over 80% of respondents in this survey noted multiple symptoms of stress amongst colleagues and 70% felt that they too had experienced multiple symptoms.

There is no doubt that stress destroys motivation and productivity. Stress management must therefore be a central part of action planning for 2010. At the very least, consider training managers and team leaders on how to spot the symptoms of stress in their working areas.

### **Summary and Recommendations**

1. This recession has emphasised the need to 'get local'. We have not yet reached the truly global single marketplace – almost perversely, the crisis has emphasised local differences and we need to plan around these local differences. As I have demonstrated, the profile of economic recovery and the opportunities that it creates, will vary materially on a country by country and even city by city basis.
2. Change, in terms of customer behaviour and emerging needs, will not happen all at once. I propose that there are four phases to explore. We are now entering the most important of these phases.
3. Customers' needs will change, but the shape of these needs will be dependent upon the path that globalisation does or does not take. This why thinking now about strategy in these different future worlds is so important.
4. The image of large corporations may be tarnished in the eyes of Generation Y – the new consumers – the offspring of the 'baby boomers'. Do we need to consider CSR more actively as a new source of differentiation?
5. The silver lining is that a new period of opportunity will appear, especially as the developed countries seek to re-engineer the structure of their economies. Now is the time to dust off your organisation's creative capabilities.
6. Be careful about relying on 'what worked before'. We are in a new world, but nobody is yet sure about how it really works and fits together.
7. Don't forget your most valuable resource – your people. Chances are that a slow recovery will bring pressures that they will need help to manage.



## References

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## Finally

I hope that you have enjoyed this briefing.

My work encompasses most aspects of strategy and change management from helping business teams to analyse their competitors to working with directors to explore the future paths that globalisation could take.

Some other examples of my work are:

- § Forward looking business scenarios – what are your future challenges?
- § Facilitating board level strategic reviews, with a particular emphasis upon the definition of tomorrow's competitive environment.
- § Design and implementation of Balanced Scorecard performance measurement systems.
- § Research to help identify what potential capital providers will look for in your business plan.
- § Training: Strategic Thinking, Competitor Analysis, Scenario Planning, Performance Measurement and Strategic Change Workshops.
- § Product portfolio assessment. Helping the business to define the optimal product portfolio – balancing future competitive conditions with the probability of achieving future planned performance.
- § Communication programmes.
- § Organisational audits – assessing the innovative capability of your organisation.

With best regards,

*Robert Davies*