



Executive Briefing:

The Great Recession Gives Way to The Great Comeback

*Prepare Your Business to Recover, Grow
and Prosper*

May 2009

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Executive Summary

Massive job losses, bankruptcies, home foreclosures, bailouts, revenue and profit disappointments, falling GDP, declining consumer price index, exports plunging. Every day brings another negative headline.

But ask yourself, “When was the last time the United States had a continuous 10-year period without a recession?” The answer is “never.” But some say, “This recession is both very deep and very broad.” This is true: The Great Recession is deep. And due to the efficiency and effectiveness of global supply chains, it quickly spread around the world. But, it is very similar in magnitude to the recession of 2002. So, the economy has been here before, and although times are very difficult for many, we are not in uncharted waters.

Now, strong evidence indicates that the worst of the recession is over. In fact, some industry sectors have “bottomed” and are already on the rebound. It’s time to take note that your sector has either bottomed or will be bottoming soon and it is paramount that you begin planning now for “The Great Comeback” (Figure 1).

The key questions for your business and industry sectors now are:

- How are you preparing to not only recover from this recession but also experience even more growth and prosperity?
- How are you preparing a Comeback Plan that will allow you to come out of the recession much better than before?

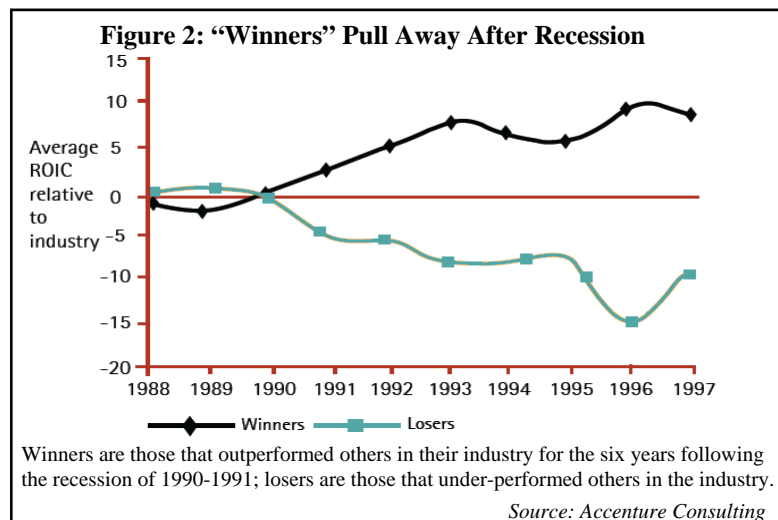
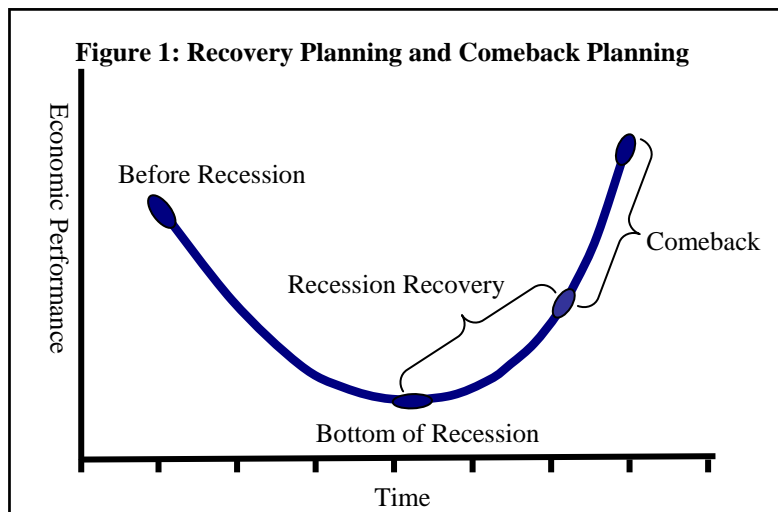
The lesson learned in the past is that the firms that best plan for a Great Comeback are the firms that best recover, grow and prosper (Figure 2).

The purpose of this report is to help you develop a Recovery Plan and a Great Comeback Plan in response to this Great Recession. Just as global supply chains quickly took the world into this Great Recession, the global supply chains will be the driver of a quick comeback that lays the foundation for you to grow your business and to prosper in the years going forward.

The Worst of the Great Recession Has Passed: Are You Ready?

Recessions occur when there is a prolonged drop in spending. Spending declines beget production declines, which beget unemployment, which begets further spending declines.

Spending declines transpire due to high interest rates (such as in the 1980s) and business failures (like the dot-com bust of 2000). The current recession began with housing prices being inflated and people buying homes that they could not afford, leading to foreclosures and tightening of home lending criteria, which then created a huge drop in home construction and related jobs and spending — Phase 1: Recession. This housing problem became a financial sector problem, which resulted in a further loss of consumer confidence that resulted in further spending declines — Phase 2: the Great Recession.



The Great Comeback

[tuh greyt kuhm-bak]
A welcome return to a former higher rank, popularity, position or prosperity that is even larger in size, power, degree or intensity.

-- A certainty for which you must be prepared.

Origin: 2009, Jim Tompkins

The Phase 1 Recession created the Phase 2 Great Recession in the fall of 2008. The first quarter of 2009 was almost as bad as the fourth quarter of 2008, but things are improving in the second quarter of 2009.

Due to today's global supply chains of global companies, the global economy is connected and integrated. Therefore, the efficiency and effectiveness of these global supply chains led to a rapid, responsive global downturn, and consequently, the Great Recession has been both deep and global. World trade (imports and exports) have shrunk, and this recessionary cycle driven by spending declines will continue through 2009.

Investment is still lagging, and therefore, capital spending will continue to be weak and unemployment will continue to rise throughout 2009. However, consumer confidence is returning within the food, cosmetics, beverage, pharmaceuticals and inexpensive consumer electronics sectors. Lower priced goods are gaining demand, strength and momentum. On the downside, housing and automotive industries will continue to suffer throughout 2009. But be ready because these markets will stabilize in 2009 and return to growth in 2010.

What about "The Great Comeback?" It will begin with the return of consumer confidence and then will be followed by investor confidence. The comeback will occur first in North America, then Asia, and then Europe. But it is important to understand that the bottom for some industries will be the second quarter of 2009; for others it will be the third and fourth quarters of 2009; and still for others it will come about in 2010.

Corporate profits will rebound in late 2009, resulting in business investment hitting bottom in the first quarter of 2010. When the recessionary bottom is hit, the global marketplace will respond quickly just as the global decline occurred quickly. Over the last 50 years, the recovery lead time from bottom to recovery has been 6 to 16 months. But due to the increased connectivity, integration and responsiveness of our global supply chains, The Great Comeback will start from the bottom within 8 months, growth will come about in 12 months, and the real comeback will emerge within 16 months.

Now, before I continue, I must answer a question that is likely on the minds of many of you reading this briefing: You ask, "Since Jim Tompkins is a supply chain expert, why is he writing about the economy and why should I believe him more than the expert opinions I hear and read every day in the news about the economy?"

Well, let me be clear:

1. I am not an economist.
2. I am not an expert on the economy.
3. I am not from New York City, so I do not view the world from a pessimistic "credit market" perspective of "gloom and doom." In fact, in an *IndustryWeek* post, someone referred to me as the "Anti-Prophet of Doom," or the "Prophet of Boom."
4. I am a well-connected business executive who interacts daily with a very wide diversity of global business leaders.
5. I am not contradicting or refuting what most of the economists or experts on the recession are saying. I am not qualified to do this. However, I am rejecting the macroeconomic view and instead looking at the recession/economy from a more refined micro view of what is happening and what will be happening.
6. The experts will tell you that the bottom has occurred two or three months (due to delay in economic data) after half of the economy has already bottomed and is recovering and the other half has yet to bottom. What I am doing, in my micro view, is presenting two facts:
 - A. Which sectors will bottom, recover, and come back, and in what time frames.
 - B. Independent of when your sector bottoms, recovers or comes back, you need to be working on your Recovery and Comeback Plans now so that you understand when you need to execute your specific recovery and comeback actions. If organizations wait for the experts to tell them the macro bottom has occurred, they very well may miss the opportunity to grow and prosper as a result of their markets' recovery and comeback. In *Figure 3* on the next page, I show the timing for different sectors to begin their recoveries.

“Now, strong evidence indicates that the worst of the recession is over. In fact, some industry sectors have bottomed and are already on the rebound.”

- Dr. James A. Tompkins

| Figure 3: Timeline for Sectors Beginning Recovery | Quarter |
|---|-------------|
| Consumer spending on necessities | Q209 – Q309 |
| Materials related to consumer spending on necessities | Q309 – Q409 |
| Consumers spending on inexpensive discretionary products | Q309 – Q409 |
| Consumers spending on more expensive discretionary products | Q409 – Q110 |
| Materials related to consumer spending on inexpensive discretionary products | Q409 – Q110 |
| Materials related to consumer spending on more expensive discretionary products | Q110 – Q210 |
| Capital equipment related to the manufacturer of necessities or materials for necessities | Q110 – Q210 |
| Consumers spending on automobiles | Q110 – Q210 |
| Materials related to consumer spending on automobiles | Q210 – Q310 |
| Consumer spending on housing | Q210 – Q310 |
| Capital equipment related to the manufacturer of inexpensive discretionary products or materials for inexpensive discretionary products | Q210 – Q310 |
| Capital equipment related to the manufacturer of expensive discretionary products or materials for expensive discretionary products | Q310 – Q410 |
| Materials related to consumers spending on housing | Q310 – Q410 |
| Capital equipment related to housing or materials for housing | Q111 – Q211 |
| Capital equipment related to the manufacturer on automobiles or materials for automobiles | Q211 – Q311 |

Hence, it is crucial to develop your Recovery Plan and your Great Comeback Plan to assure readiness for not only recovery, but also a gain in market share, growth and prosperity. And for many organizations (depending on the lead times of the process upgrades that are required to support the comeback), there is an urgent need to begin in-depth planning now or it will be too late. This recovery involves a window of opportunity that must be hit by each company in each sector in order to survive.

The Bottoming of the Great Recession

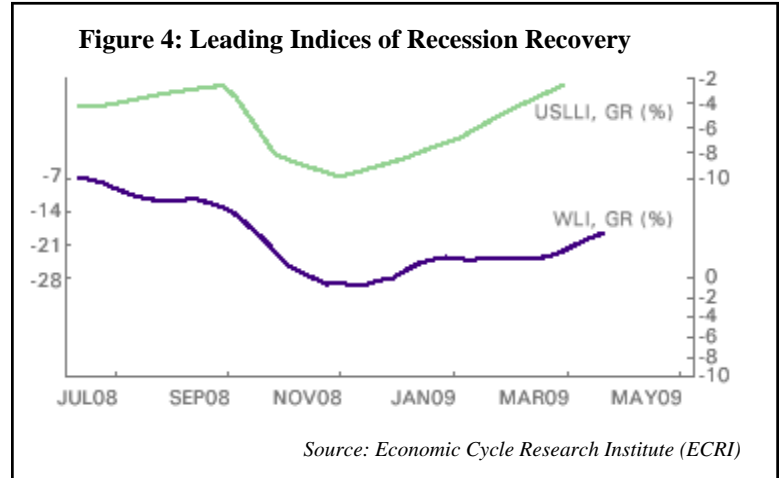
There will be a long procession of economic bottoms for different industries. The overall economy will also experience a time when the media say the bottom has been reached. But the truth is that the bottoms – plural – have already begun. Below are six key points that show why the bottoms have already begun:

1. **The U.S. GDP in Q4 of 2008 dropped 6.3%. In Q1 of 2009, the GDP fell 6.1%.** The second quarter of 2009 is expected to begin leveling off; the third quarter will be flat and the fourth quarter will be up. The overall economy is turning and will turn by the fourth quarter of 2009. The industries that will lead this turn (food, cosmetics, beverage, pharmaceuticals and inexpensive consumer electronics) will turn in the second quarter of 2009.
2. **The U.S. fiscal stimulus package will inject \$561 billion into the economy in 2009 and 2010.** Real government spending in 2009 will go up between 2.5% and 3%. The interest rate cuts and tax rate cuts will take longer to have an impact, but direct government spending will result in real U.S. GDP growth of between .6% and .9% in 2009. These funds are being deployed now and we will see the impacts soon.
3. **Both the University of Michigan Consumer Sentiment and the Conference Board Consumer Confidence Index, which were at record lows in the first quarter of 2009, are moving upward.** Although U.S. consumers are afraid, confused, and uncertain, their overall confidence is being regained, and this, starting with non-cyclic necessities, will result in sector-by-sector recovery.
4. **Consumer spending increased in Q1 of 2009.** The second quarter of 2009 will also see increases. This will continue throughout 2009. The U.S. consumer is alive and getting well, and it is the U.S. consumer who will lead The Great Comeback — first in the U.S., then China, then Europe and then the rest of the world.
5. **This Great Recession has been severe, and so there exists a huge amount of pent-up demand.** In a boom, there is a tendency for "experts" to assume that the good times will last forever, and in a bust the bad times will last forever. Of course, neither is true. Demand will begin with the lower costs items, and it has started. This too will result in The Great Comeback.

“In a boom, there is a tendency for "experts" to assume that the good times will last forever, and in a bust the bad times will last forever. Of course, neither is true.”

- Dr. James A. Tompkins

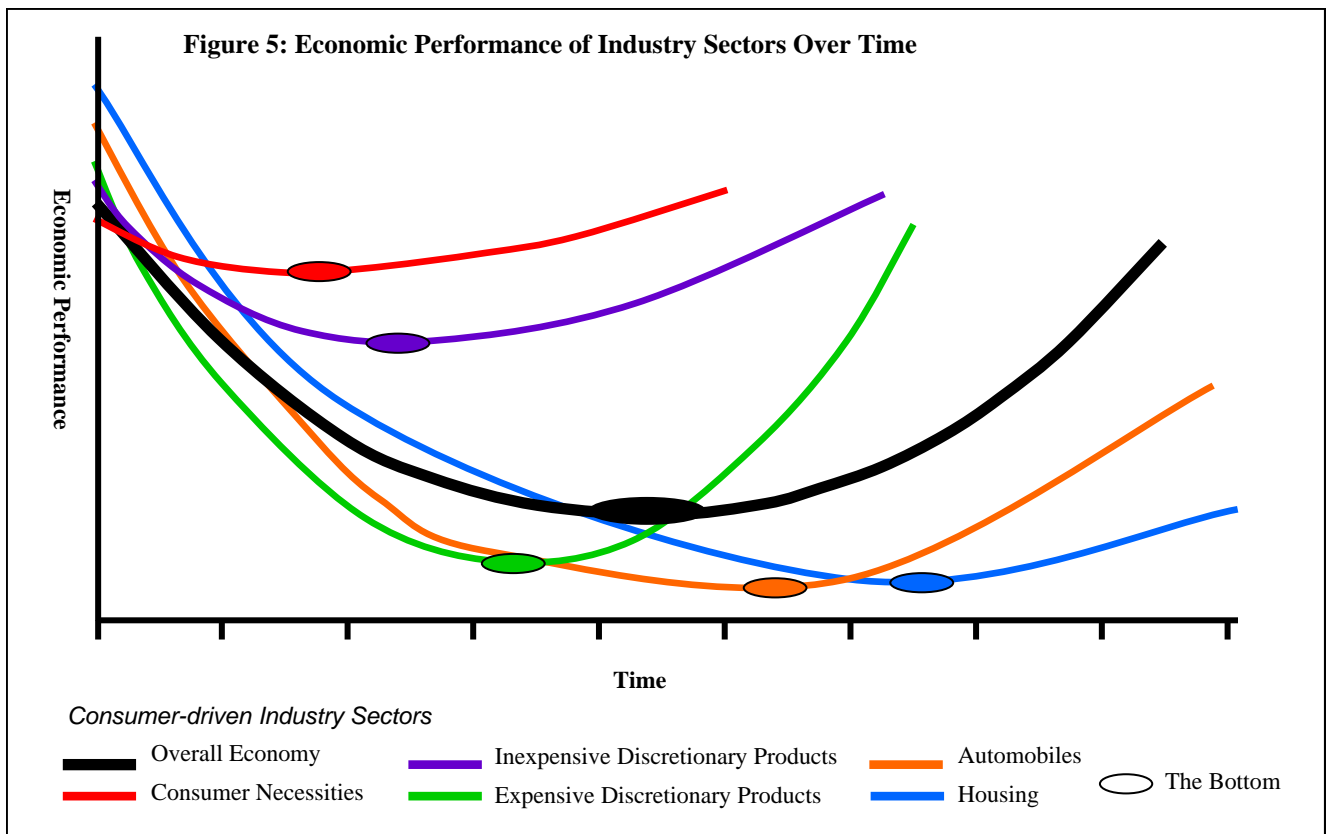
6. Although I have been on record for a couple of months sharing my view of the recession recovery and comeback, it is interesting to see new audiences appearing every day. On May 1, the Economic Cycle Research Institute (ECRI) published their latest U.S. Long Leading Index (USLLI) and their Weekly Leading Index (WLS), both of which have proved very successful in predicting the economy. These indices are clearly showing the end of the Great Recession (*Figure 4*).



For an example of how an industry's bottoming-out really is a misnomer, consider a food company that has four divisions: economy consumables, high-end frozen dinners, high-end frozen desserts and broad-based institutional foods. The economy consumables may not have a bottom at all; sales are at record levels. The high-end frozen dinners may bottom in July 2009. The high-end frozen desserts may bottom in October 2009, and the broad-based institutional foods may not bottom until January 2010.

The question is, "When does this food company bottom?" It does not. In fact, a better term for this company's evolution rather than bottom is "turning point," as the market for the economy consumables may peak just before the other food sectors bottom.

Sectors have turning points, and it is only in the context of these turning points that you can develop your Recovery and Comeback Plans. For many businesses, the bottom is now. The evidence is apparent. For many other businesses, the bottom is only a quarter away. So, now is clearly time to begin in-depth Comeback Planning (*Figure 5*).



“Wait and See” Versus “Comeback Planning”

There are some who prefer a “wait and see” approach to their comeback and wonder what the costs and risks are for being late. Interestingly, the costs and risks are very unique to each company and even among different divisions within the same company. The types of factors that need to be considered when evaluating the cost/benefit of “wait and see” versus Comeback Planning include:

- **Competitiveness:** The leaders coming out of the recession will be those that maintained or launched the right strategic initiatives during it. Market share for most industry sectors will be more fickle, as brand loyalties give way to pricing and value.
- **The Consumer and the Customers:** At least in the initial months/years of the recovery, frugality will very likely be the buying culture. This translates into different buying factors, and the smart companies will get this and play to it. And, product-service bundles will be more important than ever.
- **Efficiency:** Although a cliché, it now will be a requirement. The “lowest cost supplier or provider” will win even more during this recovery.
- **Flexibility:** Supply chain flexibility includes IT, culture/people, processes and speedy adaptability. Just as with demand forecasting, few companies will be accurate in demand planning during The Great Comeback. Thus, those that have agile supply chains will be in much better positions to change faster and thus boost sales.
- **Velocity:** The Great Recession did again illuminate the value of inventory optimization. The auto industry highlighted the issues with lack of OEM-supplier collaboration. Other industries can also prove this point — that trading partner collaboration on inventories can be good for all in the chain, not just the channel leader. Inventory turns, Days Sales Outstanding (DSO), Days Inventory Outstanding (DIO), etc., all are measures of financial health, not just case or pallet logistics. The smart companies will work on this strategy and come back with the right inventories in the right place, at the right time, and in the right amounts.

Each of these factors must be developed for each portion of the organization to truly understand the implications of “wait and see” versus doing rigorous Comeback Planning. Certainly for some organizations or portions of organizations, Comeback Planning is more important than for others. The facts are, however, until you do Comeback Planning you will not know your risk of not doing Comeback Planning. Therefore, the real risk at this point is not doing Comeback Planning when it is really needed.

Organizations that recognize and plan for recovery and comeback before their competition will have the opportunity to take market share from competitors and stimulate demand via innovation in products, services and new channels.

Pace of Overall Economic Comeback and Unemployment

There are many viewpoints on how rapid the comeback will be. The overall economy (macro) will respond somewhere between a “U” (i.e., the “bottom” is prolonged, and it takes longer than expected to recover) and a “V” (i.e., the “bottom” is followed by a brisk and sustained recovery). This is because there will be a wide variety of industry, sector, company and division response.

Within an organization (micro), it would not be surprising to have some portions with a very sharp “V” and some with a very prolonged “U”. So, it is really important for each organization to dig deeply into this and define their Comeback Expectations across their business. The following factors impact the shape of their recoveries and comebacks:

- Existing pent-up demand or lost opportunities
- Inventory turns as it impacts the synchronization of supply and demand (agility/responsiveness)
- The price point of the offering (budget to luxury)
- The channels you pursue (Wal-mart versus Sears)
- Your competition’s recession, recovery and comeback responses
- The level of innovation in your market and in your organization

So, the real point here is that it does not matter what the shape of the “overall economy” (macro) is going to be to recover and comeback as much as what will be the shape of your specific Comeback Expectations (micro). So, the Comeback Plan is low cost and thus must be developed now. Once you have this Comeback Plan, you will then be able to define when specific actions need to take place.

For unemployment, about 300,000 to 400,000 more people per month have lost or will lose their jobs between April and July of 2009. Then this number will decrease to about 100,000 per month through the end of the year. Unemployment will peak between the fourth quarter of 2009 and the first quarter of 2010. However, this is not a reflection of many industries, sectors and organizations recovering and coming back, but rather other industries, sectors and organizations not doing well, plus the unloading by many companies of employees they hired expecting growth that never materialized.

How to Develop Your Comeback Strategy and Plan: A Five-Step Process

When developing your plan, keep in mind that strategy must precede action. Remember, "cut, cut, cut" is an action and not a strategy. This mantra repeated by Tompkins Associates throughout the recession encouraged companies to maintain talent, maintain focus on the organization's strategy, and cut all other operating and capital expenditures.

But now, organizations are flat footed. They have not thought about recession recovery, much less the bigger topic of a comeback that includes not only recovery, but also increased market share, growth and prosperity.

Now is the time to upgrade your business processes to be able to claim your portion of the comeback. The remainder of this Executive Briefing will provide the five-step process which will give you a guideline to create your strategy and plan.

Step 1: Environmental Assessment: An assessment of the impacts the following factors are having and will have on your business:

- Global economy
- Domestic economy
- Business cycles
- Consumers
- Investors
- Government involvement

Step 2: Competitive Intelligence:

- What has your competition done in response to the recession and what are they likely to do going forward?
- Has your competition hunkered down in the recession or have they raised the competitive bar?
- Is there any evidence that your competition has developed a Comeback Strategy or Plan?

Step 3: Comeback Expectations: The understanding about your business comeback from the recession from the perspective of both timing and magnitude, given marketplace demand and the response from your competition. Specifically:

- When are your turning points?
- What are your recovery lead time and future volumes?

Step 4: Organizational Analysis:

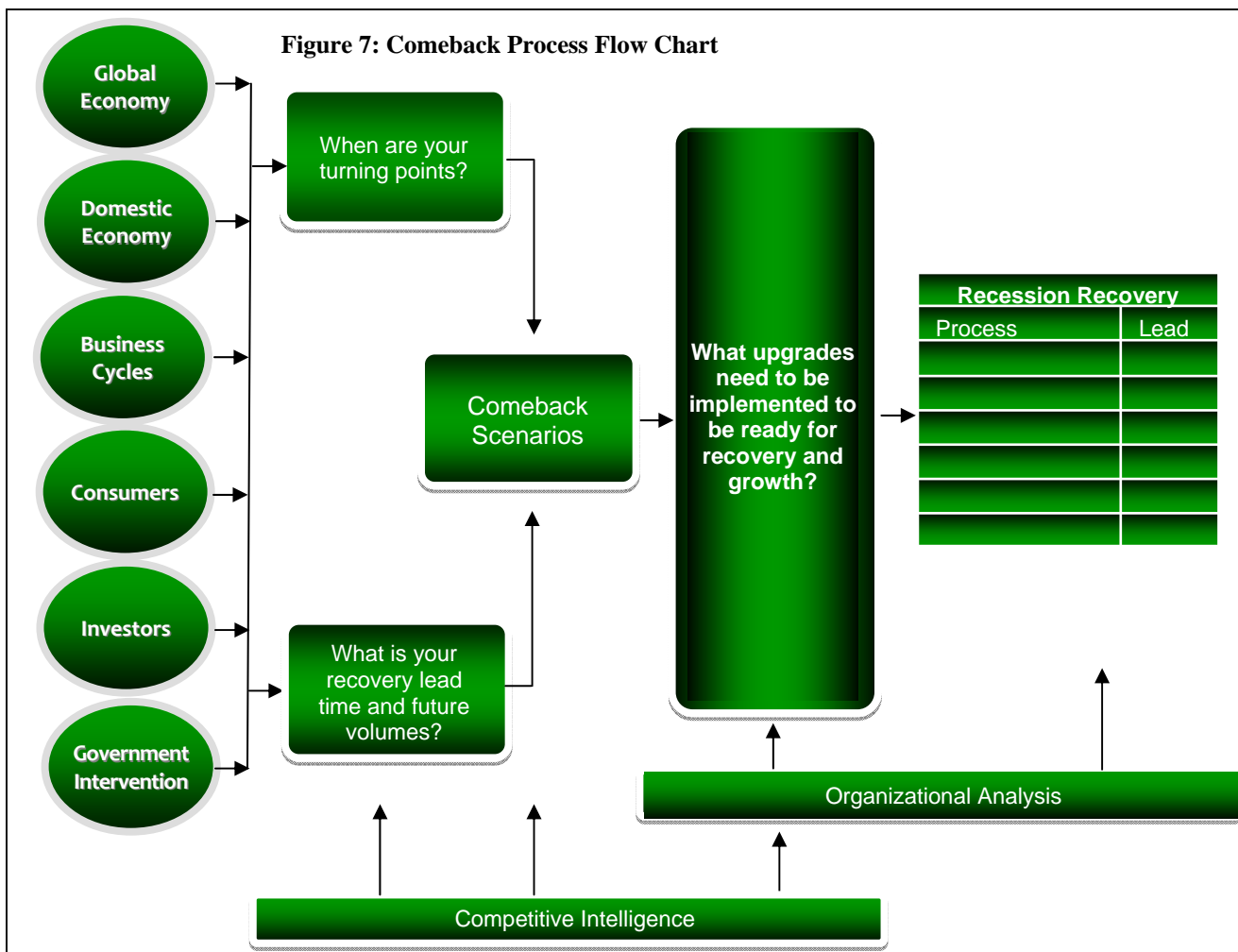
- How does your organization compare to others performing the same processes?
- What process upgrades do you need to deploy in order to not only recover, but to also gain market share, grow and prosper?
- What are the process upgrades you need to have in place after the recession to enhance customer satisfaction, increase capital efficiency, increase profitability and increase long-term shareholder value?

Step 5: Define Comeback Plan: Given the anticipated levels of business (your Comeback Expectations) and the required process upgrades (found through your Organizational Analysis), what is the schedule of process upgrades that needs to occur to allow you to gain market share, grow and prosper?

The Great Recession is coming to an end, and the organizations that best plan their Comeback Strategy and Plan will be the organizations that pursue The Great Comeback (*Figure 6 and Figure 7*).

Figure 6: Five-Step Process to Develop Your Comeback Strategy and Plan

Step 1: Environmental Assessment
Step 2: Competitive Intelligence
Step 3: Comeback Expectations
Step 4: Organizational Analysis
Step 5: Define Comeback Plan



Step 1: Environmental Assessment

Economy and Business Cycles

This section of the report focuses on economic and business cycles, a sub-set of Environmental Assessment. Later, additional aspects of the Environmental Assessment, such as the role of consumers and investors as well as government involvement, are examined.

Looking at economic and business cycles to create your Environmental Assessment means understanding the global and domestic economy. Doing this allows business leaders to find The Great Comeback pattern that may exist for their industry or specific company. Key factors that affect an Environmental Assessment within economic and business cycles are Gross Domestic Product (GDP), employment numbers, imports and investment activity, and consumer confidence.

GDP Projections: The 2009 global and domestic fall in GDP will be about the same as the fall in the recession of 1973-75. For the first quarter of 2009, GDP dropped at a 6.1% annual rate — marginally better than the 6.3% decline in Q4. With the end of the first quarter, the worst is behind us, and the GDP will hold steady in the second quarter. The third quarter will have very little reduction and the fourth will have an increase in GDP. The U.S. percentage change in GDP for 2009 will be about minus 4%. The global percentage change will be about half of this. China's GDP will be up 7-8%.

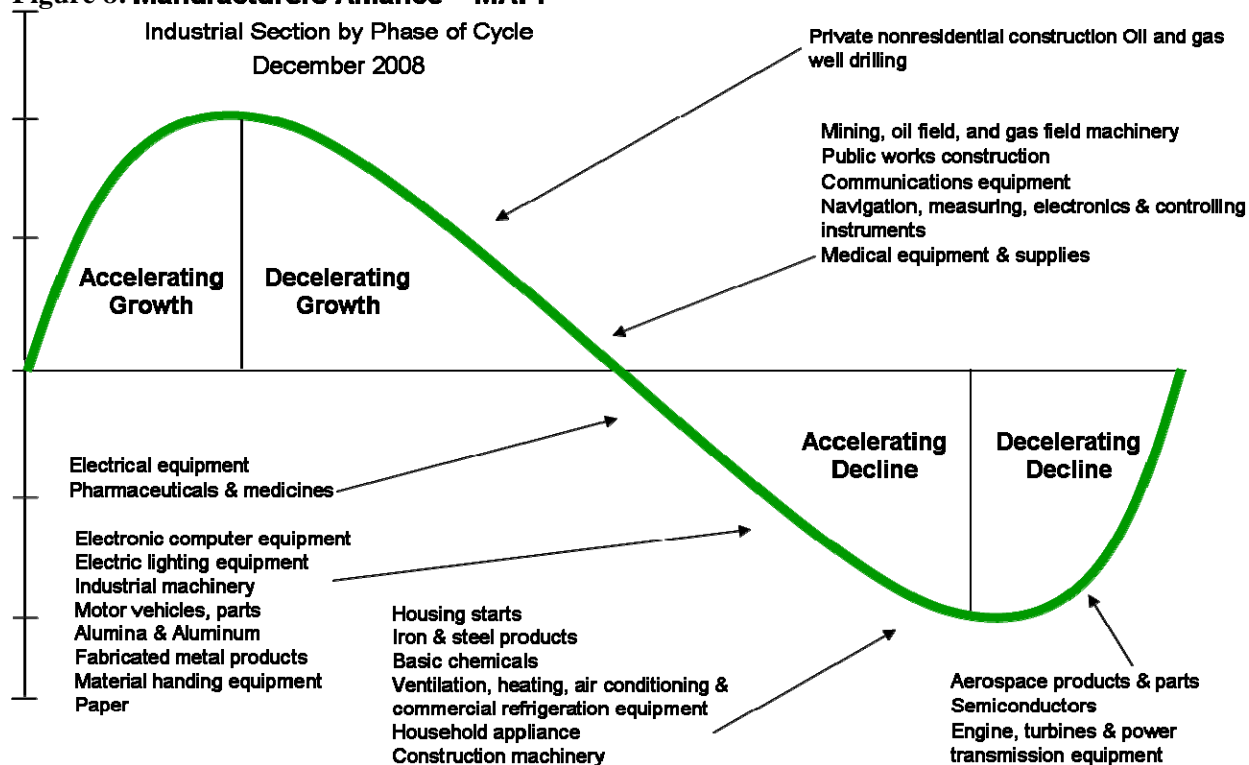
Employment Expectations: U.S. job losses will continue throughout 2009, though steadily diminishing over the course of the year. From the beginning of January through July, monthly job losses range from 300,000 to 600,000 per month, but the rate will taper to 100,000 per month by year's end. The jobless rate will peak at the end of 2009 or in early 2010 at the 10-11% rate.

Imports and Investment: Both U.S. export and import volumes will fall in 2009 by 10-15%. The falling of corporate profits in 2008 and 2009, plus the factory operating rate of less than 70% in 2008 and 2009, will result in limited investment dollars available for capital equipment.

The Consumer is the Key: The Great Comeback from this Great Recession will take place through the actions of the consumer. Consumers will increase spending, which will eventually increase the factory operating rate and thus beget capital spending. U.S. consumer confidence will bottom in early 2009 and will increase spending in Q2 of 2009. The U.S. consumer will continue to spend on necessities and will gradually gain confidence as the year progresses to begin spending on discretionary and big-ticket items. The return of U.S. consumer confidence will beget an increase in business volume in China, which will beget capital investment in China, which will result in the improvement of the European marketplace.

Cyclical and Non-Cyclical Industries: Viewing industry data from a rate of change basis is very useful to better understand cyclical activity. Cyclical activity applies to some industry segments, but not to all industry segments. Many industry segments follow a cycle of Accelerating Growth - Decelerating Growth - Accelerating Decline - Decelerating Decline and then back to Accelerating Growth. The Manufacturing Alliance – MAPI (<http://www.mapi.net>) tracks 28 industry segments that follow the cycle. Individual segments clearly travel at different rates through the cycle (*Figure 8*).

Figure 8: Manufacturers Alliance – MAPI



Other industry sectors do not follow this cycle and are called non-cyclicals. Non-cyclicals include food, beverage and pharmaceuticals. The non-cyclicals will be the first to experience The Great Comeback.

In viewing the business cycles, the automobile industry and the housing starts will continue to suffer throughout 2009. Both markets will stabilize in the second quarter of 2009, but real growth will not occur until 2010. For both automobiles and houses, the 2011 volumes will still be below the volumes from 1997-2007.

The main question about Business Cycles and non-cyclical patterns is: Will the historical patterns hold in this Great Recession? To answer this question, it is critical to note that there are four significant differences to this Great Recession:

1. This recession includes a huge loss of wealth.
2. This recession had a housing/banking crises beyond anything ever seen.
3. This recession, more than any other recession, is global. The world truly is flat.
4. This recession, for the first time ever, occurs while we have global supply chains functioning well. The end-to-end supply chain was able to rapidly sense and respond to a decline in demand. This almost instantaneous orderly process of responding to reduced demand has positioned supply chains for a more responsive upswing as consumer demand returns.

The science of Business Cycles is still valid, but these differences make the comeback process more complex. Business Cycles are still valid, but to overcome the Great Recession there needs to be a combination of increased spending, reduced home foreclosures and stability to the banking system. When these occur, the global supply chains will kick in with the same efficiency and effectiveness for the upturn as it did for the downturn, and the comeback will, sector-by-sector, be rapid and synchronized to consumer demand.

The sequence of the economic downturn is depicted in *Figure 9*. To come back from the Great Recession, companies need to know the cause of the decline that created the recession and know that recovery from the recession will occur in the same sequence.

Figure 9: Sequence of Economic Downturn

| | |
|---------------------------------------|---|
| First: Consumer Industries | Food, Beverage, Cosmetics, Pharmaceuticals, Furniture, Apparel, Household Products, Consumer Products, High Technology, etc. |
| Second: Material Manufacturing | Paper, Iron, Steel, Aluminum, Glass, Resins, Synthetics, Chemicals, etc. |
| Last: Capital Equipment | Electrical Equipment, Architectural & Structural Metals, Construction Equipment, Engines & Turbines, Agriculture Equipment, Mining & Drilling Equipment, Metalworking Machinery, Industrial Machinery, Aerospace, Ship Building, Construction, etc. |

Therefore, The Great Comeback will occur as follows:

Consumer industries will come back first with consumers spending on necessities, then move on to inexpensive discretionary spending, then on to more expensive discretionary spending, then to purchasing new automobiles and lastly onto housing. The recovery in the retail sector will be in conjunction with the products sold by that retail sector. So, retail stores selling necessities will comeback first, followed by inexpensive discretionary spending then on to more expensive discretionary spending, etc.

The material manufacturing industries will follow this same sequence of materials for necessities, then materials for inexpensive discretionary materials and lastly to materials that go into expensive discretionary spending.

Once the Comeback is well in place for consumer driven industries and material manufacturing industries, the plant capacities will return and this will drive capital equipment expenditure.

The Comeback times will be unique for each sector depending upon how early they bottom and how much pent-up demand exists within the sector. The earlier sectors to come back will take 8 to 10 months to fully recover and begin to grow. As we get further and consumer confidence continues to grow, sectors will respond with shorter and shorter recovery times. For sectors coming back in Q4 of 2009, the recovery times will be 3 to 4 months. Likewise, the greater the pent-up demand in a sector the shorter the recovery times. So, the quickest recovery times will be for latter recovering sectors in which large amounts of pent-up demand exist. (Refer back to *Figure 1* for a more specific “Timeline for Sectors Beginning Comeback.”)

“Success is how high
you bounce when
you’ve hit bottom.”

– General George S. Patton, Jr.

| Figure 10: Recovery by Sectors | | |
|---------------------------------------|-------------------------------------|---|
| Q209 – Q309 | Q309 – Q409 | Q4 09 – Q110 |
| Food | Aerospace | Engines, Turbines and Power Transmissions |
| Cosmetics | Semiconductors | Plastic Products |
| Beverage | Agriculture Equipment | Communications Equipment |
| Pharmaceuticals | Public Construction | Computer Equipment and Software |
| Inexpensive Consumer Electronics | Mining, Oil and Gas Field Equipment | Medical Equipment |
| | Household Products | |
| | Consumer Products | |

The recovery by sectors will occur as shown in *Figure 10* (retail recovery will be in conjunction with the products sold below, e.g., grocery stores will rebound Q2 of 2009 – Q3 of 2009 in conjunction with food and beverage). As the graph illustrates, firms in the food, beverage, cosmetics, pharmaceuticals and inexpensive consumer electronics sectors are late to begin their Comeback Planning. Additionally, firms in the aerospace, semiconductor, agriculture equipment, mining, oil and gas field equipment, household products and consumer products need to begin Comeback Planning now. Organizations in these industries that do not focus on Comeback Planning now may very well be putting themselves at risk.

Consumers and Investors

The consumer of 2009 is afraid, confused, uncertain and changed. Things were very bad in the fourth quarter of 2008, but there was anticipation that 2009 would be better. The first quarter of 2009 was slightly better than the fourth quarter of 2008. Consumer spending in the U.S. grew another 2% in the first quarter of 2009. It will remain slightly positive in the second and third quarters and increase 3% in the fourth quarter.

The loss of wealth by the U.S. consumer has resulted in people changing their behaviors like never before. The market for luxury goods has disappeared. Wal-Mart is doing very well and the consumer's focus is on necessities (food, health, shelter and clothing).

The unemployment rate continues to climb and will continue throughout 2009, but the number of people who are fearful of losing their jobs is higher than the actual number of people who will lose their jobs. Because of this, consumers have cut back. They are eliminating discretionary purchases, and they are saving more.

The good news is that the consumer is getting back into the game. Both the University of Michigan Consumer Sentiment and The Conference Board Consumer Confidence Index have bottomed and are moving upward.

The bottom for the U.S. consumer was between February and March 2009. The recovery has begun, and it will take time. This recovery is emerging from record lows in consumer confidence and has absorbed considerable pain over the last 12 months. But, the U.S. consumer is back and will slowly be responsible for U.S. recovery, China recovery, Europe recovery and ultimately world recovery from the Great Recession.

The business investor of 2009 is cautious but somewhat optimistic. Business investment will experience an exaggerated cyclical decline characteristic of the economic downturn. Non-residential fixed investment and industrial production will continue to fall through 2009 and early 2010. Corporate profits will not return until 2010, and the factory operating rate will continue to be very weak until mid-2011. Capital spending will continue to be anemic.

Investors are feeling better about the overall economy than they have in the last year as they see the return of consumer confidence and the efforts by the Treasury and Federal Reserve to stimulate the economy. In addition, investors take heart from the Treasury commitment to cleanse banks of toxic assets and to stem housing foreclosures. Although home prices will continue to fall throughout 2009, residential construction will bottom at the end of the year and provide a positive boost to the GDP going into 2010.

Investor confidence will lag behind consumer confidence by several quarters, but will return in 2010. However, it will be 2011 before substantial capital expenditure is made by industry to upgrade industrial capacity. The last sector to return to health will be private non-residential construction in late 2011.

Consumers will certainly lead investors, and necessities will certainly lead discretionary spending. However, as 2009 unfolds, spending by consumers will grow. As 2010 unfolds, there will be growth of investing.

Government Involvement

A great deal has been presented on the specifics of the approaches taken by the major industrialized nations of the world, so a discussion here of the dollars allocated to recession recovery does not add much value. What is of value, however, is to understand the underlying philosophy of economic stimulus in the different countries.

The U.S., several countries in Europe, China and many others have all created a stimulus spending plan and have a strong desire to stabilize the banking system. The three main economic stimulus weapons these governments will use are:

- Interest rate cuts
- Tax cuts
- Direct government spending

The quickest and most certain stimulus weapon is direct government spending. The vast majority of the government stimulus in the U.S. and China is direct government spending; whereas in Europe, the majority is in tax cuts.

Below is a breakdown of each country or region specifically, along with the impacts of the G-20 Summit and its financial strategies:

United States: The U.S. government has characterized its efforts to reverse the economy's downturn as a three-legged stool:

- Economic stimulus
- Minimize home foreclosures
- Bring stability to the banking system

Real U.S. government spending will grow between 2.5% and 3% in 2009 and into 2010. The impact of this spending will be a growth in 2009 GDP of 0.6% to 0.9%, and in 2010, a GDP of 1% to 2%. This U.S. government spending points to a budget deficit in 2009 and 2010 of more than \$1 trillion, creating a real threat of inflation that must be considered when developing the Comeback Plan (*Figure 11*).

Figure 11: Anticipated Outcomes of U.S. Government Stimulus Spending

| | |
|---|--------------|
| U.S. Government Spending Increase 2009-2010 | 2.5-3% |
| Growth in GDP 2009 | 0.6-0.9% |
| Growth in GDP 2010 | 1-2% |
| Budget Deficit 2009-2010 | \$1 trillion |

In the U.S., the dual objectives are to preserve and create jobs (transportation, infrastructure and health care) and to pursue the agenda of "change" of the new administration (financial industry recovery, energy/green initiatives, tax burdens, trade regulations and labor).

The U.S. Treasury has put plans in place that are assuring both investors and banks of its commitment to resolve the banking crisis. Good progress is apparent here, which further enhances the claim that the worst of the Great Recession is behind us and the recovery is beginning. In mid-April, Treasury Secretary Timothy Geithner provided the assessment that "the vast majority" of the banks could be considered well-capitalized.

However, the U.S. housing market also needs to be taken into account when examining the end of the Great Recession. The home foreclosure challenge is unto itself a U.S. problem, except it has a significant impact on banking system stability, the third part of the tree-legged stool. The banking stability issue is truly a global problem and is being addressed by the G-20 (Group of 20 Industrialized Nations, touched on in *Figure 12*).

The U.S. government has characterized its efforts to reverse the economy's downturn as a three-legged stool:

- Economic stimulus
- Minimize home foreclosures
- Bring stability to the banking system

Figure 12: The G-20 Financial Strategy

On the topic of bringing stability to the global banking system and resolving the financial sector problems, although not in total harmony, the April 2009 G-20 Summit shows some promise on:

- A unified front on dealing with the toxic bank assets
- Regulating hedge funds and other financial institutions
- Being committed to getting banks to lend again and therefore to restore growth

China: Global organizations intent on finding growth despite the Great Recession will do well to review their China strategy when they develop their Comeback Plans. In China, it is helpful to understand that the Chinese term for stimulus implies "rejuvenation plan." China, more than any other country, views the Great Recession as a natural opportunity to enhance their industrial competitiveness.

China's stimulus is going directly into the economy in the form of upgrading energy sources and technology, reducing pollution, upgrading rail networks, providing for rural development, providing investment incentives for innovation and expansion of R&D, and spurring export promotion and competitiveness.

Europe: The goals of European countries are more to protect small- to medium-sized companies from the impacts of the recession, while increasing spending on energy efficiency, infrastructure and innovations.

Government Spending and Your Great Comeback Plan

The greatest direct government spending over the next year will be in China, then the U.S., and then the countries of Europe. The large amount of China's direct government spending in 2009 will result in real China GDP growth in 2009 of 7-8%.

The implications of these government involvements with recession recovery may have a very important impact on your organization's Great Comeback. It is paramount to understand these impacts and build them into your Comeback Plan.

Step 2: Competitive Intelligence

Once your Environmental Assessment is complete, the second step in developing your Comeback Plan is Competitive Intelligence. The Competitive Intelligence process requires you to answer two top-level questions:

- What did your competitors do in response to the Great Recession?
- What will your competitors do in response to The Great Comeback?

For each of these questions, there are two sub-questions:

- How will they respond to what you do?
- How will you respond to what they do?

The details of the two top-level questions should be pursued by asking the questions in *Figure 13*.

Figure 13: Competitive Intelligence Detailed Questions

- *What is your competition offering to their customers that you are not? Are they expanding their offerings?*
- *Do you or your competitors have an advantage with certain customers, geographic or service lines? Why?*
- *Have your competitors stratified their customers differently?*
- *What sales channels, marketing approaches or market segments are your competitors pursuing and why?*
- *What innovations/creativity are your competitors bringing to the marketplace?*
- *What are your competitors doing geographically different than what you are doing?*
- *What M&A activities, outsourcing, joint ventures or alliances is your competition pursuing? Do these activities give them a game-changing opportunity in terms of market position, geographical reach, scale, technology, cost, etc.?*
- *How are you positioned versus the competition to gain market share?*
- *How well has your competition retained, grown or added to their talent?*
- *What strategic focus is your competitors pursuing? How does your competition view the market going forward? What do they see as the key market drivers and constraints?*
- *What investments in IT are your competitors doing? Is this to reduce cost or enhance service? Are you ahead of your competition?*
- *What are your competitors' total delivered costs and how do these compare to your costs?*

Understanding your current positioning versus your competitors and how they will respond to your Comeback Plan is an important factor. A significant amount of information about your competition may be obtained via holistic and ethical searches of the Internet, newspapers, legal proceedings, regulatory commissions, the financial community and their marketplace activities and reportings.

In addition, studying your competitors' prior responses to your past actions will provide good insight into how they may respond in the future. At least a third of the time, your competitors will not respond. But when they do respond, often the response is more of a copycat, instinctive response as opposed to a well-thought-out response that considers how you will respond to their response. Assuring that your Recovery Plan and Comeback Plan includes how you will respond to your competitors' response is a good way of assuring the viability of your overall Recovery Plan and Comeback Plan.

Step 3: Comeback Expectations

Once you have completed Competitive Intelligence, the third step in developing your Comeback Plan is defining your Comeback Expectations. A thorough understanding of the following will allow you to grasp the full ramifications of the recovery of your company.

- Global economy
- Domestic economy
- Business cycles
- Consumers
- Investors
- Government involvement
- Competition

Just as there are different scenarios for each of the above factors, likewise, there may be different scenarios of your comeback from the recession. Performing sensitivity analysis on the different comeback scenarios will help you know what to expect. However, no one can say with certainty what the next several months will hold for his or her business (*Figure 14*).

To define the Comeback Expectations, answer the following questions for each business sector within your company:

- When are the turning points?
- What is your comeback lead time and what are future volumes?

Figure 14: Complexity Case Example (Volkswagen)

To fully appreciate the complexity of turning points, comeback lead times and future volumes, consider the automotive industry. The bottom for car sales will be 2009, but recovery will take several years. However, there is a Volkswagen plant in Germany that is running 24x7 producing small cars. This plant is running at full production, and still Volkswagen has to turn small car customers away. So, overall, Volkswagen has available capacity, but in the small car division they have no available capacity. This makes the answers to the questions about turning point, lead time and future volumes very complex.

It is only by understanding an organization's divisions and the interdependence of some of these divisions (e.g., when a customer buys a small car, they will not buy a large car; or when a consumer eats out more often, they cook less at home) that the turning points, the comeback lead times, and the future volumes can be plotted.

Depending on the process that is being considered and the flexibility and modularity of this process, combining the division's turning points to understand the overall organization capacity may be or may not be realistic. For example, the flexibility of an automotive assembly plant that is tooled to assemble small cars has little ability to address large car assembly. On the other hand, a consumer food production operation often has the flexibility to be converted to institutional pack of the same or similar products. Other processes — for example, a Transportation Management System (TMS) — can often be used across different divisions, so its application across the organization is typically very relevant.

The deliverable from this third step in developing your Comeback Plan is a clear understanding of what volumes of products you will sell from this point forward. And as such, this forecast should be presented as a series of comeback scenarios.

Step 4: Organizational Analysis

Once you have developed your Comeback Expectations, the fourth step in developing your Comeback Plan is performing an Organizational Analysis. This involves a total review of all internal processes to define an organization's strengths and weaknesses, both during the recession as well as while on the road to recovery and on to growth and prosperity. There are several major processes within an organization that require this Organizational Analysis in order to eventually lead to the Comeback Plan. Major supply chain processes (Supply Chain Design – Buy – Make – Move – Store – Sell) require review during the Organizational Analysis. *Figure 15* shows a timing perspective on planning and implementing organizational enhancements within these major processes.

| Figure 15: Organizational Enhancement within Major Supply Chain Processes (Overview) | Planning | Implementation |
|--|-----------------|-------------------------------|
| Supply Chain Design: Marketing design, manufacturing design, supply design, organizational design and network design | 1 to 8 months | 2 months to more than 2 years |
| Buy: Strategic sourcing, establish joint venture and merger and acquisitions | 1 to 6 months | 1 month to 1 year |
| Make: Manufacturing strategic master plan for facility upgrades, new existing facilities or new non-existing facilities as well as outsourcing of manufacturing | 2 to 6 months | 4 months to 2 years |
| Move: Domestic freight bid, global freight bid, create core carrier program, transportation transformation, outsource transportation and transform from Move-Store into more of a flow model via crossdocking | 1 to 6 months | 2 months to 1 year |
| Sell: Demand planning, sales and operations planning, inventory management and reverse logistics | 2 to 4 months | 1 to 8 months |

Additionally, in order to support these processes, the related supply chain technologies need to be reviewed/upgraded/replaced including: warehouse control system, manufacturing control system, TMS, WMS, supply chain visibility, demand planning, forecasting, MES and ERP. Planning for these support technologies will take 1 to 4 months and the implementation will be about 2 months to 2 years.

The Organizational Analysis includes questions such as:

Costs: Are your supply chain costs competitive?

Operations: How do your operating characteristics compare to your peers (e.g., freight terms, modes, contract relationships, etc.)? What operating characteristics are found most often in the best performing supply chains?

Performance Measurement: How do your peers measure supply chain performance? Where do they stand in developing measurement processes? What are their goals? Where do they stand in achieving those goals?

Organization: How does your organization structure compare to my peers? Are some organization structures more effective than others? Where is control for key functions vested?

Collaboration: How much real collaboration is there today with suppliers and LSPs? What is being done on performance scorecards, incentive programs and innovative contractual relationships?

Outsourcing: Where and why do your peers use outsourcing? Does outsourcing result in lower overall costs and better service?

Technology: What technologies are your peers using in their supply chain operations? What is working and what is not? Is there a correlation between the use of technology and the supply chain effectiveness? What are the near-term priorities in technology?

Value: How do your peers demonstrate the contribution their operation is making toward overall corporate goals?

Security: What are your peers doing on security? Is there something you should be doing that you are not?

Supply Chain Network: How does the design of your inbound supply chain network compare to your peers? Is your network more or less efficient? More or less reliable?

To perform this level of analysis well, a formal process of benchmarking and best practices should be employed. Utilizing a formal process for your Organizational Analysis will help you:

- Measure your performance against best-in-class companies and identify improvement opportunities
- Understand how your operating practices compare to your competition and impact your ability to gain competitive advantage
- Broaden the thinking of your management team to include issues beyond their immediate responsibilities
- Provide breakthrough insights by looking across performance measures, processes, roles, responsibilities, goals, vendor and customer relationships and infrastructure requirements.
- Define scorecards with key performance indicators, data collection processes, goals and reporting formats to track supplier, carrier and third-party service provider performance
- Prioritize improvement opportunities and build consensus behind the opportunities that are most important for you to address while on the road to recovery and the on to growth and prosperity

From the benchmarking and best practices review, a list of potential process upgrades will become apparent. To further add to this list, leadership can encourage the organization to proactively develop innovations that will help facilitate a comeback. Then, for each potential process upgrade, a cost/benefit analysis and a determination of lead time should be established. The output of the Organizational Analysis will be a tabulation of the process upgrades and for each potential upgrade, the scope, benefits, implementation cost, and lead time and projected savings.

Step 5: Defining Your Comeback Plan

As covered in the previous two sections, developing Comeback Expectations will lead to a series of comeback scenarios of the future sales volumes of your product, and an Organizational Analysis will reveal opportunities to upgrade processes to meet the sales volumes and to enhance your competitive position. Now, Step 5, Defining Your Comeback Plan, will help you determine which process upgrades to pursue according to what schedule, allowing you to not only recover from the recession but also to grow and prosper.

Defining a Comeback Plan is part art and part science. Certainly, there are process upgrades that should be pursued strictly from a capacity perspective, others that should be pursued from an ROI perspective, others from a working capital perspective, and others that should be pursued from a competitive positioning perspective. However, there will also be several process upgrades that are not as clear but are required to achieve growth and prosperity. There will be different opinions on:

- The reality of the comeback scenarios
- The competitive benefits of some of the process upgrades
- The responses to be expected from your competition
- The necessity of pursuing certain process upgrades to achieve certain benefits
- And more...

“The key to long-term success is not the achievement of peak performance, but rather the continuous process of beginning anew and climbing to a new peak, and the next peak, and the next peak.”

– Dr. James A. Tompkins

It is clear that preparation for recovery, growth and prosperity is necessary. Often, the lead times for the implementation of the process upgrades are such that you most often begin the upgrades while your organization has yet to feel the uplift from the bottom of the recession. This presents leadership with a real challenge, since being too cautious or too slow as your organization begins to pull out of the bottom could well prove to be reckless. Research on prior recessions has shown that companies that are too timid or too late to react often fail to maximize their comeback and to maximize the creation of value. Therefore, with the depth and global nature of the Great Recession, the time is now for organizational leadership to step up to this challenge with a bold, proactive Great Comeback Plan.

Once the high-level Comeback Plan is defined, be sure to develop it into a series of full project plans, expectations, schedules, and due dates. This set of project plans will be the fuel for your recovery, growth and prosperity as you move forward.

The timing of a company's rejection of the “recession funk” and the return to investing in the recovery and comeback of the business is very important in terms of sharing in the upside of stock market gains. But it is even more important in terms of gaining long-term, sustainable and end-to-end supply chain excellence for market leadership. The real winners in the next 2 to 4 years will be those companies that get The Great Comeback message and act on it accordingly.

Conclusion

In the beginning of recovery, a very different strategy is needed. This strategy could be based on the economic forecasters' views of this recovery. But unfortunately, one could spend tens of thousands of dollars on buying the various "expert" views and only reach the conclusion that the recession will be over anytime from now to mid-year 2011.

In fact, there is an "expert" for virtually any view to which one may subscribe. Therefore, the "expert" path has little value. Additionally, talking in generalities of "recession being over," "hitting bottom" or "beginning recovery" has very little value. To have value, you need a company-specific Recovery Plan and Comeback Plan. With the total planning and implementation time for a Comeback Plan often being more than 2 years, it is clear that all organizations need to be working on their Comeback Plans now.

The overall bottom of the Great Recession will be announced after half of the economy has bottomed and is on to recovery and The Great Comeback, while the other half of the economy has yet to bottom. And although the overall bottom is an interesting concept for reporters, economists, and government officials to discuss, it is not really relevant to CEOs or companies. The truly relevant question is: When will MY BUSINESS bottom and how will MY MARKET recover?

When listening to conflicting opinions about the bottoming of the economy, also keep in mind:

- There is a hesitation, a reluctance, to predict recovery or comeback. The natural recession bunker mentality is to believe that the bad times of the Great Recession will continue.
- The lead times of the tasks that need to be accomplished to achieve The Great Comeback may very well be longer than the duration of time from the bottom to comeback, and so you actually need to begin your Comeback Planning before your industry hits bottom.
- Your industry hitting bottom may not be confirmed by the "experts" until several months after your industry has hit bottom.

This report was written from extensive research compiled since the start of the Great Recession. The data clearly shows that the worst of the Great Recession is behind us and that in many industries the comeback has begun. Unfortunately, many CEOs who need to be preparing for their industry's comeback are still hiding in their bunker awaiting the overall bottom. This is wrong. Organizations, especially those that are currently on the upswing, that do not focus on Comeback Planning now may very well be putting their company at risk. It is time to come out of the bunker now and get on with planning for The Great Comeback.

Seven Realities to Help You Understand and Prepare for Your Great Comeback

1. **Different Bottoms Exist:** A sector-by-sector comeback has begun. Different sectors will hit bottom at different times, starting with food, cosmetics, beverage, pharmaceuticals and inexpensive consumer electronics in Q2 of 2009.
2. **Comeback to Be Rapid and Global:** The global economy is connected and integrated, which caused a rapid, responsive global downturn and a Great Recession that is both deep and global. Likewise, The Great Comeback will be rapid, responsive and global – moving beyond recovery to include increased market share, growth and prosperity.
3. **Consumer Confidence Is the Driver:** Consumer spending and confidence is returning. U.S. consumers will continue to spend on necessities and will gradually gain confidence to begin spending on discretionary and big-ticket items. This will lead to an increase in business volume in the U.S., which will result in capital investment in China, which will in turn result in the improvement of the European marketplace.
4. **Investor Confidence Lags Behind:** Investor confidence will not return this year. Capital spending, housing starts and unemployment will continue to be a problem throughout 2009 and much of 2010.
5. **Knowledge Equals Power:** Understanding the economy, the marketplace, competitors and government involvement will allow companies to project the timing and level of sales during the comeback.
6. **Upgrading and Benchmarking Are Key:** Benchmarking and best practices and business process upgrades will serve as key tools for organizations to reach new performance levels.
7. **Shake off the Funk and Plan:** Beginning now, shake off the funk of the Great Recession and plan for the comeback.