

Strategically Navigating the Economic Downturn



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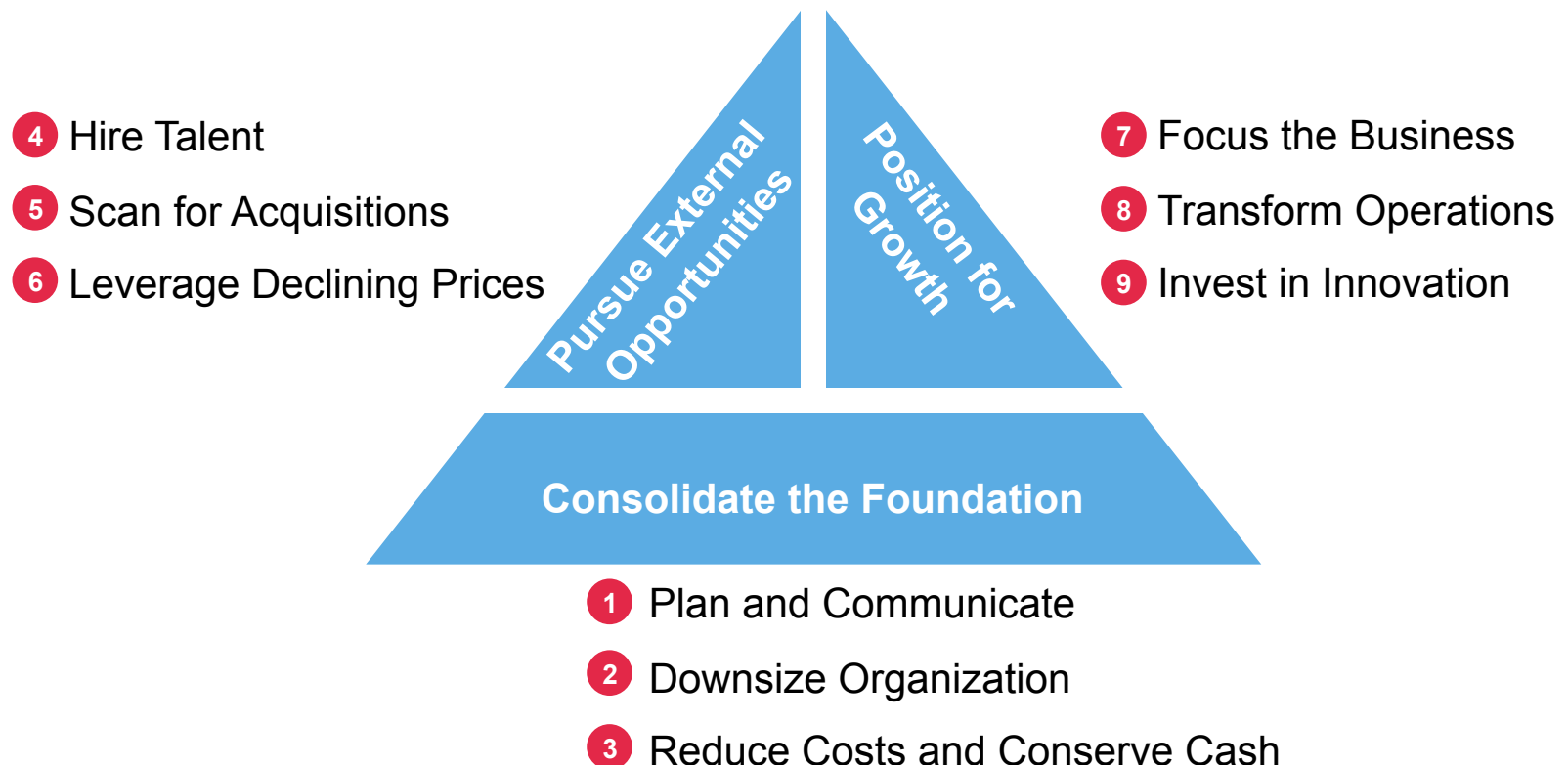
Managing Recession:

Strategic Responses to the Economic Downturn



Across industries, we have found that most Bay Area companies are responding with a mix of defensive and offensive strategies

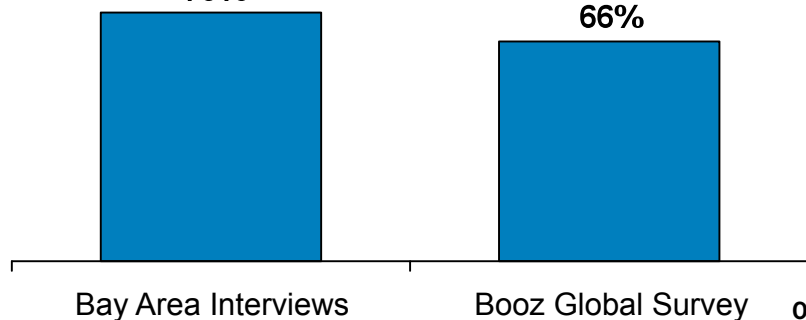
Key Elements of Recession Response



Most Bay Area organizations have defined a scenario-based plan to navigate the recession

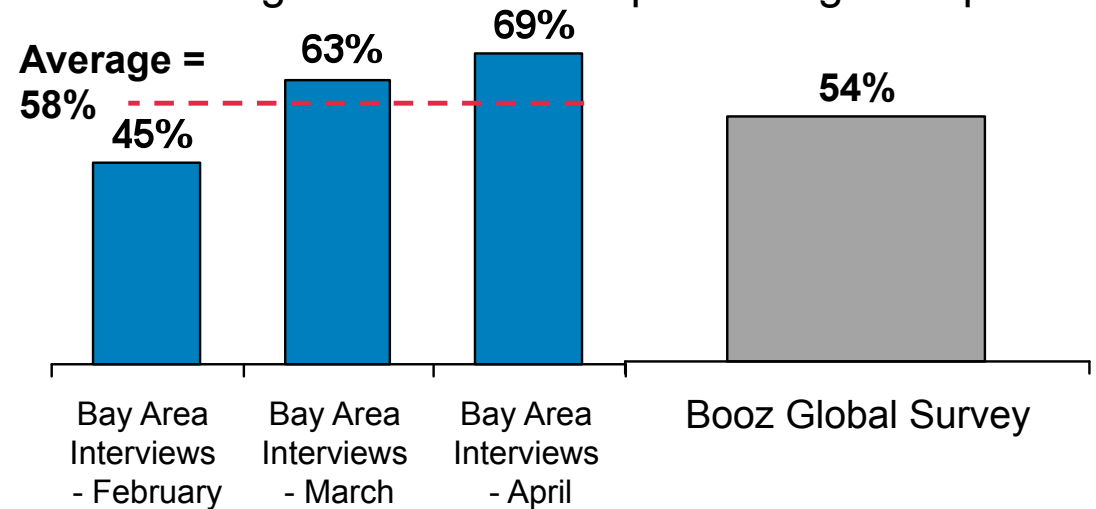
Recession Planning

% of organizations with a clear plan



Recession Seen As Positive

% believing recession will improve long-term position



With labor dominating the cost structure, layoffs are inevitable as revenues decline

Structural / Staffing Reductions

% of organizations accelerating in recession

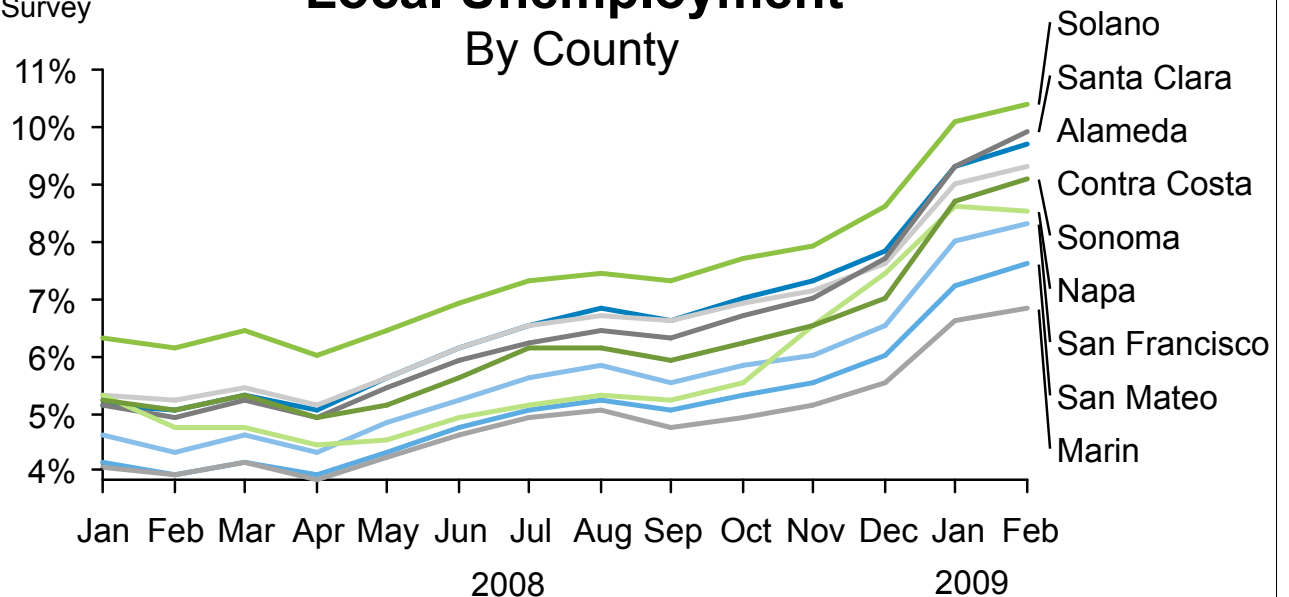
62%

58%

Bay Area Interviews

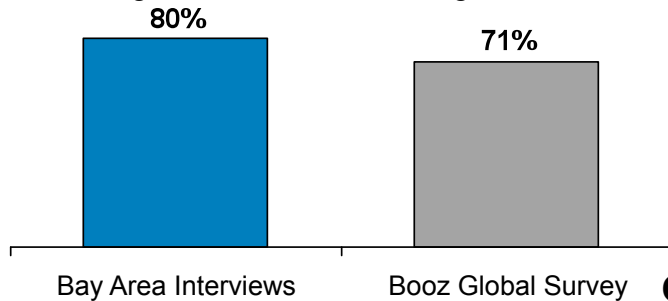
Booz Global Survey

Local Unemployment By County



Almost all companies have taken steps to reduce discretionary spend and conserve cash

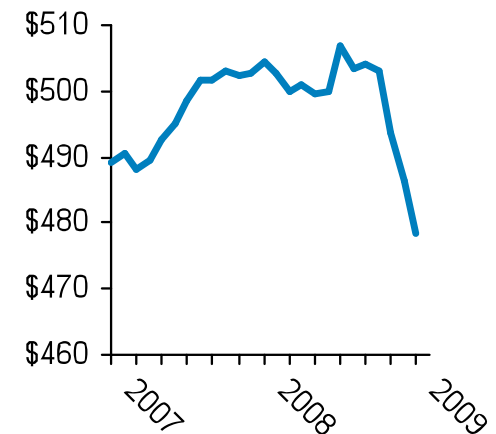
Discretionary Spending Reductions % of organizations accelerating in recession



Commercial Rev. Passenger Miles Monthly YOY Change (%)



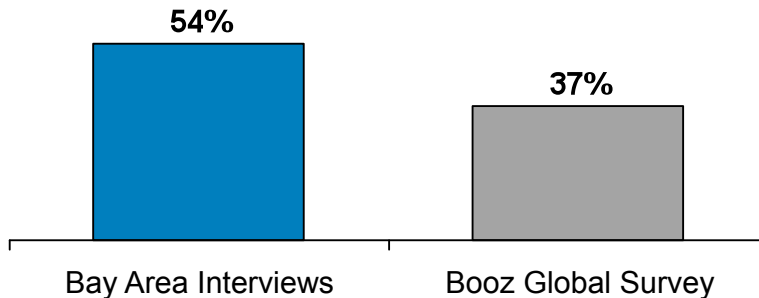
End-of-Month Retail Inventories (Billions \$)



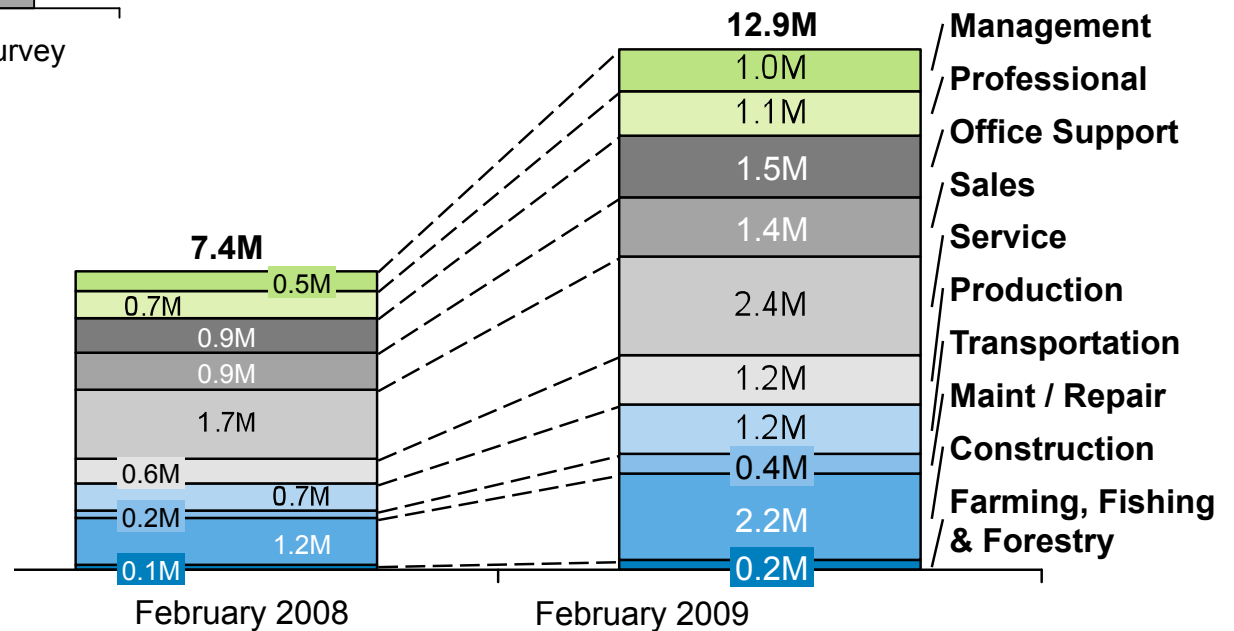
The current environment provides unique opportunities to recruit and upgrade talent normally not available

Investment in New Talent

% of organizations accelerating in recession



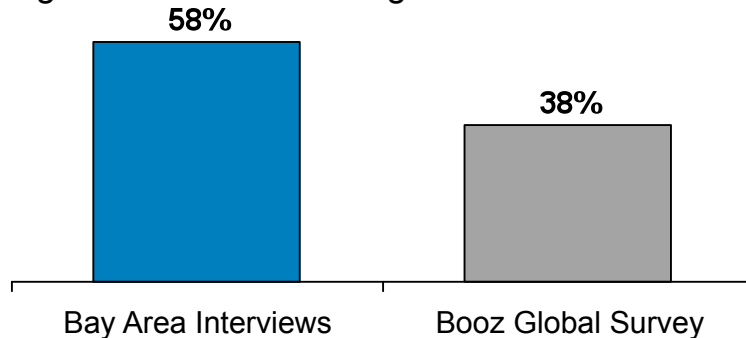
U.S. Unemployment By Occupation (not seasonally adjusted)



Financially stable companies are preparing to increase M&A activity and drive consolidation towards the end of the recession

Acquiring Assets / Companies

% of organizations considering as a result of the recession



U.S. M&A Activity Public and Private

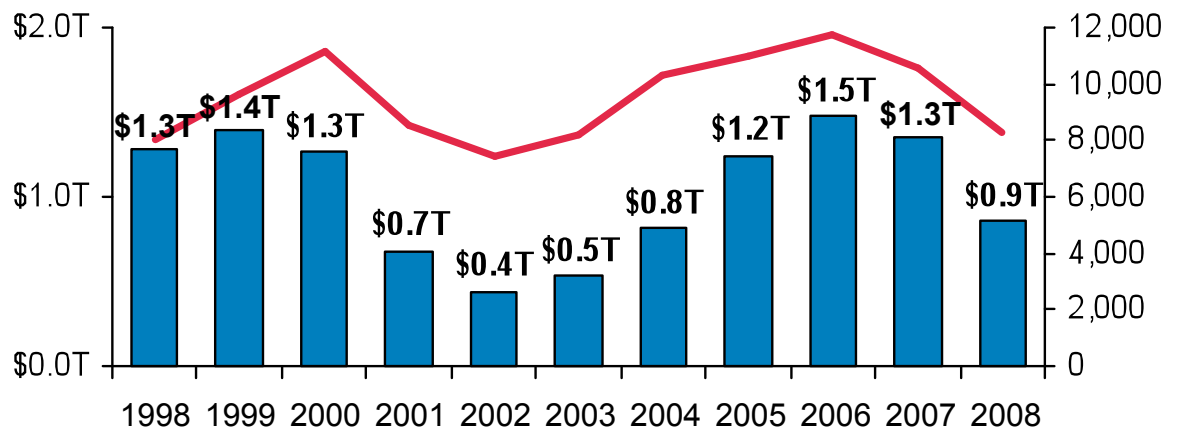
Q1 2009: ~2K deals; \$0.15T value

Deal Value

\$2.0T
\$1.0T
\$0.0T

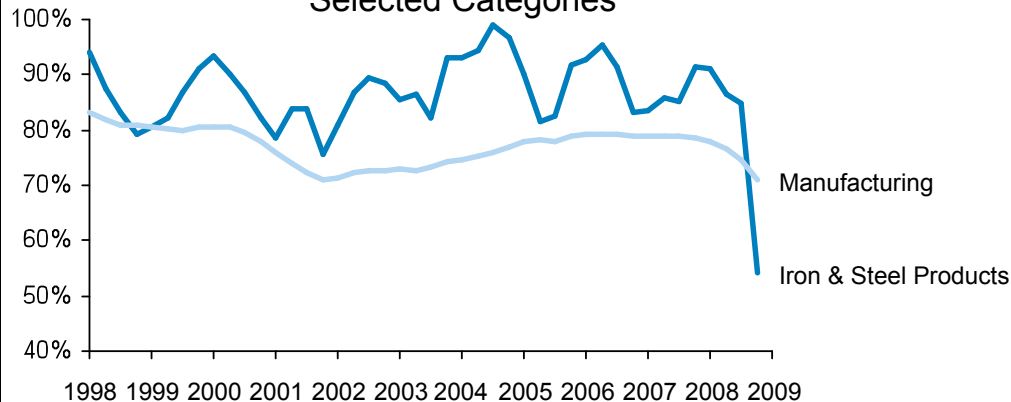
of Deals

12,000
10,000
8,000
6,000
4,000
2,000
0



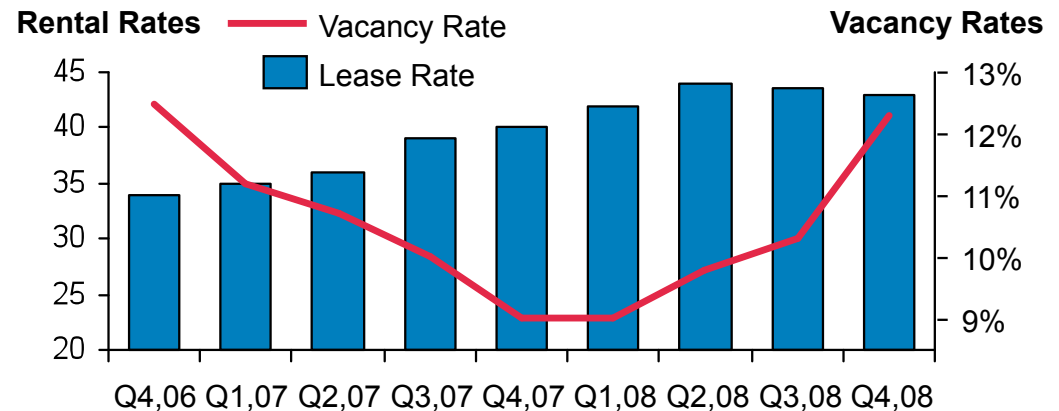
Falling asset prices and slack capacity is providing an opportunity for longer term cost reductions

Capacity Utilization
Selected Categories



SF Office Space

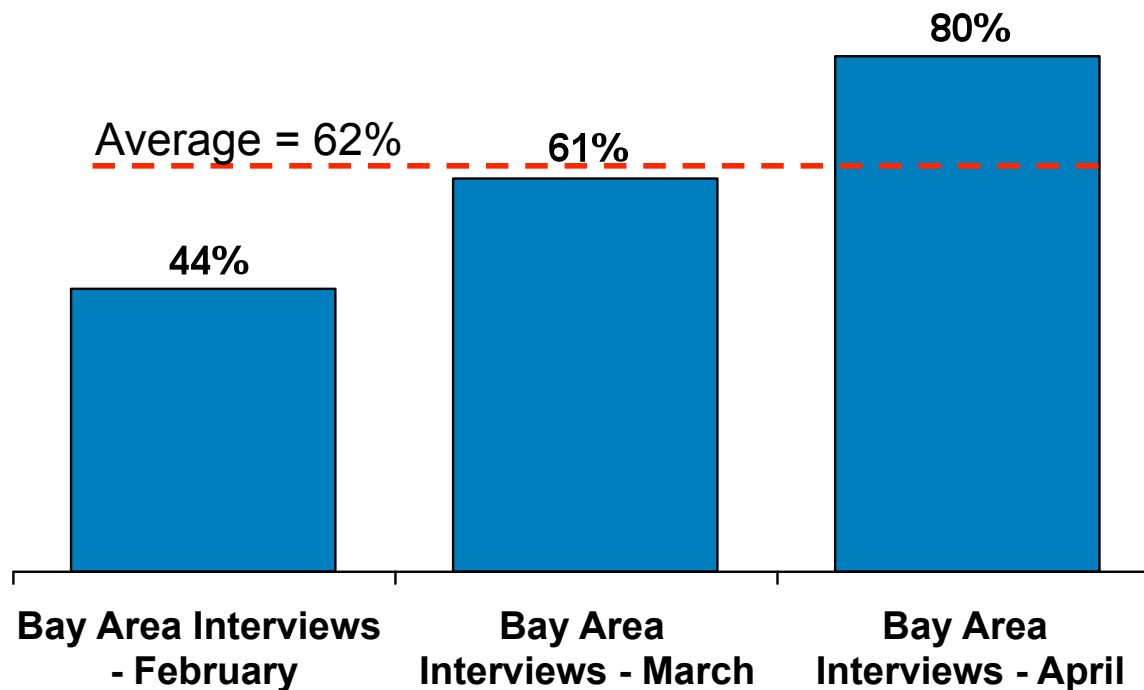
Rental Rates (\$/sqf/year) and Vacancy Rate (all classes)





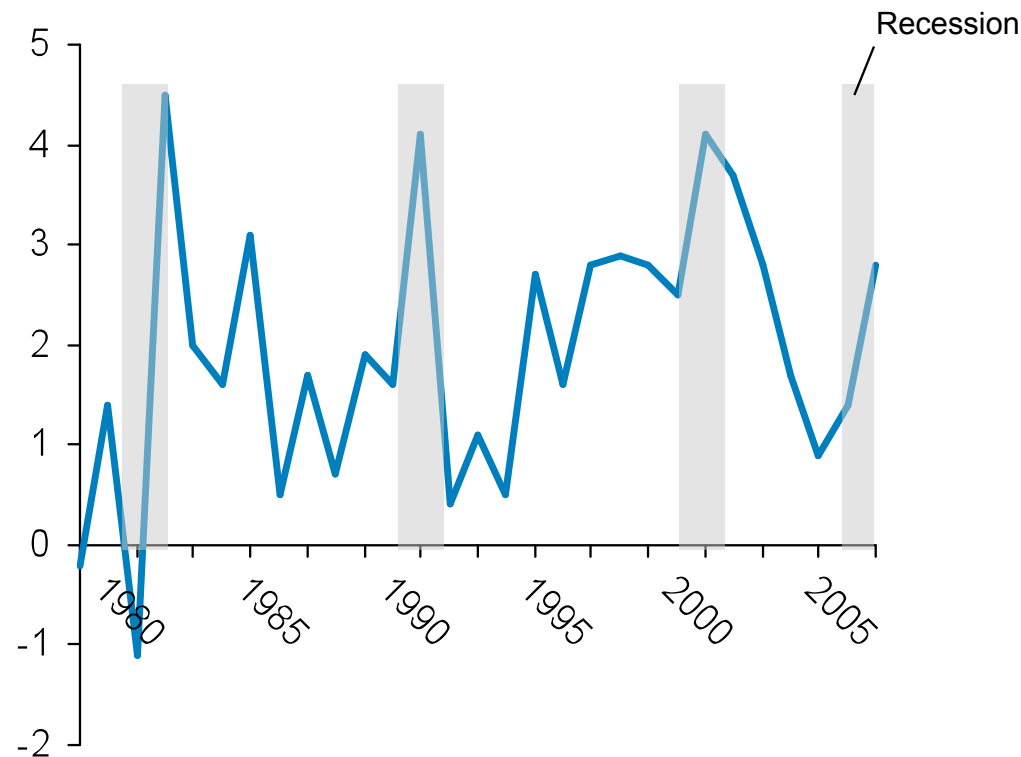
**In this recession, companies are anchoring their corporate strategy
on the core business and most valuable customers**

**Companies Modifying Corporate
Strategy in Recession**



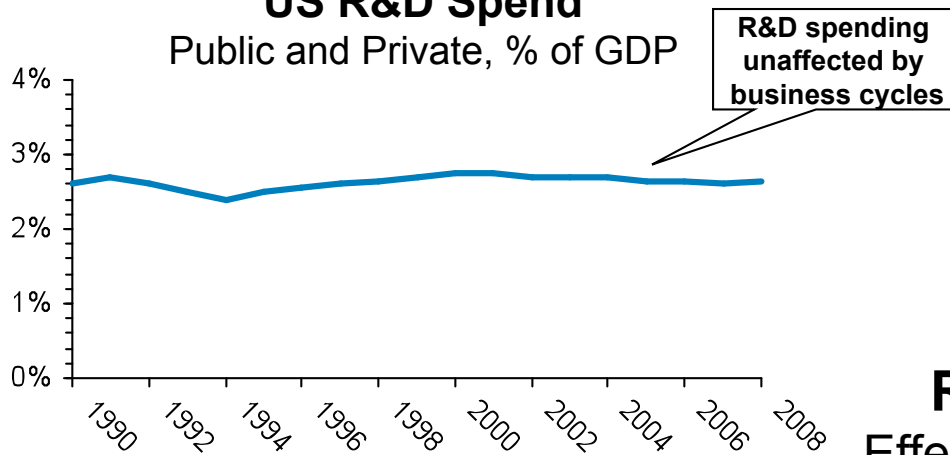
Companies are taking advantage of the recession to implement operational changes that are hard to make during good times

US Productivity
% Change (Output Per Hour)

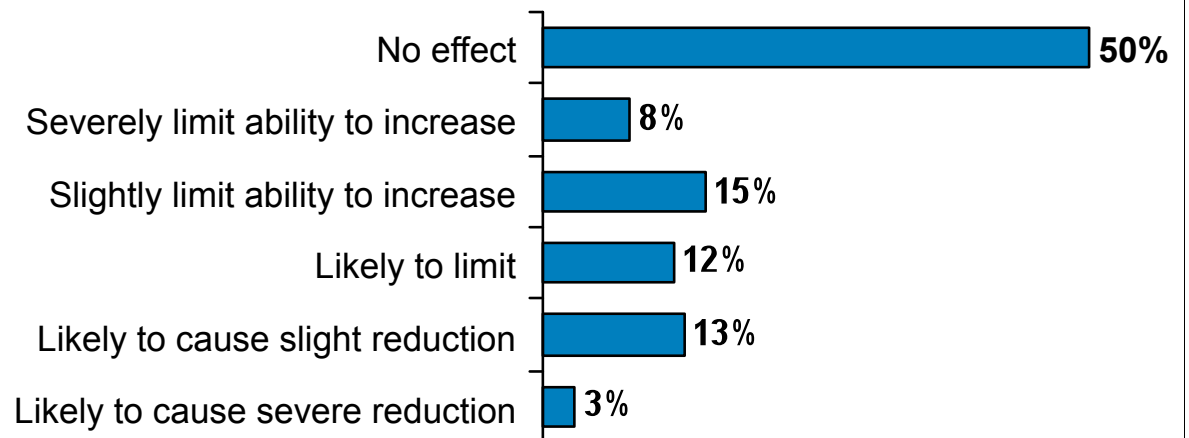


Most companies are recognizing the importance of continued innovation for future growth

US R&D Spend Public and Private, % of GDP



R&D Magazine Survey Effect of Recession on 2009 R&D





Executives are less positive about the recession's potential impact on public policy issues that are essential to future growth

Key Issues Raised

1

Education

2

Transportation Infrastructure

3

Business Environment

4

Immigration and Protectionism

5

Regional Coordination

6

Clean Technology

Summary Perspective

The Bay Area is a knowledge economy, yet investment in education is significantly lagging the nation

Mobility is key for our economy and a recession is the perfect opportunity to make infrastructure investments

The cost of doing business and the anti-business climate in the Bay Area are causing many businesses to reconsider investing here

Immigration and foreign trade is essential for the Bay Area, but both are at risk due to recession-driven protectionism

The Bay Area is too fragmented, and better regional coordination could be a significant differentiator

Clean technology could be the next big wave of innovation for the Bay Area



In Summary:

The Bay Area is well positioned for recovery, but the recession increases the pressure to address key public policy issues.

For detailed survey findings, please visit
www.bayareaeconomy.org.