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**

1. Plan and Communicate
2. Downsize Organization
3. Reduce Costs and Conserve Cash
4. Hire Talent
5. Scan for Acquisitions
6. Leverage Declining Prices
7. Focus the Business
8. Transform Operations
9. Invest in Innovation

- **Pursue External Opportunities**
- **Position for Growth**
- **Consolidate the Foundation**
Most Bay Area organizations have defined a scenario-based plan to navigate the recession.

**Recession Planning**
% of organizations with a clear plan

- Bay Area Interviews: 75%
- Booz Global Survey: 66%

**Recession Seen As Positive**
% believing recession will improve long-term position

- Bay Area Interviews - February: 45%
- Bay Area Interviews - March: 63%
- Bay Area Interviews - April: 69%
- Booz Global Survey: 54%

Average = 58%
With labor dominating the cost structure, layoffs are inevitable as revenues decline.

**Structural / Staffing Reductions**

% of organizations accelerating in recession

- Bay Area Interviews: 62%
- Booz Global Survey: 58%

**Local Unemployment**

By County

<table>
<thead>
<tr>
<th>County</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>San Mateo</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>Marin</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Sonoma</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Napa</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Solano</td>
<td>11%</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Data from Booz Global Survey and Bay Area Interviews.*
Almost all companies have taken steps to reduce discretionary spend and conserve cash

Discretionary Spending Reductions
% of organizations accelerating in recession

Bay Area Interviews
80%

Booz Global Survey
71%

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

Booz Global Survey
Bay Area Interviews

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

February 2008
February 2009

Management: 12.9M
Professional: 10.0M
Office Support: 11.1M
Sales: 15.5M
Service: 7.4M
Production: 2.2M
Transportation: 1.4M
Maint / Repair: 1.2M
Construction: 1.2M
Farming, Fishing & Forestry: 0.5M
Sales: 2.2M
Office Support: 0.5M
Professional: 0.9M
Sales: 0.4M
Service: 0.2M
Management: 0.2M
Professional: 0.1M
Office Support: 0.1M
Sales: 0.1M
Service: 0.1M
Transportation: 0.1M
Maint / Repair: 0.1M
Construction: 0.1M
Farming, Fishing & Forestry: 0.1M

February 2008: 7.4M
February 2009: 12.9M

12.9M: 7.4M
10.0M: 0.9M
11.1M: 1.2M
15.5M: 1.2M
7.4M: 0.4M
2.2M: 0.5M
1.4M: 0.7M
1.2M: 0.7M
1.2M: 0.6M
1.4M: 0.5M
0.5M: 0.2M
0.9M: 0.2M
1.2M: 0.1M
1.5M: 0.1M
2.4M: 0.1M
1.1M: 0.1M
1.7M: 0.1M
0.9M: 0.1M
0.2M: 0.1M
0.6M: 0.1M
0.1M: 0.1M
0.5M: 0.1M
0.2M: 0.1M
0.4M: 0.1M
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
Falling asset prices and slack capacity is providing an opportunity for longer term cost reductions.
In this recession, companies are anchoring their corporate strategy on the core business and most valuable customers.

Companies Modifying Corporate Strategy in Recession

Bay Area Interviews - February: 44%
Bay Area Interviews - March: 61%
Bay Area Interviews - April: 80%

Average = 62%
Companies are taking advantage of the recession to implement operational changes that are hard to make during good times.
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

- No effect: 50%
- Severely limit ability to increase: 8%
- Slightly limit ability to increase: 15%
- Likely to limit: 12%
- Likely to cause slight reduction: 13%
- Likely to cause severe reduction: 3%
Executives are less positive about the recession’s potential impact on public policy issues that are essential to future growth

<table>
<thead>
<tr>
<th>Key Issues Raised</th>
<th>Summary Perspective</th>
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<tbody>
<tr>
<td>1. Education</td>
<td>The Bay Area is a knowledge economy, yet investment in education is significantly lagging the nation</td>
</tr>
<tr>
<td>2. Transportation Infrastructure</td>
<td>Mobility is key for our economy and a recession is the perfect opportunity to make infrastructure investments</td>
</tr>
<tr>
<td>3. Business Environment</td>
<td>The cost of doing business and the anti-business climate in the Bay Area are causing many businesses to reconsider investing here</td>
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<tr>
<td>4. Immigration and Protectionism</td>
<td>Immigration and foreign trade is essential for the Bay Area, but both are at risk due to recession-driven protectionism</td>
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<td>5. Regional Coordination</td>
<td>The Bay Area is too fragmented, and better regional coordination could be a significant differentiator</td>
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<tr>
<td>6. Clean Technology</td>
<td>Clean technology could be the next big wave of innovation for the Bay Area</td>
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</table>
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.