

## THE ECONOMIC CRISIS

**Standard Warning Regarding Financial Advice: consult your financial advisor**

### 1. Kevin Rudd: “Global Financial Crisis” (GFC)

- worst economic danger since the Great Depression of the 1930s
- national governments in the English-speaking world are having to reinvent their role in managing the economy (after a political generation of leaving things to the market)

### 2. Current Economic Crisis

- trigger point: US “prime”: loans to poorer people, often people with a poor credit history
- loss of employment is the main reason for borrowers failing to keep up with mortgage payments (about a 25 per cent delinquency rate); 60 per cent of homeless Americans are employed (and may live in trucks)
- crisis has now become a broader one and reflects a lack of trust eg banks won’t lend to each other

### 3. Broader Causes of the GFC

- could the current crisis have been foreseen? Yes - and some people did eg Frank Partnoy Infectious Greed: How Deceit and Risk Corrupted the Financial Markets, London: Profile, 2003
- problem probably began with the Reagan Administration/ Thatcher Government deregulation of the financial sector
- theory of “incrementalism” (from political science): idea that change comes via a series of minor alterations (which seemed good at the time) and it is only by looking back that we can see just how much change has occurred – often ending up with “unintended consequences”
- government got distracted by other matters: we would never run a company in the way we run a country – bouncing from one media headline to the next
- economy was booming and so many people turned their attention to lighter matters: moment of greatest danger comes at the time of greatest success: a company (or a country) becomes complacent and so ignores a looming crisis
- if people paid as much attention to economic matters as they do to their local sporting team, then we may have been able to avert this crisis

### 4. The Role of Cycles in Economics

- this is not the end of capitalism; don’t panic
- be sceptical of anyone who says ‘This time it’s different’ – human affairs often go in cycles
- recessions are a natural part of life: a cleansing of the economic system: survivors emerge stronger

- current economic turmoil is not necessarily a sign of decline – it could be a sign of progress
- maybe we are destined to have “windows of opportunity” for each stage of technological change, and then the window closes and we have to move on eg shipbuilding and now car manufacturing
- economic progress has come partly from losing jobs in (say) farming and then creating them in (say) factories; we need to take our foot off one rung of the ladder to go to the next one

## **LOOKING FOR OPPORTUNITIES: THE ENVIRONMENT**

### **5. Greening the Economy**

- could the crisis be used to “green” the US? ([www.greenforall.org](http://www.greenforall.org))
  - (i) solar electricity industry: “eco-tricity”
  - (ii) “green collar jobs” eg making homes more energy efficient, eliminating heat loss
  - (iii) organic gardening on deserted city lots (good for growing food, enhancing social cohesion, and giving people exercise)
  - (iv) even follow First Lady Mrs Roosevelt’s World War II example: grow own vegetables on the White House lawn

### **6. Buildings in the Front Line**

- UN Inter-governmental Panel on Climate Change (IPCC) (May 2007): buildings are one of the main sources of climate change: about 30 per cent (and second only to industry)
- buildings are also able to provide some of the most dramatic cuts in greenhouse gases (GHG)
- new buildings in Australia are often quite good – a greater problem is with the existing stock
- the building industry may have the qualifications and skills to do the work – it is more a matter of stimulating demand for change from owners/ renters/ users
- facilities will be expected by media and public and politicians to play their part in addressing the environment crisis

### **7. The Role of the Media**

- climate change is now more a matter of media-driven politics than science; hence the significance of:
  - (i) rise of tabloid media
  - (ii) moral panic
  - (iii) new role of political leaders as followers

- the issue will remain “salient” because of the steady trickle of new angles: eg gradual loss of low-lying islands and creation of “environmental refugees”

## NAVIGATIONAL TECHNIQUES

### 8. Three Ways of Thinking About the Future

- (i) **preferred futures:** building a bridge back from the future eg 1962 JFK pledge to put a man on the moon
- (ii) **prediction** (“Moore’s Law” eg December 2006 “Deep Fritz” beat world chess champion Vladimir Kramnik; in December 2002 he held it to a draw but in four years it got a lot smarter)
- (iii) **possible:** scenario planning: importance of paradigms/ worldviews (role of paradigms: Nokia and texting)

### 9. Blue Ocean Strategy (W Chan Kim and Renee Mauborgne)

- “blue ocean” is new market space
- “red ocean” is the contested market space (think of blood in the water from all the fighting); the blue ocean intention is not so much to beat the competition – as to make it irrelevant
- most strategy work has been done on competition-based red ocean strategies
- blue ocean Henry Ford (working in a field of 500 established car producers) invented the mass-produced, inexpensive automobiles (rather than contest the red ocean of expensive, elite automobiles) [Henry Ford: “If I had asked my customers what they wanted, they’d have said a faster horse”]
- 1960s: blue ocean British Wilson Labour Government created the Open University
- authors shift the emphasis off “excellent” companies (which do not exist permanently) - to an evaluation of winning strategies
- other examples of Blue Ocean thinking:
  - (i) Yellow Tail Australian wine (targeting Americans who don’t drink wine because they thought that there were not “sophisticated enough”)
  - (ii) Cirque du Soleil, Canada: reinvention of the circus (eg no animals)
  - (iii) Japan: fuel-efficient cars in the 1970s
  - (iv) E-bay: online auctioning
  - (v) Starbucks coffee as a low-cost luxury for high-end consumers

### 10. Blue Ocean Thinking

- (i) Techniques:
  - stop benchmarking the competition – the more you benchmark, the more you get to look like the competition

- don't focus so much on the competition and instead look at the Blue Ocean horizon
  - look to non-customers; they provide the most insights into how you can create new, uncontested opportunities
- (ii) Ask some basic questions:
- which of the factors that the industry takes for granted should be eliminated?
  - which factors should be reduced below the industry's standard?
  - which factors should be raised well above the industry's standard?
  - which factors should be created that the industry has never offered?

#### **11. Moore's Law and the Information Revolution**

- since last Ice Age: farming/ agriculture
- 1750: Industrial Revolution: factories/ manufacturing
- now: information: information and communications technology

#### **12. Impact of the Information Economy**

- a fish doesn't know it swims in water – the full impact of the Information Economy may not be fully recognized by those of us living through the revolution
- the Internet: connects more people, dissolves national boundaries, creates global hits (eg "Harry Potter"), compresses time, creates new markets
- but: secrets are more difficult to keep
- reputations are more quickly damaged: make a mistake in one place and its details can be sent instantly around the world (such as the two New Zealand school girls who measured the vitamin C content in a well known drink)
- greater options for the consumer; an idea from someone in Shanghai, for example, might mean improved processes or better profitability for other customers across the world
- the revolution keeps moving: from Web 1.0 (reading) to Web 2.0 (writing)
- a new global culture has been created and more consumers than ever before: eg in China over 300m people have been lifted out of poverty in three decades
- a world of potential economic growth: people now have higher expectations: they expect to do better than their parents: they can see how others live around the world

#### **13. New Opportunities and Challenges: Data-Mining**

- Ian Ayres: Super Crunchers: How Anything can be Predicted (London: John Murray, 2007): a reflection of the greatly improved technology rather than the art of statistical prediction

- Wal-Mart has a data base 28 times the size of the Library of Congress
- Orley Ashenfelter can predict the quality of good “years” for wines – well ahead of the swishing and spitting approach of the wine gurus
- Harrah’s Casinos can predict when each client is reaching their own “pain point” and therefore when to intervene with an offer of a free meal (to get them away from the tables)
- making the most of new opportunities for data mining: storing, safeguarding, retrieving and analysing data

#### **14. The Evolution of Scenario Planning as a Management Tool**

- Pierre Wack at Shell: 1973 OPEC oil increase
- Clem Sunter: early 1980s: South Africa

#### **15. The Technique of Scenario Planning**

- decide on the basic “question”
- interview experts
- look for the two main drivers of change: STEEP: Social, Technological, Economic, Environmental, Political
- produce two or four scenarios (never three)
- discuss the draft scenarios with “remarkable people”/ “lateral popies”
- create indicators
- create contingency plans
- talk up the scenarios (strategic conversation)

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