

Crisis Planning in an Eventful Year

By Peter Kennedy

It's early April – not even 100 days into the Obama administration – and already it's been a turbulent year.

At this moment, a modest rally is buoying Wall Street and investor hopes that maybe – maybe – the worst may be over, as leaders of the G-20 nations meeting in London pledge hundreds of billions more dollars and coordinated action in the face of the greatest financial mess since the Great Depression.

Right now, the big US banks are grateful for new financial accounting regulations easing “mark-to-market” rules. That is apt to make their first quarter earnings look less gloomy and generally boost bank-investor confidence, all of which can only be a good thing... in the short term, at least. (In the longer term, some believe that this could reinflate a bubble mentality.)

A few other recent indicators, like housing sales and factory orders, have been surprisingly positive, at least relative to much more gloomy expectations. March data showing a loss of 663,000 jobs was taken in stride by the markets.

All in all, early April news from the recession front has been guardedly hopeful. But it's impossible to say if this is more than spring fever. No sane person (or economist) is even suggesting that it will be smooth sailing going forward, even if (and that's a huge ‘if’) the longer-term trajectory of the economy and business environment is upward.

So, what can we expect in the next 12 to 18 months? Here's a short sample of key indicators and elements of uncertainty:

Stock values. The stock market, which has come to represent the sum of our economic hopes and fears, could turn out to be a bit of a roller coaster ride. Reasonable experts argue that at 7,000 or lower the Dow had overshot on the downside. Others point out that that the US equity slide is less than 20 months old, while equity downturns triggered by financial crises

usually last three years or more. In other words, there may be many more down Dow days still to come.

Unemployment. This is almost always a lagging indicator, so even when the technical corner has been turned on the recession, the jobless rate will likely continue to rise. That is to be expected. What officials in Washington are really worried about is a sustained high number of job losses into the summer or a sudden monthly spike to 800,000. Among other things, this might choke off any new life in real estate markets, setting back the recovery even further, both in real and psychological terms.

Bank health. In contrast to mostly positive early reports, there are concerns in some quarters that Treasury Secretary Timothy Geithner's plans to restore bank health are too complex and too vulnerable to potential manipulation to succeed. Moreover, whatever good the TARP and TALF schemes may accomplish could be negated by a continued rise in unemployment and fall in house prices, which will keep banks' bad loans mounting. Lastly, the authorized \$700 billion in TARP money may not be enough, and Congress may balk at big new requests for more capital, especially if conditions in the economy appear superficially better.

Financial services rules. Stay tuned for new regulations coming out of the G-20 meeting designed to limit excessive bank leverage and systemic risk. Big hedge funds will also come under greater scrutiny and credit rating companies face much greater government oversight and higher expectations with respect to best practices.

Global trade. Hopes that the G-20 would stave off protectionist pressures seem to be long gone. Maybe the best that can be hoped for right now is managed protectionism – enough to keep anti-globalization forces at bay, without risking the economic death spiral of a 21st century Smoot-Hawley. The extent to which the big powers can sustain economic output

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and save jobs will be key. Right now, things don't look promising, with the OECD predicting that their economies will contract by 4.2% this year, and that the world economy will contract 2.7%. World trade could plunge as much as 15%, according to the most dire predictions.

PLANNING AMID RECESSION AND UNCERTAINTY

With so much risk and uncertainty in the external environment, and so little executive time available to do much beyond crisis management, it may be hard to make the business case for strategic planning. And yet, many short-term actions firms are taking now do have strategic consequences that will reverberate long after the economic downturn is over. Minimally, firms should be thinking through their current decisions using alternative assumptions about GDP, inflation, unemployment, the dollar, global markets, and new regulations. FSG has long argued that the most effective way to do this is through scenario planning, which provides a rigorous and systematic way for evaluating plans and decisions across alternative business environments.

Finally, as much as hard times such as these demand superior risk management practices, opportunities – however obscure or elusive – should not be overlooked. After all, Apple defied skeptics when it suc-

cessfully introduced the iPod during the downturn of 2001. But maybe the biggest opportunity the current crisis serves up is that of making big, hard, and even transformative decisions possible. Lou Gerstner, who in the early 1990s turned around IBM when it was hemorrhaging cash and strategically adrift, said it best: “No institution will go through fundamental change unless it believes it is in deep trouble and needs to do something different to survive.”

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FSG recognizes that for many executives in the current environment, a planning timeline beyond five years is an eternity. It is for this reason, that we have developed a new, short-term planning tool called the Recession/Recovery Decision MatrixSM. The Decision Matrix is a scenario-based planning process built around four distinct business environments for 2009 through 2011. The Recession/Recovery scenarios are fully customizable, to fit a range of client requirements. For additional information, visit FSG's website at <http://www.futurestrat.com/news-apr-09.htm> or call Peter Kennedy at 860-649-7737.