

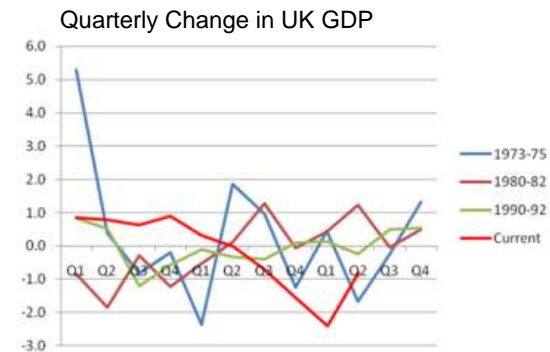


What do you need to know
about your marketplace?

Recession 2008 - 09

A View From The Inside

Impact, Trends & Actions



Prepared by:
John Bee, Director Consumer Strategy
Nick Edwards, Director B2B Strategy

August 2009



WHITE SPACE
STRATEGY

www.wsstrategy.com

- Introduction: A View From The Inside
- How Bad is the Downturn?
- What Responses Have Worked?
- When Will it End?
- Conclusion: A Response of Four Phases
- About White Space

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The world has been turned on its head in the last 2 years...

Banking & Finance Events

Northern Rock

Bear Stearns

Fannie & Freddie

Lehman Brothers

AIG

Interest Rates Slashed

Quantitative Easing Announced

Bonuses Are Back?

Bradford & Bingley

UK Bank Bailouts (RBS, Barclays, HBoS)

Short Selling Banned

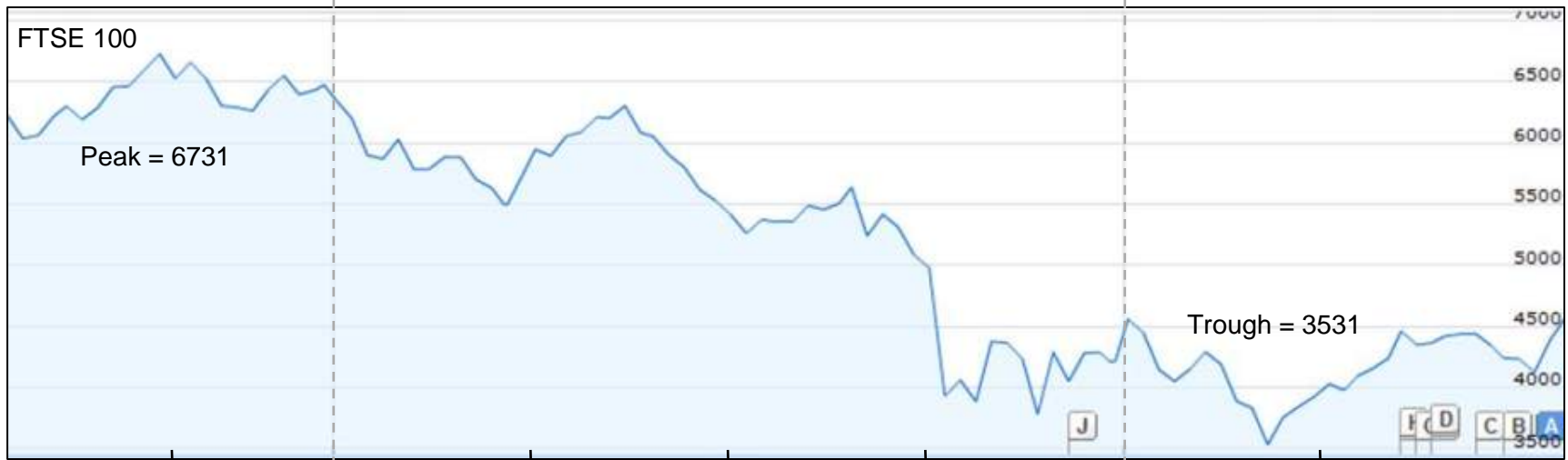
'Fred the Shred' Pension Outcry

£50k Savings Guarantee

Icelandic Banking Crisis

Madoff

Obama Stimulus Package Passed



July 2007 Jan 2008 Jan 2009 July 2009

Other Key Events

Shell Post Record Profits

Peak Oil (\$147/barrel)

15% Trough Oil VAT (\$33/barrel)

Car Scrappage Scheme

GM Go Bust

Airlines Crisis (Zoom & Alitalia)

Woolworths & Zavvi

Sterling – Euro Parity

Wetherspoon's 99p Pint

How have leading UK companies experienced and responded in these turbulent economic times?

The economic downturn is affecting every business and sector – this white paper takes an ‘insiders’ view’ on its impact and successful responses...



“This is the most challenging business environment I’ve ever seen. Opportunities are still out there, but they are harder to convert and the risks are much greater. My advice? Don’t bury your head in the sand. Take stock, look inwards, look outwards, develop a strategy and stick by it”

Operations Director, UK Retailer



Key Questions Answered

- 1 How bad is this recession?**
 - How does it compare with previous recessions?
 - Which sectors have been most affected?
 - Who are the winners? Why?
- 2 What responses have worked?**
 - What have companies done in response?
 - How has this changed over time?
 - What next?
- 3 When will the recession end?**
 - When will the economy begin to improve?
 - When will we see a recovery?
 - What are the implications?

Methodology

- In order to get beneath the surface of the economic crisis and go beyond the news reports and statistics, **over the last 6 months** White Space have undertaken a series of interviews with **20 senior decision makers** (SDMs) at FTSE 350 and Global companies in a wide cross section of different industries to track the impact of the recession on their businesses and understand how their strategies have developed in **response over time**
 - Participants include **Chairmen, CEOs, MDs, Sales & Marketing Directors, Operations Directors and Strategy Directors**
 - Industry sectors covered include **Oil & Gas, Industrials, Construction, Property, FMCG, Defence, Outsourcing, Retail, Publishing, Technology and Media**
 - Companies included have contained a mixture of **top and bottom quartile performers*** in order to understand if differences in strategy have influenced performance
- These interviews have been analysed alongside market report information, to develop a ‘real world’ view of the economic downturn

This white paper provides insight and support to senior decision makers looking to make sense of and respond to the current economic climate

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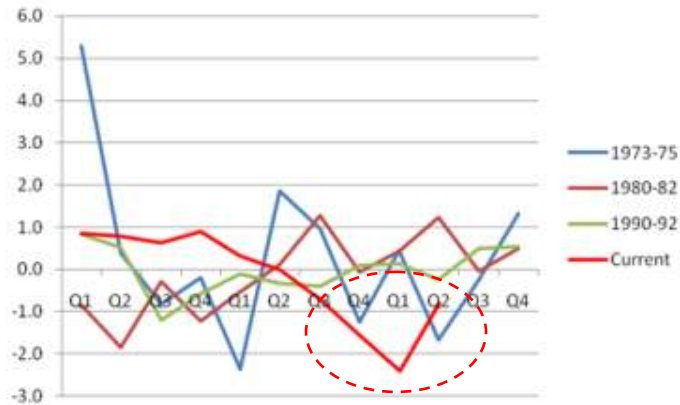
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How bad is the downturn?:

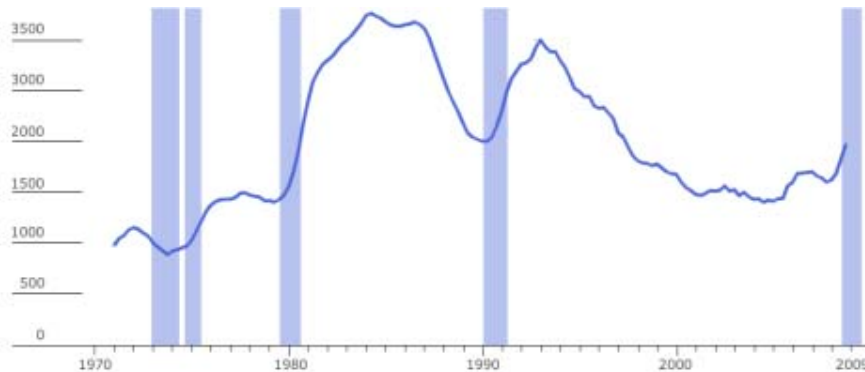
Historical comparisons and senior decision maker (SDM) opinion confirm that the downturn has been steep...



Quarterly % change in GDP over last 4 recessions:



Total Unemployed, 3 month rolling average (1000's):



SOURCE: LABOUR FORCE SURVEY

SDMs agree that the downturn is severe but have different views on the level of impact on them:

- **Technology:** "Though this downturn looks to be really serious that is only because things have been so good for so long. It is like a bush fire, the longer they are artificially delayed the more severe they are when they eventually occur; but they will occur and are necessary. The strong will survive the weak won't"

Strategy Director, Technology

- **Construction:** "The press is not over-exaggerating the economic downturn. If anything, they're just over reporting the doom and gloom but it is what they say it is, a very serious wide ranging issue affecting all UK businesses"

Marketing Director, Construction

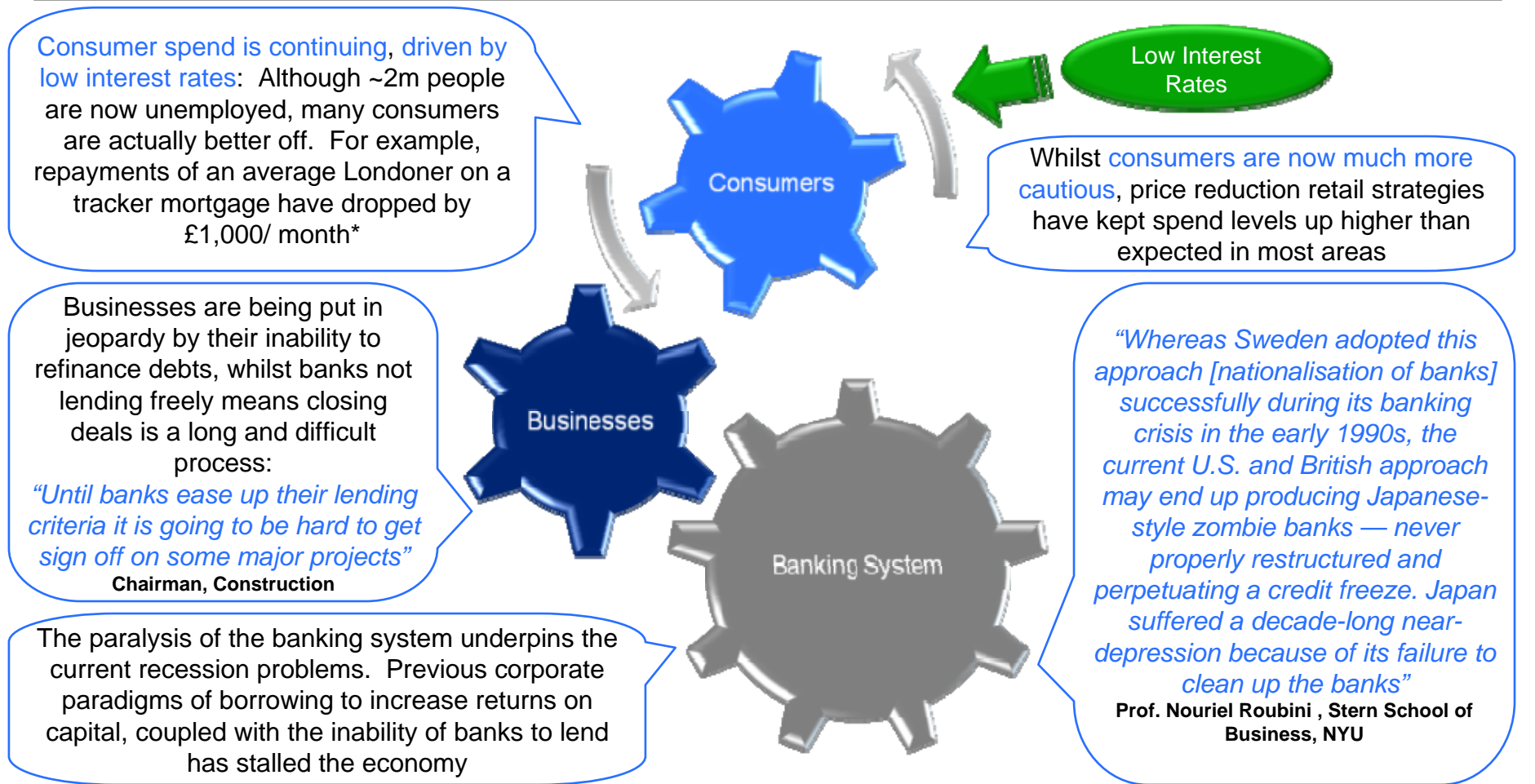
- **Media:** "The downturn is just as serious as the media say. It depends on what sector you're in but we are in a long-term downturn at a macro-economic level, at least as bad as anything that has been seen since the 80's "

Strategy Director, Media

This recession is significantly worse than others since 1973 and all sectors are feeling the impact

What has the impact been?:

Consumer spend has not been as badly affected as predicted, but the banking system collapse continues to make life tough for businesses...



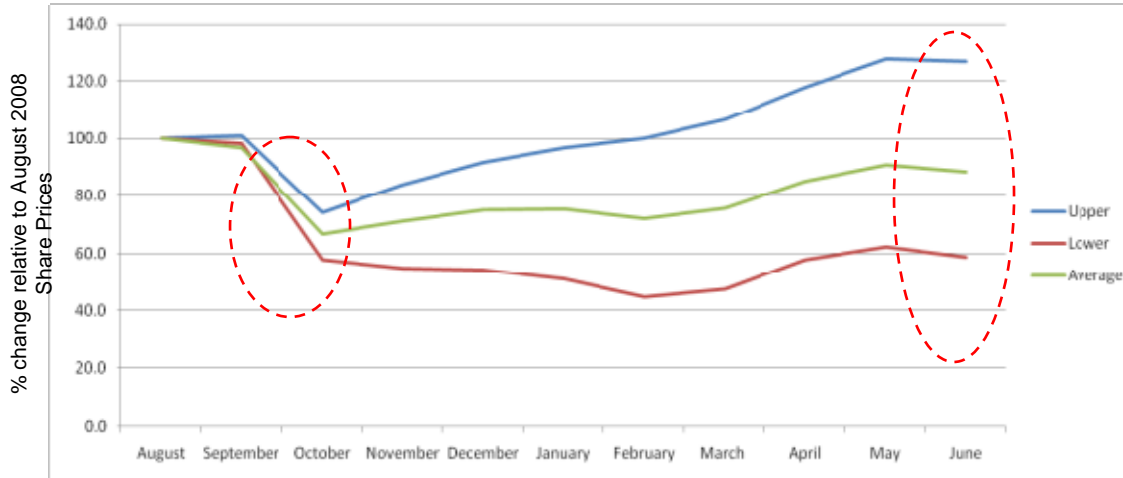
As well as the harsh reality of finance problems, companies have been hit hard by the psychological impact of the downturn on both customers and staff

Which sectors have been most affected?:

Some sectors and companies are actually benefiting from the recession – others have been hit exceptionally hard...

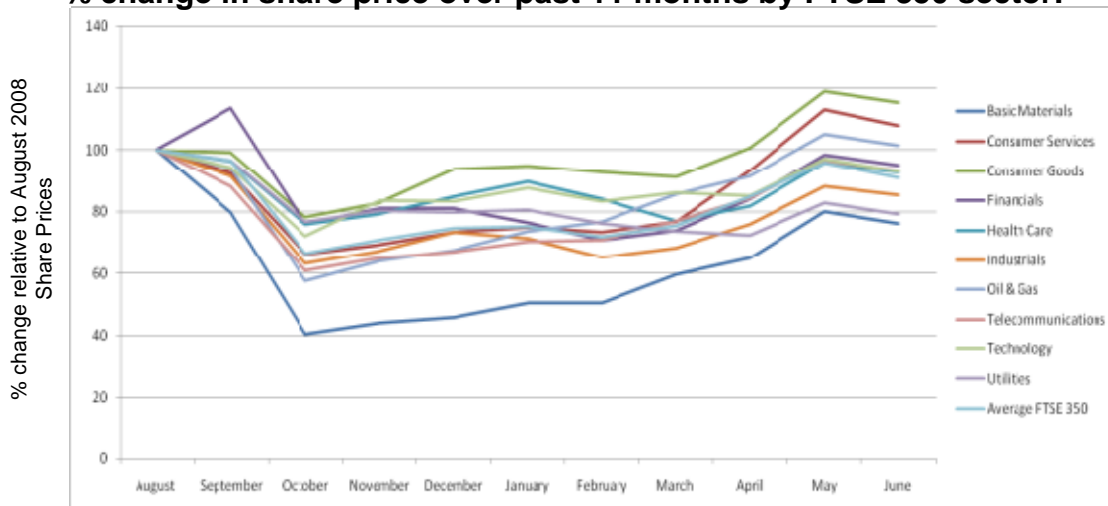


% change in share price over past 11 months by FTSE 350 quartile:



- Initially the entire FTSE 350 was hit hard, however 11 months on, there are significant differences in fortunes, with the upper quartile seeing share price increases of ~30% over the course of the recession so far:
- “Weak companies are really going to struggle, but this will provide opportunities for those better managed”*
MD, FMCG
- Consumer sectors have performed best, as consumer spending has held up, driven by low interest rates:

% change in share price over past 11 months by FTSE 350 sector:



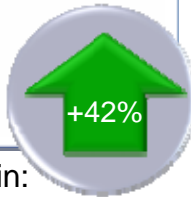
- “The drop in interest rates means that most customers are actually richer now than a year ago – the main difference is psychological”*
COO, Retailer
- Industrial sectors have performed worst, driven by the slowdown of the construction industry and spend reduction by businesses
- “It is important to really understand your market at the moment. The situation is changing fast and firms must keep up”*

Strategy Director, Media

Some individual companies have also outperformed their sectors...



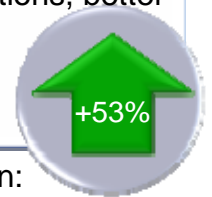
- This FTSE 100 Business Services company already had problems before the downturn, and was initially affected further:
- *“[CityLink] totally lost focus on the customers and the competition. The small competitors have been nipping under our legs and stealing our cheese”* CEO, Rentokil Initial (FT 2009)
- Turnaround strategy was based on:
 - Focus on customer service as a differentiator
 - Implementation of companywide policies, processes, KPIs and systems
 - Allowing the branch network the autonomy to deliver under this framework
 - Developing a cost savings agenda



Share Price Gain:

DEBENHAMS

- This FTSE 100 Retailer also had problems before the downturn, but its share price fell heavily afterwards
- Turnaround strategy was based on:
 - Identifying key product sectors which are under developed
 - Product differentiation
- The Designers at Debenhams range which has seen an 11% increase in sales, is marketed as higher quality goods at affordable prices. The range has focused on having discernable quality clues and improved visual merchandising
- Across all areas there has been an increase in better space utilisation, better presentation, and reduction of number of items (“fewer options, better sell through”)



Share Price Gain:

These two firms have gained share in the recession through increased customer focus and differentiation

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Companies have undertaken seven critical initiatives to counter the downturn, spread across three distinct phases...



Company strategies to combat the recession are characterised as 'protect' and 'focus' strategies

"To begin with, it was internal mayhem – we cut staff and costs. Then we realised we had a load of external risks to minimise. Only now, a year later, are we beginning to do anything positive again"

Marketing Director, Technology

Different approaches have been taken to each of the seven initiatives – successful approaches and best practice are analysed in this section of the white paper

What Responses Have Worked?:

Reduce Staff Costs: headcount reduction and pay freezes have been essential for some companies and desirable for many others...



What's Happening?



Major Job Losses: 400,000 YoY increase in UK unemployment to June 2009



Widespread Pay Reviews: 43% of companies plan to freeze wages and salaries in 2009. A further 9% plan to cut pay*

Job Cuts



Pay Freezes and/ or Pay Cuts



Trinity Mirror



J.P.Morgan

Why is This Happening?

Necessity

"Staff are our biggest cost. We had to cut costs to survive. We therefore made major redundancies and froze pay"

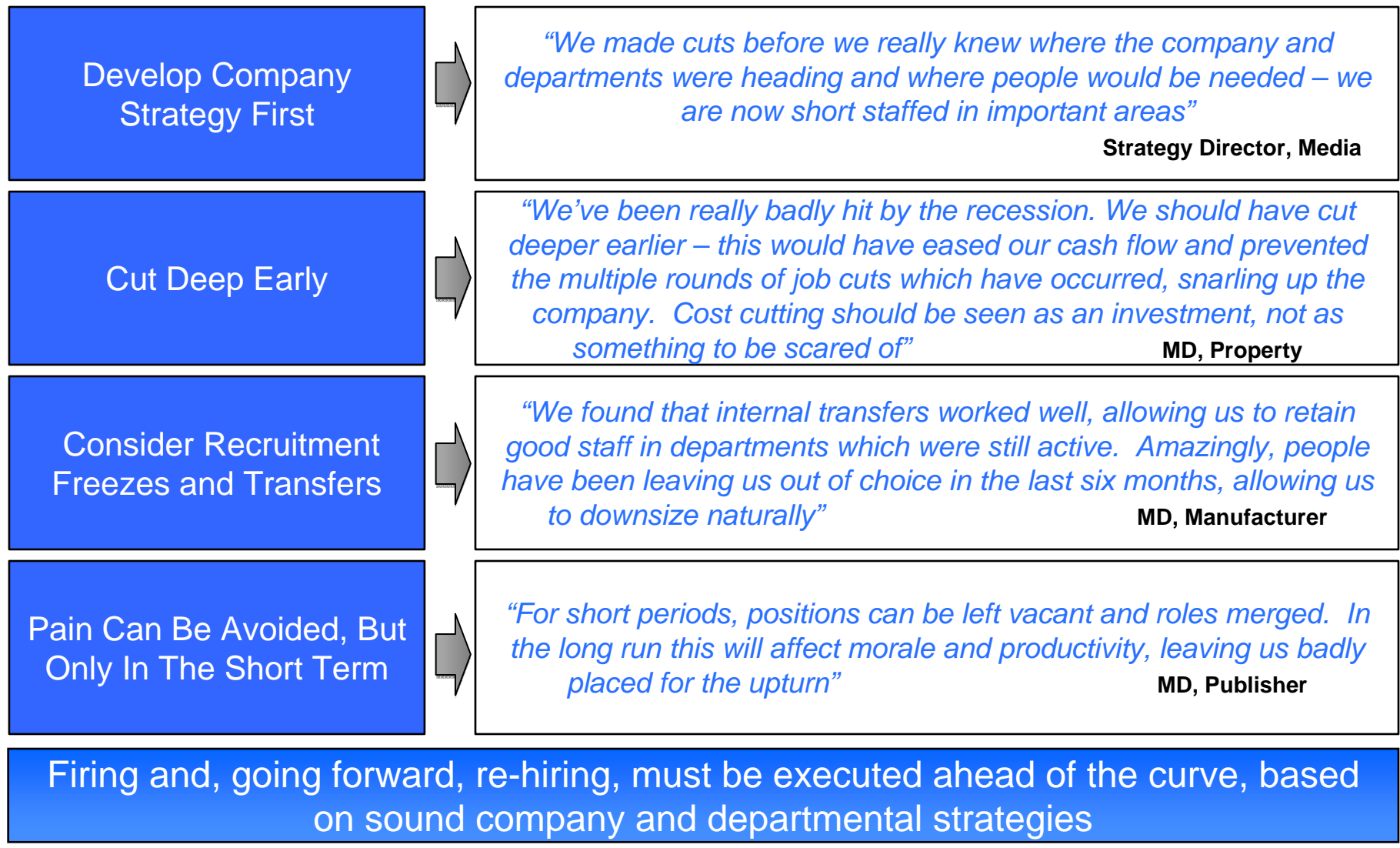
Marketing Director, Media

Expediency

"We had grown pretty fat over recent years and had gained deadwood in most if not all departments – now's a good time to prune the tree"

Strategy Director, Technology

Reduce Staff Costs: for many companies, job cuts were made quickly and instinctively. Much has been learned in retrospect...



What Responses Have Worked?:

Cut External Spend: initially, many companies froze or cut external spend. Many are now looking to innovate to reduce costs further...



Areas of External Spend Frequently Considered For Reduction:

Spend Reduction Strategies Deployed:

Where spend is high and critical:

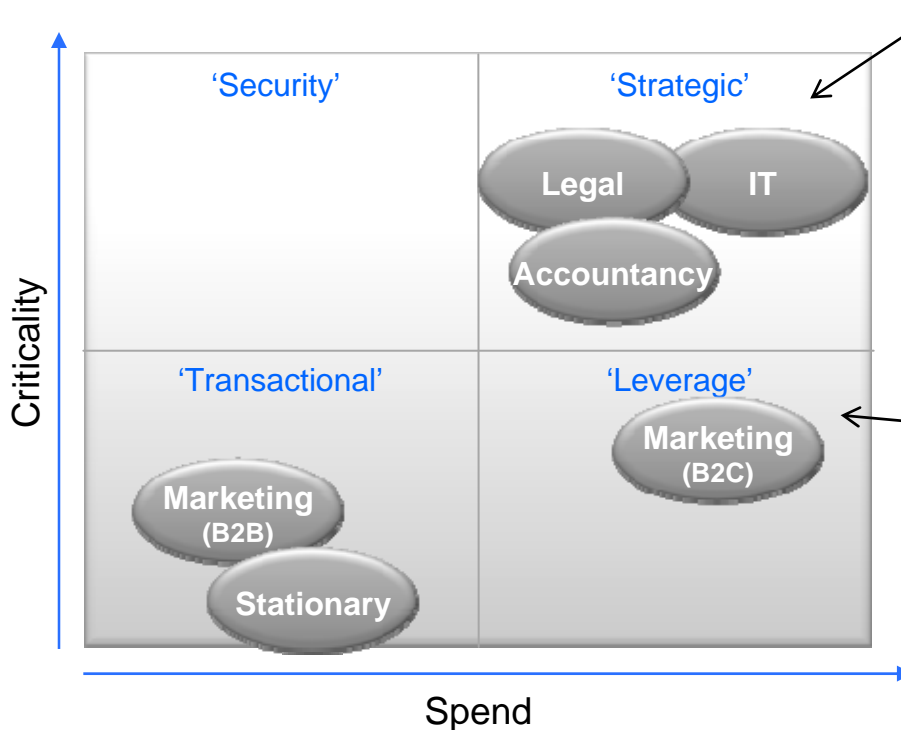
Companies have been introducing new suppliers or delivery models which allow service levels to be maintained at a lower cost (including bringing spend back in house): *"We've taken a lot of our legal contractors in house, putting them on 4 day weeks - we have the same people working for us at a fraction of the cost"*

Operations Director, Industrials

Where spend is high and non-critical:

Companies have been reducing levels of service delivery: *"We've cut our marketing spend considerably, focusing on advertising and non-core research. In general, we've seen a big shift from marketing to sales in our industry"*

Strategy Director, Manufacturer



Significant spend reduction without compromising quality of delivery is possible but not easy – it generally requires adoption of new delivery models

What Responses Have Worked?:

Reduce Supply Chain Risk: the extent of the downturn has created significant risk around supply and distribution...



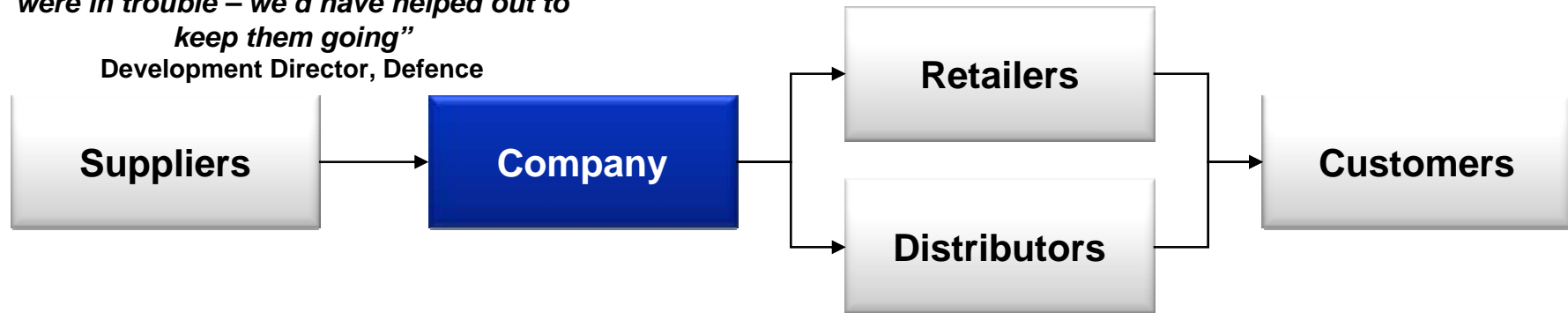
Is supply secure?

“One of our critical suppliers went under last month. I wish they had let us know they were in trouble – we’d have helped out to keep them going”

Development Director, Defence

Are channels secure?

“We were hit hard by Zavvi going under and have concerns about at least two more major retailers going forward” MD, Publishing



Solutions:

Solutions have focused on increasing contingency and reducing pressure on suppliers:

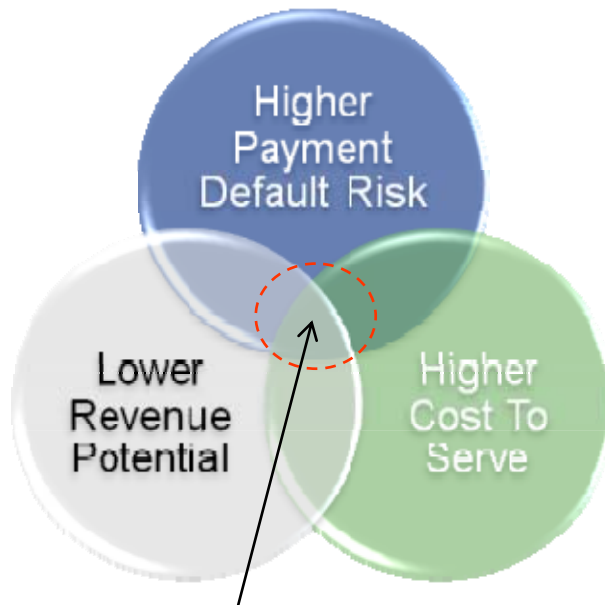
- **Renegotiate supplier contracts:** offer shorter payment times, expanded deals, and longer-term contracts in return for unit price decrease
- **Identify back up suppliers:** ensure alternatives are in place in critical spend areas
- **Conduct due diligence:** asking probing questions of suppliers, retailers and distributors before committing heavily to them

Identifying and auditing around crucial points in the supply and distribution chain is a critical step to minimise risk in the current economy

Reduce Customer Risk: proactive and reactive initiatives are being effectively deployed to reduce exposure to customer risk...



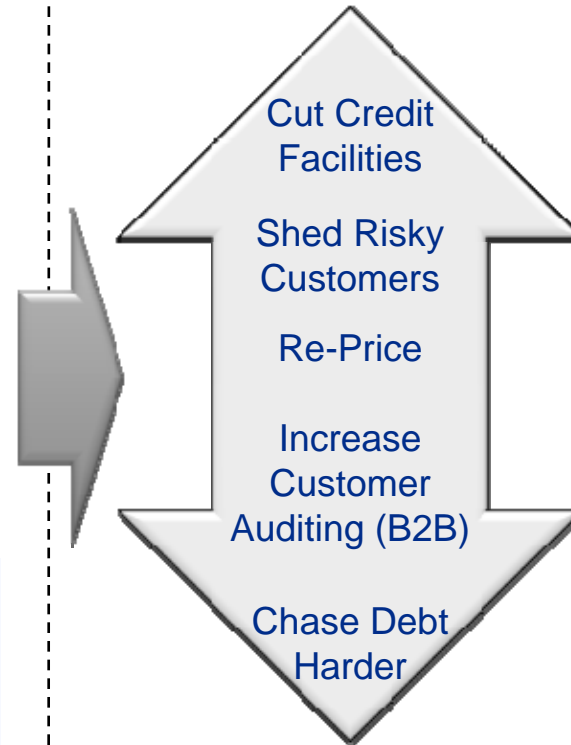
Impact of Downturn on Customer Risk Drivers:



Customers are now more likely to shop around, decrease spend and default on payments - managing this increased risk has been identified as a critical priority by many key decision makers

Effective Risk Reduction Initiatives:

Proactive: Risk Prevention



“Reducing risk and exposure is a central plank of our customer strategy. The real challenge is doing this without inadvertently reducing our ability to make money from profitable customers. A targeted approach is key”

**Commercial Manager,
Technology**

Reactive: Risk Recovery

Developing and enforcing a solid set of terms and conditions is critical – this has been a major focus for many companies we have spoken to...

Reduce Customer Risk: many companies have changed terms and conditions in recent months – we expect to see this trend continue...



What Can Be Done?

White Space has seen the following options considered by companies over recent months:

Introduce/ increase penalty charges

Increase cancellation notice periods

Introduce new credit control procedures

Introduce new termination clauses

Specify new payment methods

Introduce 'stealth charges' (e.g. for technical support)

How Can Changes Be Made?

- In general, the choice is between 'prompted' and 'unprompted' change
 - Prompted: introduced on the back of a customer action (e.g. payment default)
 - Unprompted: introduced without any link to customer behaviour

In some markets, customers have reduced choice and/ or reduced ability to change providers – this can create an opportunity to drive through change

- Communication is key to gain customer 'buy-in' and/ or change behaviour

What Needs To Be Considered?

Five key questions to consider:

- 1) Which Ts & Cs and credit control procedures can be altered without losing customers?
- 2) Is there a potential for a PR backlash?
- 3) How will changes stack up relative to competitors?
- 4) What's the best way of communicating changes to customers?
- 5) Are there any regulatory issues and implications to be aware of?

"You've got to be careful when changing terms and conditions – the internet has made it very easy for a customer backlash to build up"

Marketing Director, Media

Companies with contract-based customer relationships have found this an exceptionally useful procedure

Customer Retention Campaign: protecting and maximising revenues from existing customers has become an urgent priority...



The recession is making customers less loyal and companies are 'fighting for every penny' – retaining and maximising spend from existing customers has increased in priority:

Research in the US demonstrates that **major brands are losing loyal customers**: 48% of “highly loyal” customers of major brands stayed that way during 2008, while 19 percent reduced their loyalty and 33 percent completely defected to another brand in the same category*



A similar trend is being observed in the UK: *“Customers are much more open to change now – they are looking for new providers who can give them the same for less”*
COO, Retail

Customer Retention and Spend Maximisation CSFs:



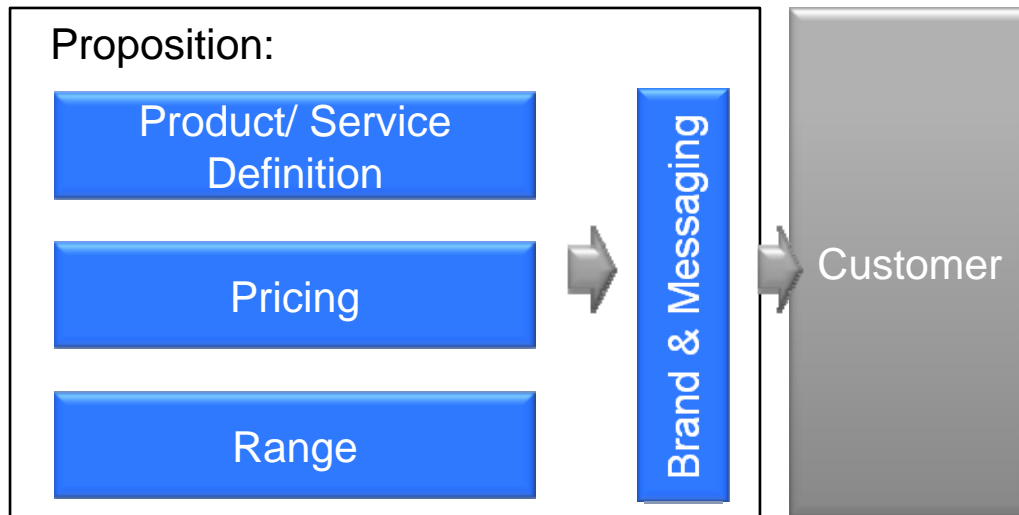
What Responses Have Worked?:

Reposition Propositions: product repositioning is a major current priority, making products as effective as possible in the current market...



Drivers: Customer needs have changed, but not permanently. Budgets are tight and companies are not prepared to commit to major levels of investment or change for a short term return

Result: Existing propositions are being modified to best fit the current market



Pricing: Where appropriate, companies are reducing headline and entry level pricing to create a perception of value, whilst generating profit from selling additional products/ services and up-selling from the entry level



Range: is generally becoming narrower as companies look to reduce cost and risk



Messages: are often being re-focused on value and price

“We dropped our prices significantly on a set of highly visible entry level products. New customer numbers increased by 30% and overall spend per shop increased” COO, Retail

Proposition repositioning has been an essential response to the immediate challenges of the market

What Responses Have Worked?:

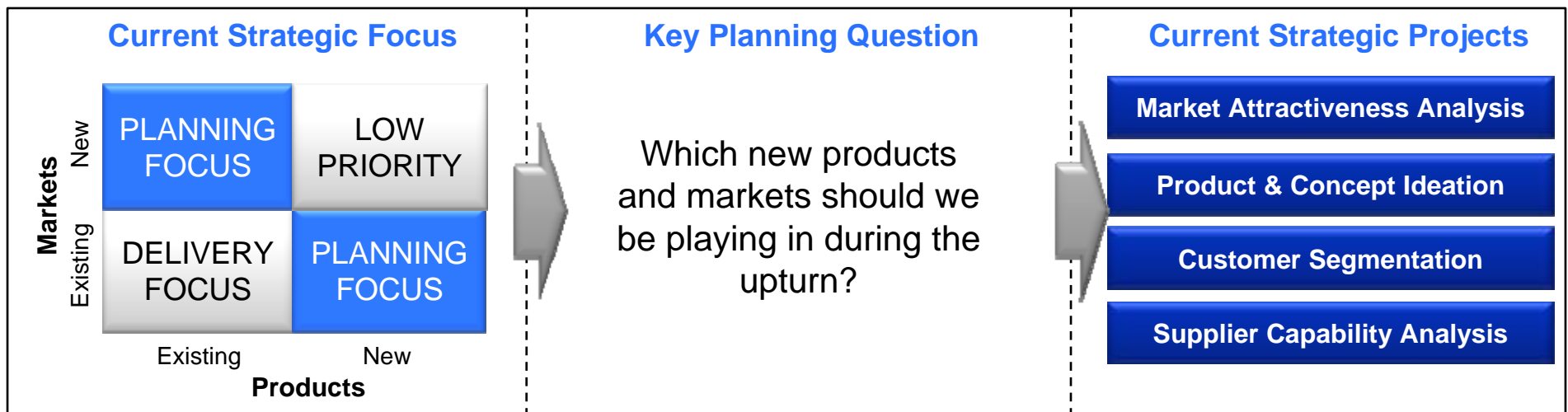
NPD and Market Entry: companies are now beginning to prepare for the upturn – growth is once again becoming a key priority for some...



“We anticipate an upturn in 2010 and want to hit the new ground running. We’ve not fundamentally changed our proposition at all in 2009 but the world has moved on. We have a major programme running internally now defining what new markets we want to be in and what products we want to sell”

Marketing Director, Media

Companies are now focusing on identifying priority new product areas and markets rather than actually doing this:



As the upturn approaches, focus will shift towards defining new propositions and developing entry strategies, building on strategic planning undertaken now

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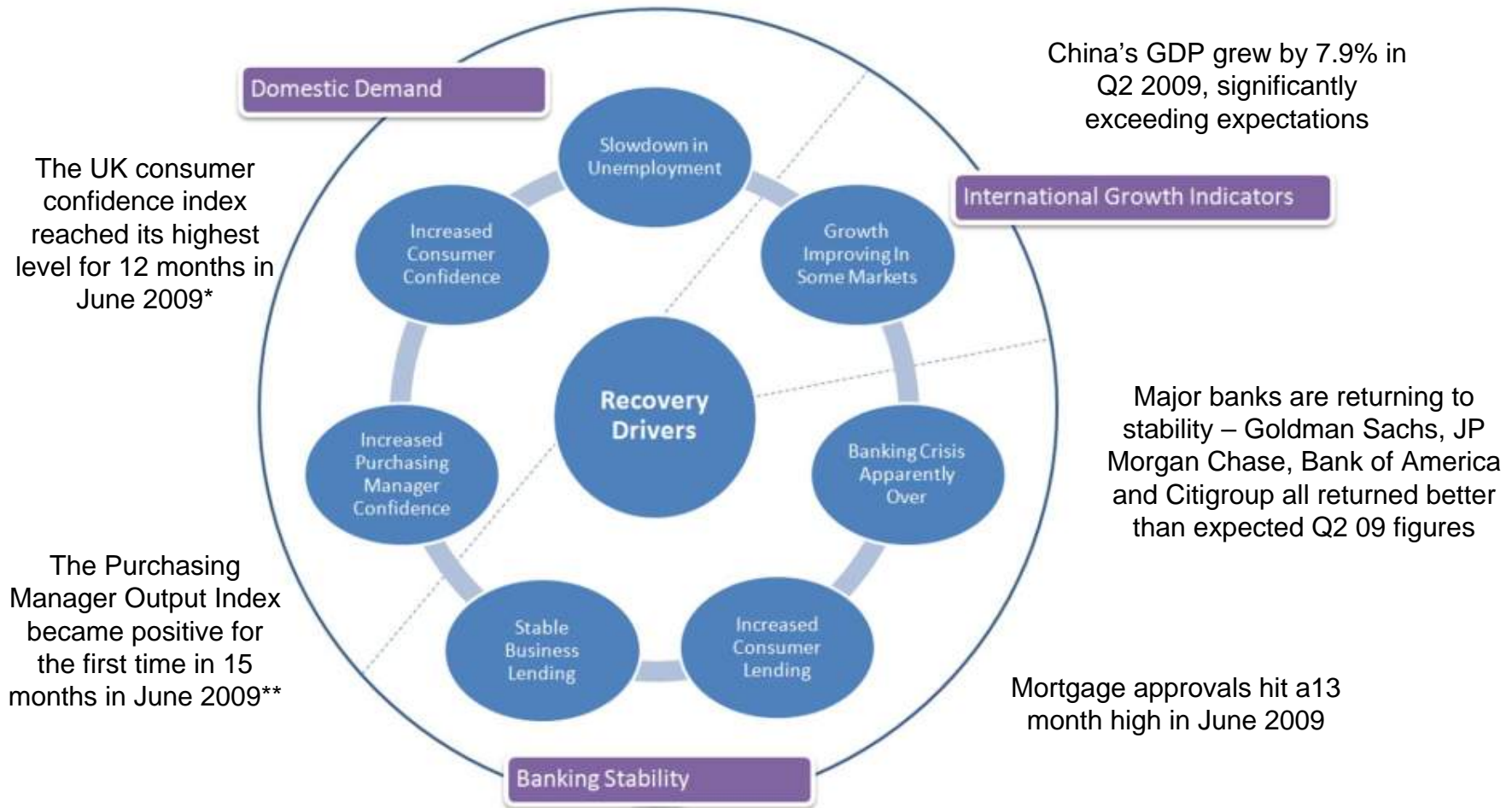


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When Will It End?:

Several key factors tentatively point towards an upturn in the first half of 2010...



There is substance behind the view that a embryonic recovery is around the corner – however, the current reality is still grim

*Source: Nationwide Building Society

**Source: Chartered Institute of Purchasing & Supply

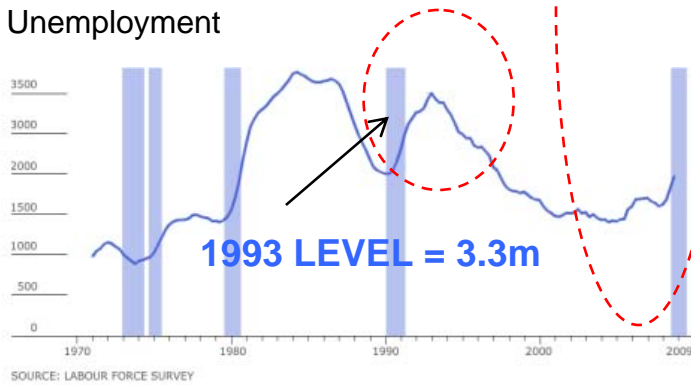
Whilst cautious optimism is beginning to return, a 'doomsday scenario' of full meltdown is still possible...



Interest Rates (BoE Base)



Unemployment



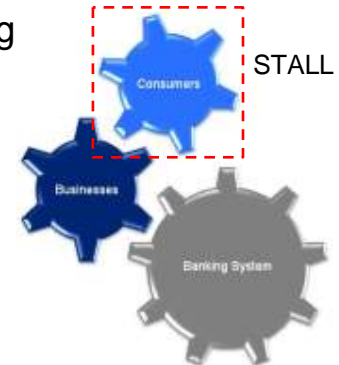
Both interest rates and unemployment are currently historically low

What if interest rates and unemployment rose to their early 1990s peaks? (See left)

A typical Londoner would be paying ~£40k per annum just to pay mortgage interest, requiring a net income of ~£55k to cover this alone. Unemployment would increase by ~1m

Consumer spending would plummet with consumer debt and bankruptcies rocketing

The consumer economy, which is currently propping up the economy as a whole, would collapse



This scenario is unlikely, but interest rate and unemployment stability will be two key indicators that the recovery has begun

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Conclusion:

Most companies are on course for a four stage response to the recession and are currently either at Stage Two or Stage Three...



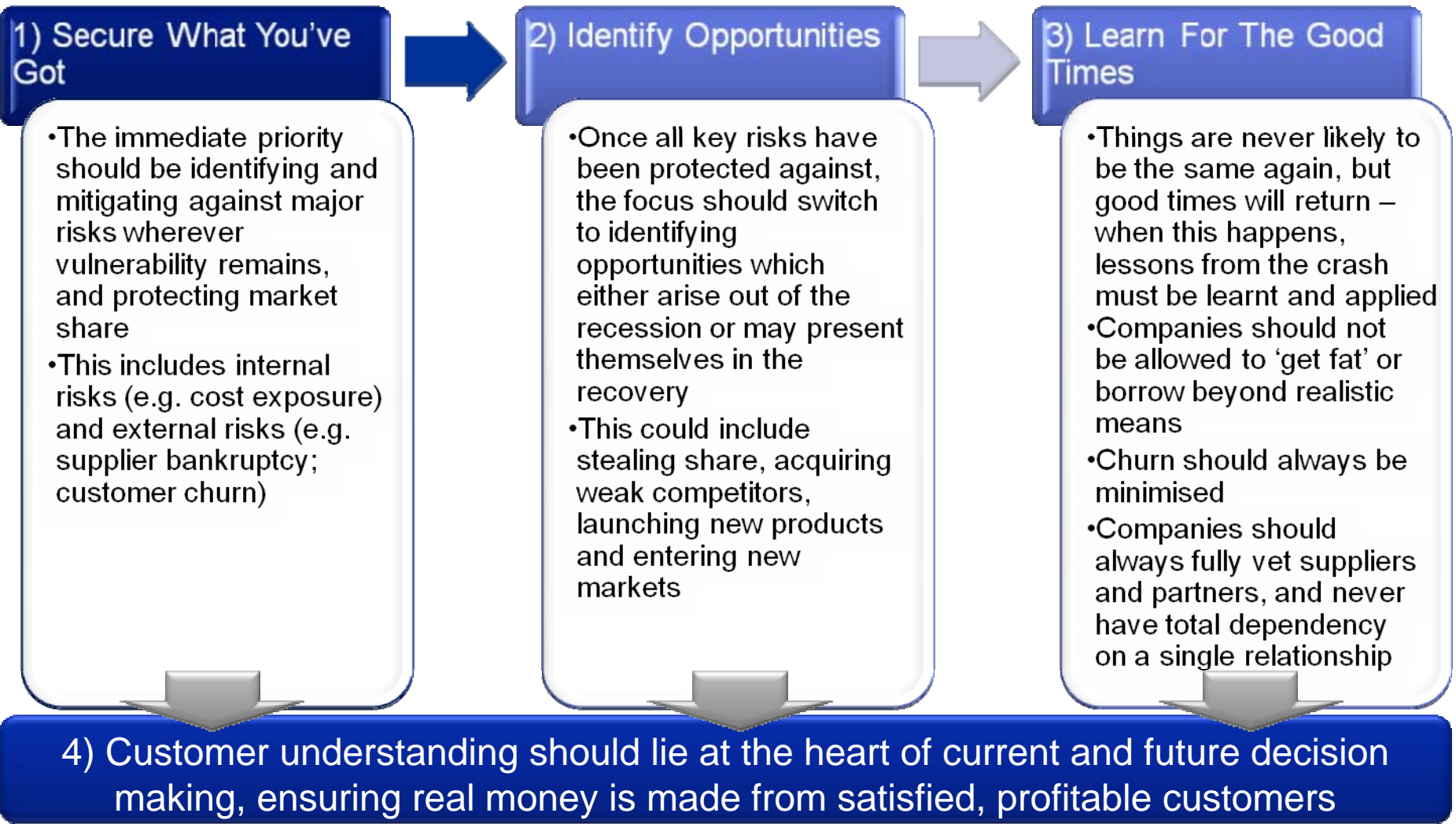
The recovery is going to be a long and hard road, but companies should begin planning for it now to be in a position to execute growth strategies in 2010

Conclusion:

What does this all mean?: There are four key takeouts from this white paper for SDMs in all sectors...



CURRENT PRIORITY → FUTURE PRIORITY



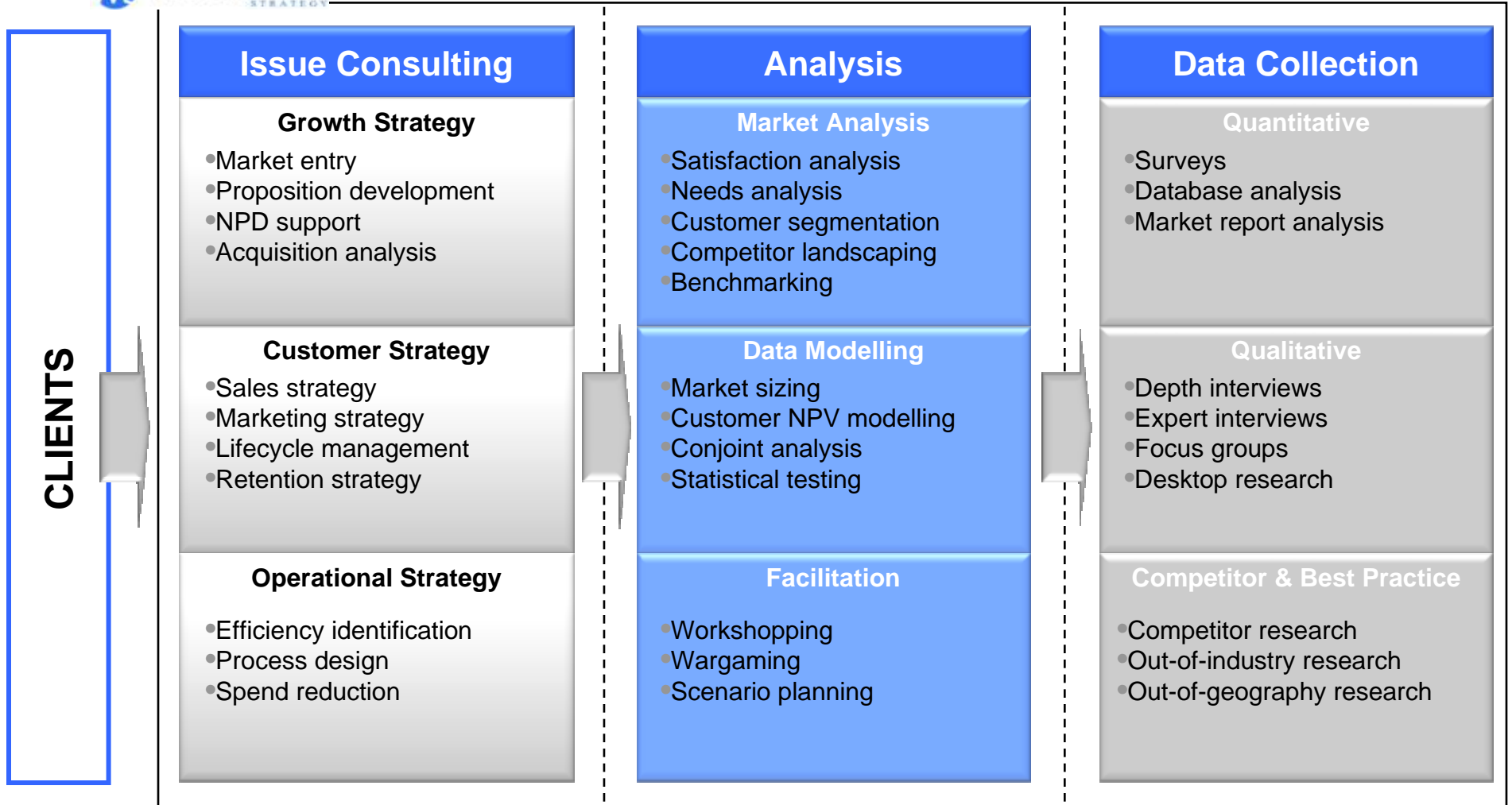
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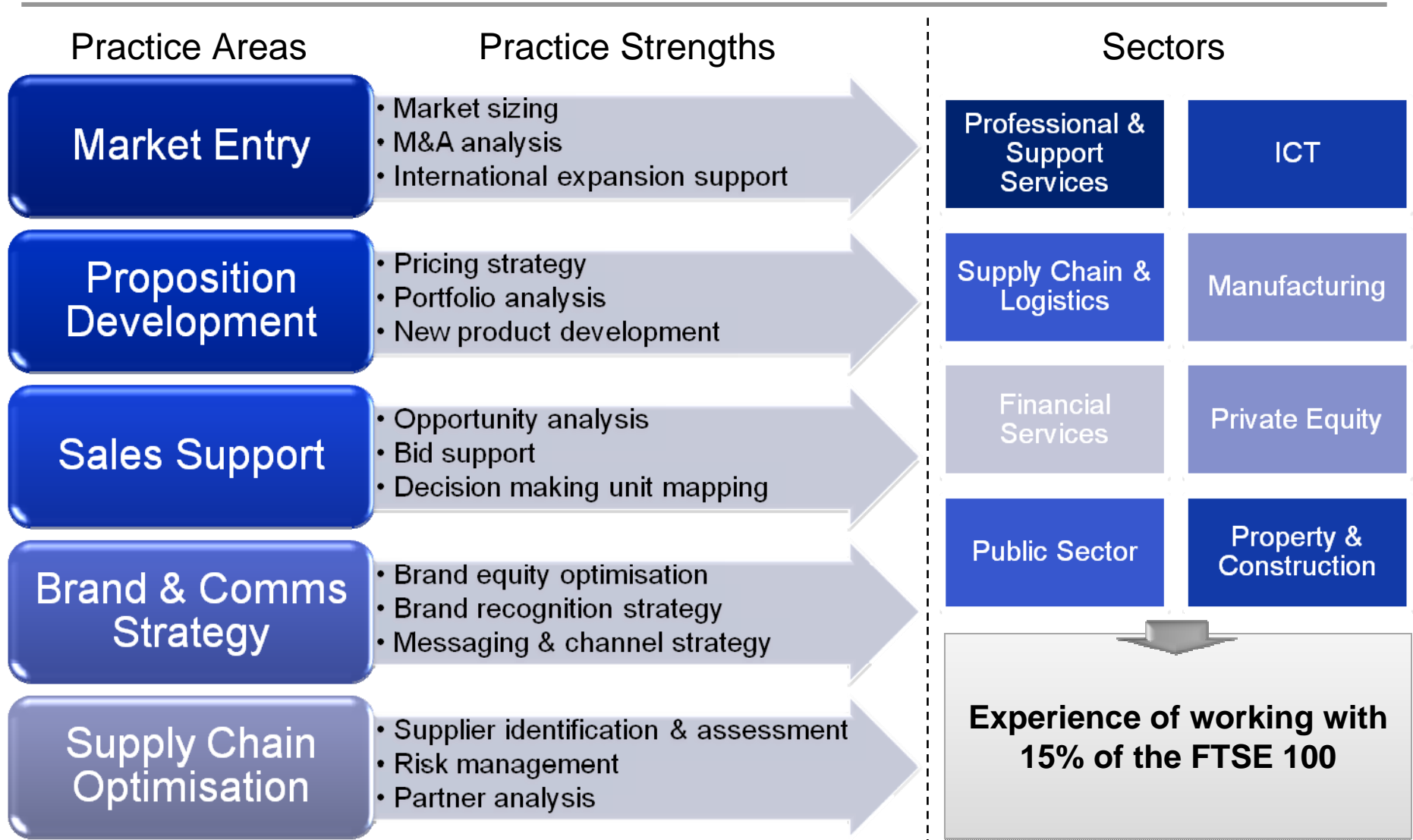
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White Space is a leading UK-based strategy consultancy, working across Consumer, SME and MB end markets...

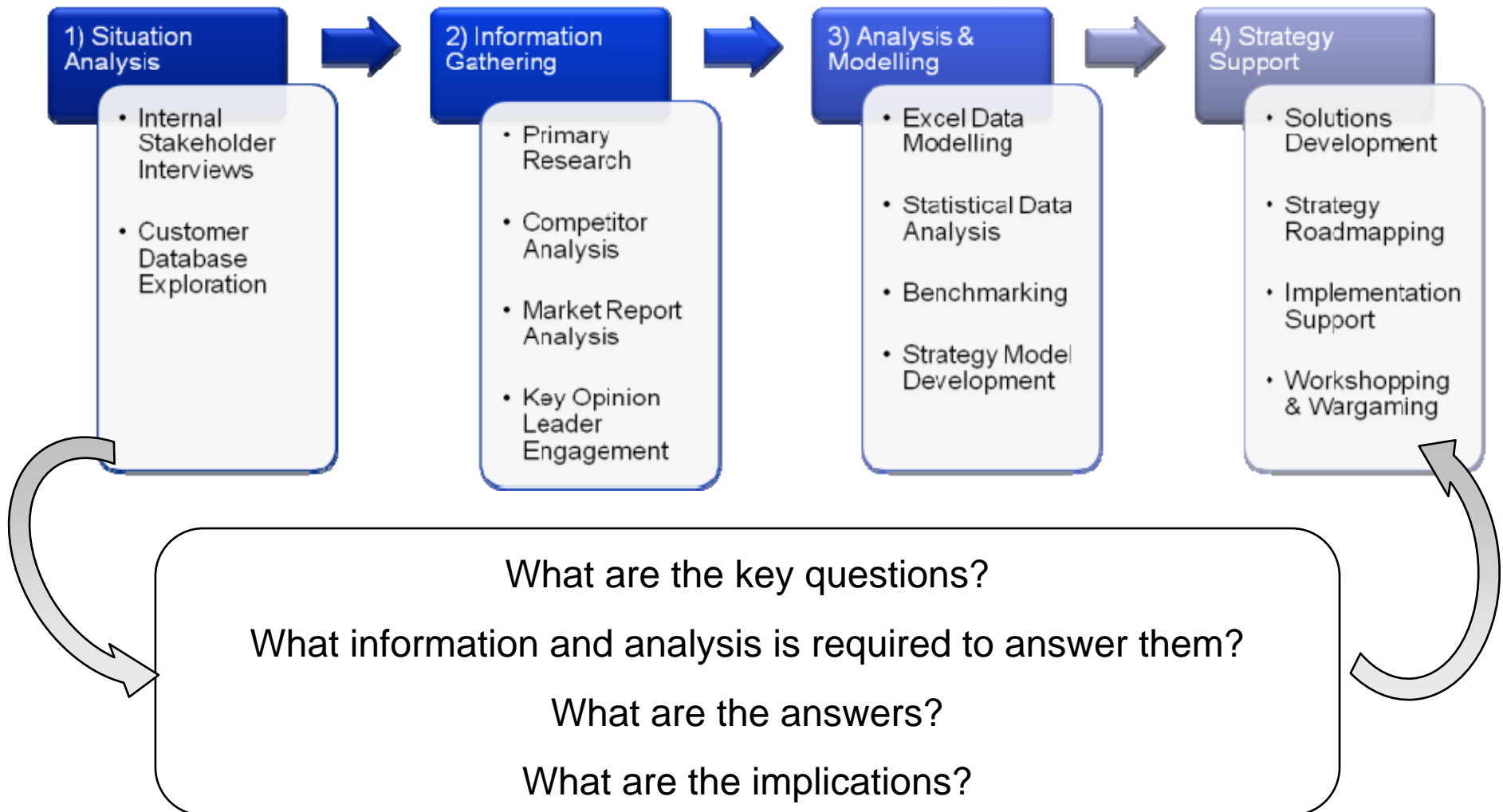




Our B2B Strategy division has five core practice areas...



Our strategy support toolkit runs across all four phases of a typical project, based around identifying and answering key questions...



About White Space:

We'd be happy to discuss your consultancy requirements further...



Contact us for further information:

B2B Strategy Practice:

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