The Landscape of Next – Prospects for the 2010s

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Presentation to TWF Knowledge Economy Conference

Will Hutton April 22nd 2009

How serious is it?

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- This is the worst financial crisis since the early 1930s
- Global trade down 9 per cent 2009
- Catastrophic event. c25 per cent of all bank lending made since 2000 is now guaranteed by the state. No industry has ever so imploded or betrayed so much trust as financial services; nor paid itself so much.
- Two big banks wards of the state.
- Governance, regulatory, intellectual, business model, political leadership and ethical failure
- Huge write downs, insurance and pension system concerns
- Assumptions of last 30 years – “I am from the government and I am here to help you” – now dead. No certainty about where it goes from here.

When will it get better and how big a fall will it be?

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- Credit crunches are bad news. On average unemployment rises 7 per cent, GDP declines by 7-9 per cent, public debt rises by 86 per cent
- " Deep and lasting impact on asset prices, output and employment"
- This likely now. Timing of stabilisation? After all, cost free money, devaluation, QE and fiscal stimulus.
- Optimists – recovery final quarter of 2009
- Pessimists – recovery first quarter of 2011
- My guess – first half of 2010 (international response fundamental)
- In most industries response will be consolidation, asset swaps, redundancies and creation of new business models

Mistakes nobody wants to make again

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- Don’t leverage too much – the death of private equity
- Don’t allow financial system to grow balance sheet continually faster than money GDP. Systemic regulation will be tighter
- Don’t think growth can be bought by debt, deals or financial engineering
- Think harder about incentive structures for management
- Don’t allow leadership teams to have no checks or balances – in particular guard against the Applegarth/Goodwin/Bond/Fuld effect
- Corporate governance/board structures matter
- Governments must not assume economic cycle has been abolished – fiscal policy has to be more cautions
- Fairness, equity and corporate responsibility matter

Drivers of Recovery in 2010s??

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- GDP back to 2008 levels in 2013? 2 per cent growth to 2020?
- International risks huge
- Public spending growth 0 -1 per cent to 2014, 1-2 per cent to 2020 (but health and education grow at 2-3 %)
- House prices – return to 2007 levels by 2014/15, 5 per cent growth to 2020?
- Private consumption growth low
- Financial Services growth low
- Growth drivers of last ten years – public sector, housing and financial services - no longer operable.

Innovation in perspective

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- **9000 BC – 1400AD**
  - Creation of **seven GPTs** (domestication of animals and plants, wheel, smelting of ore, writing, use of bronze, then iron and steel and creation of water wheel)
- **1400 – 1750**
  - Creation of **two GPTs** (three masted sailing ship and printing)
- **1750 - 1900**
  - Creation of **five GPTs** (steam engine, factory system, railway, iron steamship, communications)
- **1900 – 2000**
  - Creation of **eight GPTs** (internal combustion engine, electricity, motor vehicle, airplane, mass production, computer, lean production, internet)
- **2000 – 2100**
  - Creation of **twelve to sixteen GPTs** (nanotechnology, bio technology, healthcare and energy? Transport? Communications?) Disruption the norm

Knowledge and Innovation key to recovery

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- Growing as proportion of GDP in all western and advanced Asian economies
- Driver One: new technologies, especially GPTs, transform production processes, and create new business models.
- Driver Two: shift in demand towards higher value added, experiential services and tech based goods as consumers have become more sophisticated and diversified.
- Note (a) increase in collective consumption of health and education services and (c) business to business transactions
- Globalisation: acting as an accelerator of change on both drivers.
- 2010s will see

Intangibles less affected by recession than physical assets

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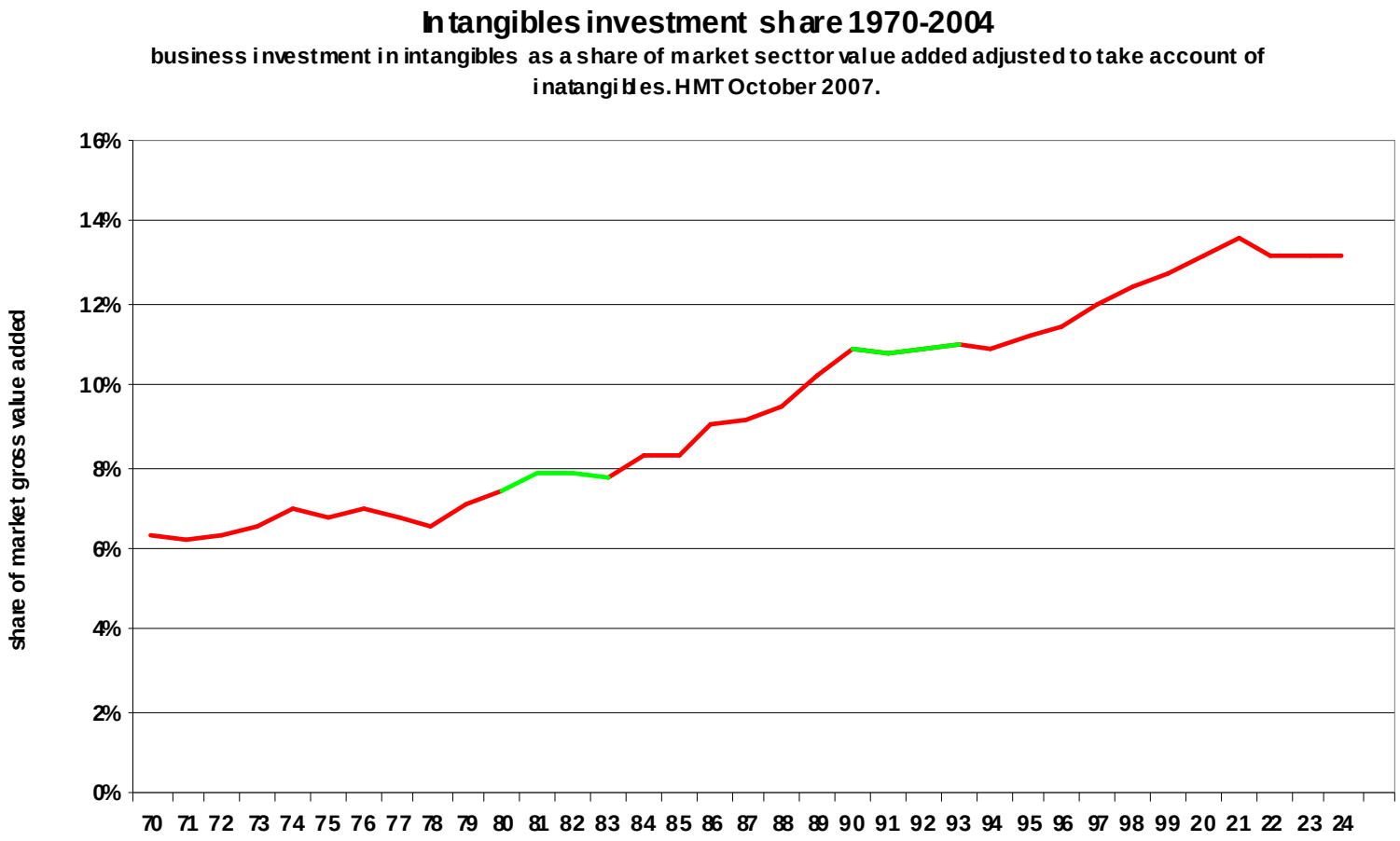

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How is investment likely to change in current economic climate?

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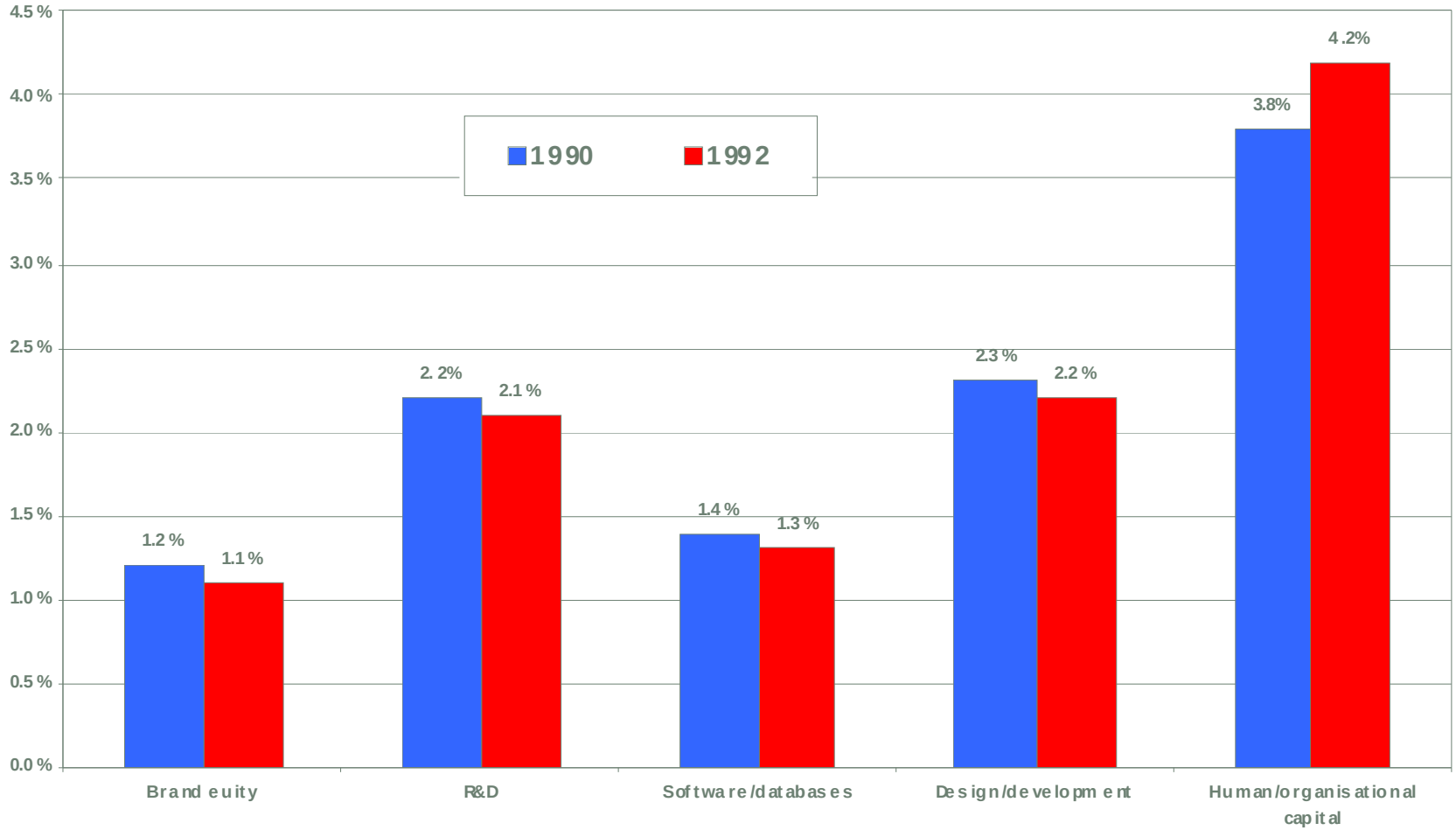
Intangible investments in the last recession

intangible business investment as share of GDP. Source: HMT October 2007.



From transactions to experience

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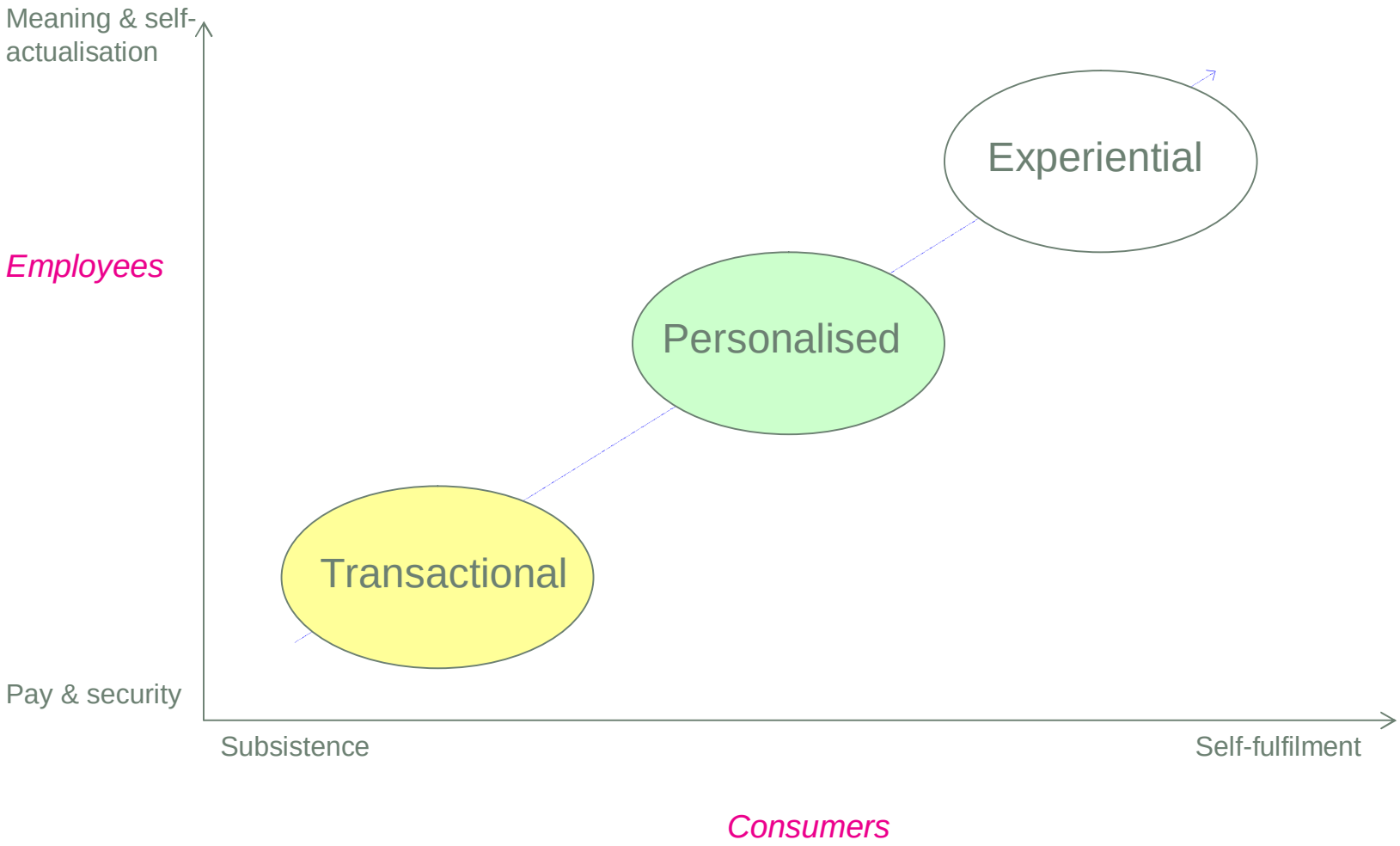

Which sectors?

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- New business franchises - the rise of the micro (micro brewing, micro credit, micro grids, micro journalism)
- Export sectors – business services, creative industries, high tech manufacturing (defence, drugs, ICT,)
- Creative industries
- Industries based on new GPTs
- Care services
- “Eds and Meds”
- Energy delivery (peak oil)
- Energy use (lower carbon intensity)

“ Next companies “

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- An end to absentee landlordism – the return of the “good owner”
- The board as deliberative decision maker
- The rediscovery of business purpose and business morality
- Hard wiring innovation process into business processes – the need for organisational slack, hyper responsiveness and employee commitment
- HR as a custodian of purpose, values and fairness
- Long term remuneration
- People engagement more important than ever – “ good work”
- New institutions and processes to express employee voice

What policies ?

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- Vision 2020 and back-cast
- Rolling wave of new institutions
- Finance – new banks, new forms of venture capital provision, public/private(Post Office bank) and private (Tesco)
- Innovation – (clusters, university networks, organisational slack, intangibles)
- Infrastructure (anchor institutions, Digital Britain, rail)
- Skills (anchor institutions, new apprenticeships)
- Regulation and law to encourage “ next corporations”
- Crucial important of equity and fairness