| EXECUTIVE BRIEFING |

THE GREAT COMEBACK FROM THE RECESSION:

YOUR COMPANY'S SECRET WEAPON

Create your plan,
reduce future risks, and
pull ahead of the competition

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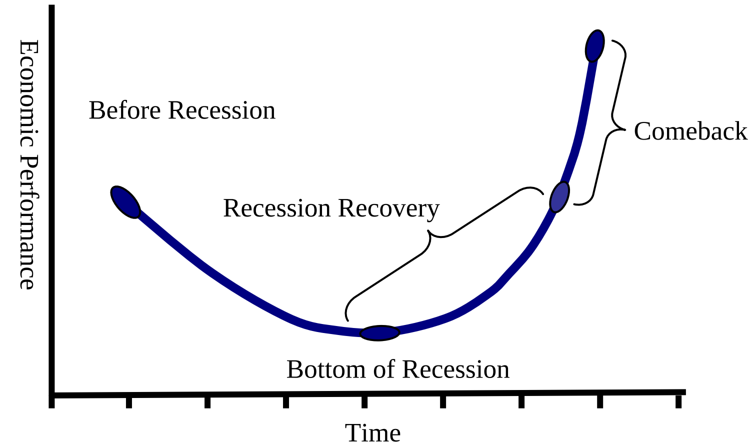
Introduction

Now is an excellent time to celebrate the demise of old schools of thought and ways of doing business and usher in smart strategies and processes. The global economic recession that we have been experiencing over the past year is really an opportunity in disguise. In fact, the Comeback Plan is your company's secret weapon. Seizing this opportunity and developing a Comeback Plan can help you reduce future risks and pull ahead of the competition.

Figure 1: Recovery Planning and Comeback Planning



The Great Comeback is defined as the recovery and return to prosperity in response to the economic meltdown that the world has experienced over the last half of 2008 and the first half of 2009. It is also a time of rejuvenation for businesses that are prepared to grow and prosper. *Figure 1* illustrates economic performance from recession to recovery to Comeback. It is clear that organizations that survive recessions can come back even stronger afterward.

Often, it takes a crisis to uncover vulnerabilities and restore vitality to a once weak or corrupt system. For instance, the Bernie Madoffs of the world need to be exposed so that the honest, well-managed organizations are able to take the lead.

To paint a metaphorical picture, here is a brief story of the big tree that fell in my backyard recently after a bout of heavy rains. It was old and blocking out sunlight and nourishment that the younger trees needed to grow and thrive. Therefore, the tree's collapse did not signify a time of sorrow; instead, it represented new life. And so, this story shares the same central lesson as today's business world.

That is, instead of feeling bad about the Madoff mess or the tree that has fallen, we should celebrate the renewal that comes from casting out the old and bringing in the new. Think of that popular movie "The Lion King" and the circle of life – it is the same principle.

So, how are you preparing to not only recover from this recession but also to experience even greater growth and prosperity? And, how are you preparing a Comeback Plan that will allow you to come out of the recession much better than before? The lesson learned from past recessions is that the firms that best plan for a Great Comeback are the firms that best recover, grow and prosper.

Think about when lead changes occur in the Tour de France: They occur on the uphill. The same is true for the recovery cycle. The economy is on the upswing, and now is the time to become prepared and take the lead. (Video)

Two New Views on the Recession

1. The Global Supply Chain View

For the first time ever, the supply chain played a major role in the recessionary cycle. In the fall of 2008, due to the integration and connectivity of the global supply chain, the U.S. economic meltdown was instantaneously felt around the world. The U.S. downturn resulted in a global meltdown as the recessionary cycle shrunk imports and exports among nations and as worldwide spending declines fueled the great global recession.

Just as the global supply chain accelerated the downward turn of the global economy, it will also fuel the upward spiral and return to economic health.

2. The Micro View

Most economists are viewing the economy from a macro perspective, which is also mainly what the media has been reporting. However, without the micro view – or sector-by-sector view – business leaders do not get a full picture of the current status of the economy.

Experts looking at the macro economy will get it right, because what they are looking at is data that is two to three months old and then predicting what is going to happen last week. They will say that the economy has bottomed two to three months after half of it has bottomed and is starting to recover and the other half has yet to bottom. This is the same as them saying in January 2009 that the recession began in October 2008: This fact was already known.

The sector-by-sector view provides a clearer picture of the current status of the economy. *Figure 2* notes when each sector is expected to recover, and more detail about recovery by sector is explained throughout this brief.

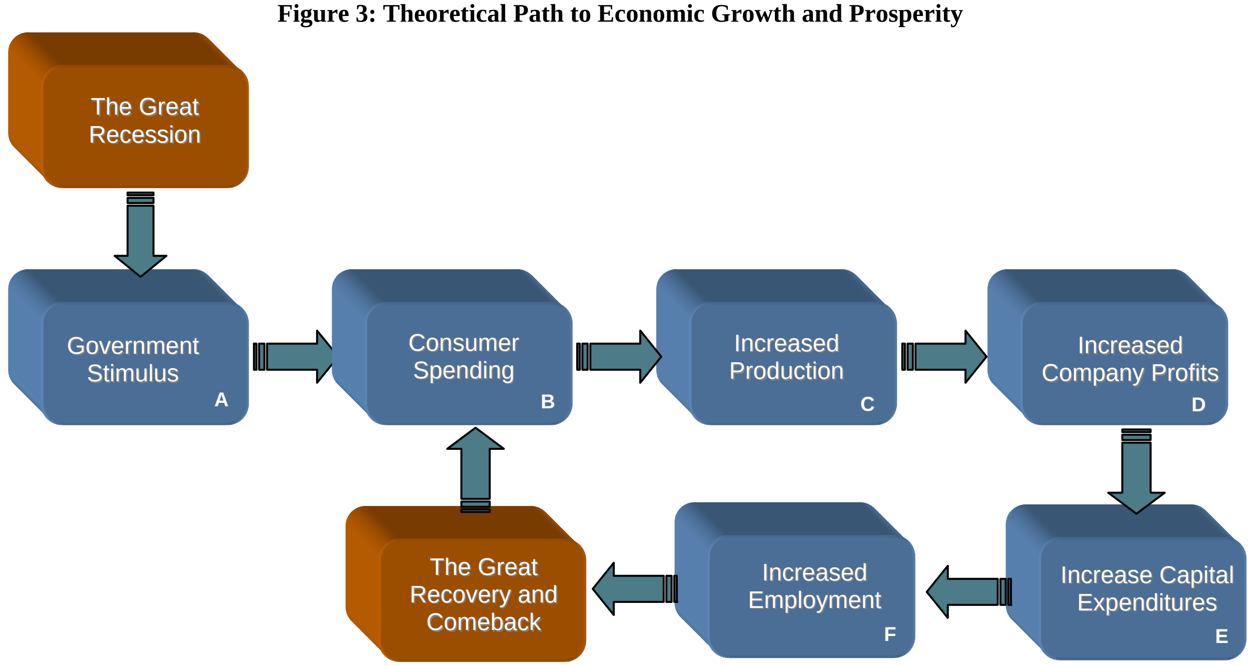
Figure 2: Recovery by Sectors

Q209 – Q309	Q309 – Q409	Q409 – Q110
Food	Aerospace	Engines, Turbines and Power Transmissions
Cosmetics	Semiconductors	Plastic Products
Beverage	Agriculture Equipment	Communications Equipment
Pharmaceuticals	Public Construction	Computer Equipment and Software
Inexpensive Consumer Electronics	Mining, Oil and Gas Field Equipment	Medical Equipment
	Household Products	
	Consumer Products	

The Path to Economic Growth and Prosperity

Looking at the efforts to stimulate the economy and stem the fallout of the recession, there is a clear pattern of what theoretically should happen (see *Figure 3*) versus the practical view of what actually has happened. The real recovery and Great Comeback Plan has taken a drastically different course than anticipated. This section lists the detours on the road to recovery and Comeback.

Figure 3: Theoretical Path to Economic Growth and Prosperity



Government Stimulus

Detour 1: Government Stimulus Moving Too Slowly. The government could not decide on how the final stimulus plan should look, and presidential elections slowed the process. There also has been a sluggish release of the stimulus, and it did not begin to impact consumers until the first and second quarters of 2009; its full impact will not be realized until well into 2010.

Detour 2: Recovery Rides on Backs of Consumers and Their Needs. In March and April 2009, consumer savings hit its highest rate since 1993, with most folks choosing not to spend stimulus funds but to pay down debt and save the money instead. As consumer confidence began to rise in late spring of 2009, consumer spending has followed the expected pattern of necessities first, then low-cost discretionary items, then higher priced discretionary items, durable goods, and finally, housing.

Consumer Spending

Increased Production

Detour 3: Companies Rely on Inventories and Increased Productivity, Not New Hires. Inventories were significantly reduced to cut costs throughout the recession. In the first quarter of 2009, inventories were cut at an annual rate of $114 billion. In the second quarter, they were cut at an annual rate of $141 billion, and by August 2009 inventories were very low. Even after consumer spending picked up, production did not increase, since existing inventories were used to fill this demand. Then, once inventories were drained, companies still were not hiring because increased productivity provided for the increased demand. Finally, in the third quarter of 2009, production began to ramp up and limited hiring began to take place.

With increased consumer spending and production, companies began realizing **increased profits**. The grocery chains were the first to recover. Delhaize (Food Lion, Hannaford, etc.) noted a 24% increase in profits and 13% increase in sales in the first quarter of 2009. Ahold (Stop & Shop, Giant) had a 15% increase in the same quarter.

Increased Profits

In the second quarter of 2009, many industrial companies saw that their earnings were no longer declining, and Intel said that their business is growing and that the PC business bottomed in April 2009, which indicates that the trends are following the expected patterns of recovery as noted above in consumer spending.

Increased Capital Expenditures

Detour 4: Capital Expenditures Recover Last and Sector by Sector. Although company profits are climbing as a result of cost reductions, there is no need to invest in capital equipment since factory operating rates remain stuck below the 70% mark – well below the required 75% mark needed to stimulate capital expenditures. For the most part, increased capital expenditures will become active in third quarter 2010 and beyond to 2011 and will vary by industry sector. In fact, one could argue that failure to focus on a sector-by-sector recovery and over-emphasis on a macro-economic recovery is one of the biggest lessons learned in this recession.

As each of these areas gain momentum, the economy will begin to see **increased employment**. This will also occur on a sector-by-sector basis, with the same pattern as noted for consumer spending. However, it will be the first quarter of 2010 before there is an overall growth in employment.

Increased Employment

Five Steps to Recovery and Growth

The five-step process to recovery and growth (as shown in *Figure 4*) provides a guideline to help you create a Comeback Strategy and Plan. (Audio)

Step 1: Environmental Assessment. This is an assessment of the impacts that the global economy, domestic economy, business cycles, consumers, investors and government are having and will have on your business. The Environmental Assessment also provides indicators for when your market will grow.

A significant factor impacting the timing of the market's return is the consumer. Although confidence has grown over the last quarter, the consumer remains afraid, confused, uncertain, and changed. The loss of wealth, the unemployment rate, the fear of unemployment, and the number of loan foreclosures and bankruptcy has driven the consumer to a new level of economic conservatism. This needs to be understood and addressed as you consider the timing of your recovery.

Government stimulus will be either a major factor or a very minor factor, depending on whether or not your business is involved with alternative energy sources or transportation infrastructure. If your business includes these two areas, then you are extremely involved with government stimulus. Otherwise, most people are really not concerned with the topic of government spending.

The global economy, domestic economy and business cycles are discussed in more detail throughout this brief.

Step 2: Competitive Intelligence. The Competitive Intelligence process requires you to answer the questions:

- What has your competition done in response to the recession and what are they likely to do going forward?
- Has your competition hunkered down in the recession or have they raised the competitive bar?

To drill down into these questions, pursue more detailed questions, such as what is your competition offering to your customers that you are not? Do your competitors have an advantage with certain customers, geographies and service lines, and if so, why? What innovations or creativity are they bringing to the marketplace? What mergers and acquisitions, what outsourcing, joint ventures, or alliances are your competitors pursuing? Do these activities give them a game-changing opportunity in terms of market position, geographical reach, scale, technology or whatever? How are you positioned against your competition to gain market share?

There are also two more Competitive Intelligence questions to be answered as you begin your path forward:

- How will your competitors respond to what you do?
- How will you respond to what your competitors do?

Understanding your current position versus your competitors and how they will respond to your Comeback Plan will be very important. In addition, studying your competitor's response to your past actions will provide good insight into how they will respond in the future. Assuring that your Comeback Plan includes how you will respond to your competitor's response is a good way of assuring your viability in your overall path forward.

Step 3: Comeback Expectations. Comeback Expectations ensure that you understand your company's Comeback from the recession from a timing and magnitude perspective, given marketplace demand and the response from your competition. Specifically:

- When are your turning points?
- What is your recovery lead time and future volumes?

This third step, which has as a foundation the first two steps of the Comeback process, requires a wide range of input from both pessimistic and optimistic sources. The deliverable from this third step in developing your Comeback Plan is a clear understanding of what volumes of products you will sell from this point forward. And as such, this forecast should be presented as a series of Comeback scenarios.

Step 4: Organizational Analysis. This fourth step to recovery and growth answers the following questions: How does your organization compare to others performing the same processes? What process upgrades do you need to deploy in order to not only recover, but to also gain market share, grow and prosper? What are the process upgrades you need to have in place after the recession to enhance customer satisfaction, increase capital efficiency, increase profitability and increase long-term shareholder value? What have you done during The Great Recession that we should learn from? For example:

- How did you do on maintaining talent?
- How about upgrading talent?
- What did you learn about focusing on strategy?
- Did The Great Recession allow you to sharpen your strategy?
- What can you learn from The Great Recession cost cutting?
- How do you expand upon the opportunity to cut costs?
- What have you learned from The Great Recession inventory reductions?
- How can you be certain inventory turns increase as we go forward?
- What are the lessons learned from the increases in productivity that you have achieved?
- What changes have occurred during The Great Recession that either present a challenge or an opportunity for you?

To perform this level of analysis well, a formal process of benchmarking and best practices should be employed. Utilizing a formal process for your Organizational Analysis will help you:

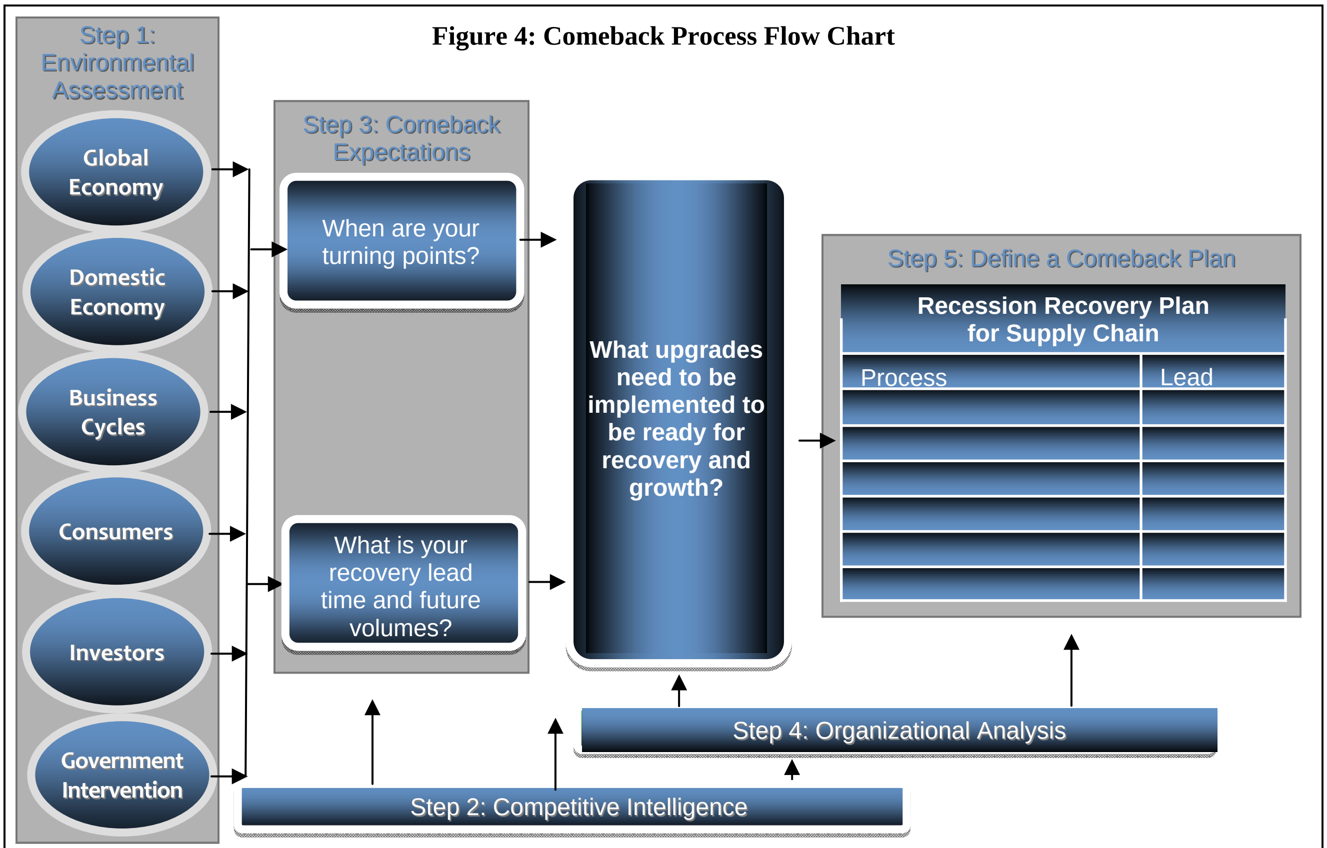
- Measure your performance against best-in-class companies and identify improvement opportunities.
- Understand how your operating practices compare to your competition and impact your ability to gain competitive advantage.
- Broaden the thinking of your management team to include issues beyond their immediate responsibilities.
- Provide breakthrough insights by looking across performance measures, processes, roles, responsibilities, goals, vendor and customer relationships and infrastructure requirements.
- Define scorecards with key performance indicators, data collection processes, goals and reporting formats to track supplier, carrier and third-party service provider performance.
- Prioritize improvement opportunities and build consensus behind the opportunities that are most important for you to address while on the road to recovery and on to growth and prosperity.

From the benchmarking and best practices review, a list of potential process upgrades will become apparent. To further add to this list, leadership can encourage the organization to proactively develop innovations that will help facilitate a Comeback. Then, for each potential process upgrade, a cost-benefit analysis and a determination of lead time should be established. The output of the Organizational Analysis will be a tabulation of the process upgrades and for each potential upgrade, the scope, benefits, implementation cost, lead time and projected savings.

Step 5: Define a Comeback Plan. Defining a Comeback Plan is the culmination of the prior four steps and is part art and part science. It includes determining the order that process upgrades should be completed from a capacity perspective, from a working capital perspective, and from a competitive positioning perspective. It answers the question: What is the schedule of process upgrades that needs to occur to allow you to gain market share, grow and prosper?

However, there will be certain upgrades that are not as clear but are thought to be required to achieve growth and prosperity. Sorting through these upgrades and preparing a clear, focused plan for recovery, growth and return to prosperity is where the art comes in. This is very challenging, as often the lead times for implementation of the upgrades are such that you must begin the upgrades while your organization has yet to feel the uplift of the recovery from the recession. This presents a challenge for leadership, since being too cautious or too slow as your organization begins to pull out of the recession could prove to be reckless.

Figure 4: Comeback Process Flow Chart



Great Comeback Time Frame and Budget Planning

This recession will eventually end on the backs of U.S. consumers, leading to the following sequence of events. The first sector to recover is consumer necessities, then inexpensive discretionary products, then more expensive discretionary products, then housing, and lastly, automotive.

The companies that sell to the consumer will recover first. Then, the recovery will flow up the links of these consumer companies' supply chains. Lastly, it will reach the industries that sell the capital equipment to the other companies. So the first to recover has been grocery stores, and the last to recover will be machine tool makers for the automotive industry.

The sectors that have already begun recovery include food, cosmetics, beverage, pharmaceuticals, and inexpensive consumer electronics. The next sectors to recover by the end of 2009 include household products, consumer products, public construction, agriculture equipment and semiconductors.

The second issue related to the timing for recovery has to do with the lead times required to plan and implement enhancements within the supply chain. Looking at the six major components of the supply chain – Design, Buy, Make, Move, Store, and Sell – planning lead times will be one to eight months with an average of three to four months.

For implementation, time frames will be from one month to two years with a typical time frame of eight to nine months. So, it would not be unusual for you to need one to one and a half years to plan and implement many of the changes for your supply chain to handle the return to prosperity. The majority of all companies today need to be planning for their recovery, as time is growing short.

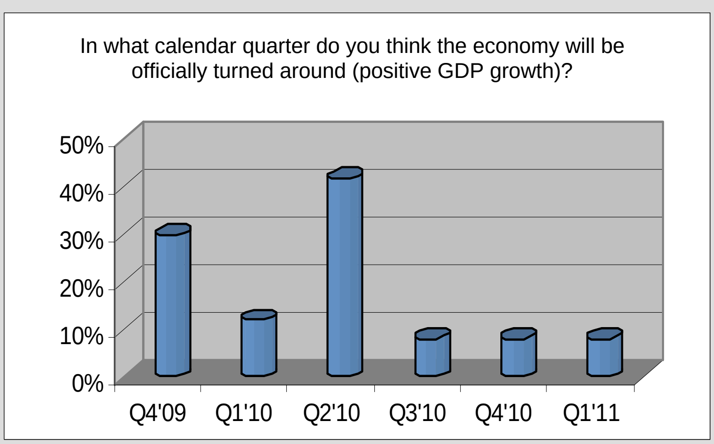
The final point has to do with the calendar and the budget cycle. With the exception of some capital equipment markets, recovery will occur in 2010 and early 2011, and the annual planning cycle for many firms begins in September for 2010 budgets. In this 2010 budget, do not forget to include the dollars required for your company to recover, grow and prosper.

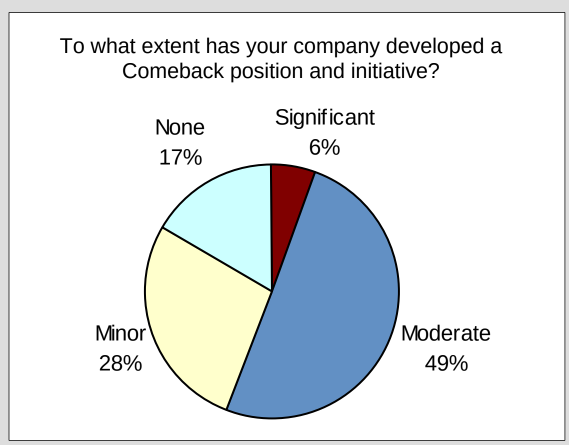
Survey: Comeback Expectations and Plans

At the Supply Chain Leadership Forum in Chicago in September 2009, the Supply Chain Consortium performed a real-time survey of executives from some of the world's leading high-technology, retail, consumer products and pharmaceutical companies.

Attendees were asked what questions they wanted answered – one of the major concerns was about economic recovery. Here are the Comeback-related results:

More than 40% say they think the economy will turn around and "The Great Comeback" will occur in the second quarter of 2010. However, 90%-plus indicate that they have not developed a significant Comeback Plan or the initiatives to carry it out. See the two graphs below for details.





An Economic Update

With so much happening, this is an exciting time to be engaged in business. The month of May 2009 saw improvements in the areas of consumer confidence, U.S. leading index, help-wanted online index, employment trends index, CEO confidence, small business owner sentiment, and many other market and financial indicators.

At the same time, the pain is not over. Unemployment remains a major issue, and consumers are changed and cautious. June 2009 showed further positive signs in that durable goods orders were up, investment in capital equipment had increased, consumer sentiment index continued to climb, and consumer savings was at an all-time high since 1993.

July 2009 saw little discussion about hitting bottom, rather there was discussion about a long recovery that was already underway. Housing and automotive were reported to be stable. Job cuts continued as increased consumption was supported by reduced inventories and increased productivity, and not by hiring people. Consumer confidence was down, as they were concerned about unemployment and the huge drop in wealth experienced by nearly everyone.

August 2009 was a different month, as patience wore thin, speculation and second guessing was high, and many remained disappointed in the lack of government stimulus. Consumer confidence slipped again in response to the noise in the marketplace, and investors were questioning the return of the stock market, as it was not clear if the market had returned or if it was just a celebration of dodging the financial doom.

Early September 2009 has shown more positive signs. The pace of layoffs has begun to decrease and housing starts have risen 1.5%. Consumer spending is also beginning to climb. Corporate profits have continued to move in the right direction, and everyone now agrees that the Great Recession of 2008-09 has bottomed. The time for Comeback Planning is now.

Shape of the Recovery and Comeback: V, U, W, or L?

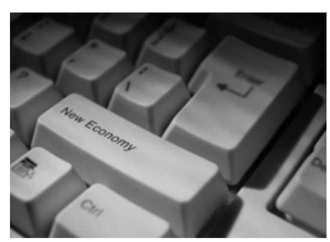
So where is the economy and what is expected? Many CEOs are asking the following three questions:

1. What is the status of recovery and Comeback?
2. What will be the shape of recovery and Comeback: V, U, W, or L?
3. Which economies will recover first, and how about the global economy?

In short, the recovery and Comeback are here. The mechanics are all in place, and they are working. The second question about the shape of the recovery and the Comeback is a difficult one, as it is the wrong question. There is no single answer to the question: What is the shape of recovery and Comeback? It depends on the sector and how companies are positioned.

In general, sectors will respond as follows:

- Necessities and low-cost discretionary items - V (quick to tank, quick to respond)
- Stimulated durable goods - U
- High-cost discretionary items - Long U, with a protracted base of the U



The economic forecasters who are really talking about an L shape are those who do not believe in government stimulus. The forecasters who anticipate a W are thinking well beyond years 2010, 2011 and 2012. When looking at a W shape this is true: There will be ups and downs over the long term. The economy cannot continuously ascend or stabilize forever. However, focusing solely on the recovery from the Great Recession of 2008-09, the recovery will not be in the shape of a W.

The third question has to do with which economies will recover first, and how the global economy will recover and come back. The answer here is actually quite straightforward: The economies to recover first are the ones in which the stimulus has been most effective. Unfortunately, although the U.S. stimulus package is the largest, it has been very slow to stream into the economy. In fact, by the end of 2009, out of the more than $800 billion dollar U.S. stimulus package, only a little more than $150 billion will flow into the marketplace. Next year, 2010, will be the peak, with $225 billion-plus flowing, and then another $175 billion in year 2011.

This sluggish flow of funds has resulted in a delayed response by the U.S. market. To the contrary, the Chinese stimulus has been most effective, followed by the European stimulus. Thus, this is the order of economic recovery: first, China, then Europe, and then the U.S. Unfortunately, the global economy will not be fully restored until the U.S. consumer fully returns to the marketplace in mid-2010.

Conclusion

For the past six months, executives have been leading a dual life. They work 10 hours a day cutting costs and trying to respond to their boards. Then they spend five hours each night trying to get ready for the economic recovery and return to growth and prosperity. Given that we are in the middle of "Budget Season," it is critical that executives focus entirely on developing their Comeback Plans. (Video)

Take hold of your own destiny through Comeback planning. Now is the time to put in place the budget scenarios for 2010 that will allow your organization to grow, prosper and claim market share as your sector moves through recovery and onto Comeback.

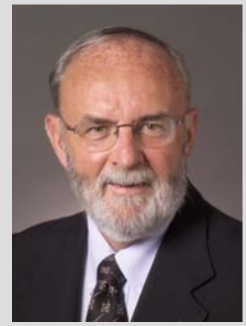
The timing of shaking off the recession funk and the return to investing in the growth of the firm is very important in terms of sharing in the upside of the stock market gain, but it is even more important in terms of gaining long-term sustainable market leadership. The real winners in the next two to four years will be those companies that understand the Great Comeback message and act on it.

When planning for the future, also keep in mind that the new norm is that there is no new norm. People will be changed, business will be changed, and overall, the economy will be changed forever. (Video)

The Great Recession is not a mystery. If your recovery and Great Comeback are a mystery, you are in trouble. The more clarity, focus and dedication to your Comeback Plan, the greater your growth, success and prosperity will be. The economy is returning, and the next two years will be the most exciting in business since 1938. Clearly, the firms that plan for their Great Comeback are going to have the most success in 2011 and beyond.

Any delays now can have a major, lasting, long-term effect on your organization's success. Winners pull away from losers after a recession, and the Comeback race has already begun.

Who Am I and Why Should You Listen to Me?



I must answer a question that is likely on the minds of readers. The question is: "I thought Dr. Tompkins was a supply chain expert, why is he writing about the economy and why should I read this when I am getting hit by economic experts' opinions almost every day?"

Well, good question. Let me clarify my qualifications and my objectives. I am not an economist or an expert on the economy, and I don't want to be. I am a connected business executive who speaks daily to business leaders around the world.

Also, I am not contradicting or refuting anything the economic experts are saying. Instead, I am looking at the recession, the recovery and the return to prosperity from a much more refined micro view of what is happening and what will be happening.

I am taking all the information that is out there and boiling it down so that you may do your job better and help your company recover and return to prosperity.

About Dr. Tompkins and Tompkins Associates

Dr. Tompkins, President and CEO of Tompkins Associates, is an internationally known authority on leadership, business planning, logistics, manufacturing, material handling, outsourcing, and supply chain best practices. He has written or contributed to more than 30 books, hosts the *Global Supply Chain Podcast* series, and writes the *GoGoGo! blog*. Tompkins Associates designs and integrates global end-to-end solutions for companies that embrace supply chain excellence. For more information, visit www.tompkinsinc.com.