

## Facts on current recession

**When your neighbour loses a job it is recession; when you lose yours it is depression!**

- Market value of **US Fortune 500** cos fell by 37% - \$4.1T- record
- Two year decline \$5.3 T -43%- another record
- Valuation down by 13% from 11 years ago!
- Profits fell 85% -a record
- Good times don't last forever
- Bad times don't last forever too!
- Some companies will grow faster in recession
  - Dollar tree (sells goods for a Dollar-tape, party supplies, writing materials) had a 61% return (Take away: Have we looked at our own 'Dollar tree' opportunities?)
  - Auto zone (car repair co) had the highest ROE 279% (Take away: In recession people want to **repair** rather than buy)
  - Pharma co rose 143% since Oct as it made some very good acquisitions in the down turn (Take away: Have we looked at all M&A opportunities? Best time ever)
  - CarMax- used car search engine (Honda Accord –most popular) (Take away: Are we using internet enough?)
- The world's largest loser ever **AIG \$99.3 B**
- 11 of the 25 biggest losses in history of Fortune 500 in 2008
- 128 cos posted a combined loss of \$519B
- GM and Ford lost \$46B
- One toxic asset called CDO led to the high losses of 5 giants- **AIG (\$99B), Fannie Mae (\$59B), Freddie Mac (\$50B), Citi (\$28B) and Merrill Lynch (\$28B)**- 5 of the 11 biggest deficits
- **The one question which was never asked: "What if good times do not last?"**

- **Cos which stick to their knitting do well at all times – IBM (profit increased 18%), J&J (profits increased 22%), Apple (profit increased 28%), UPS (eps grew 717%)**
- **Industry does not matter**- Walmart made a profit of \$13.4B; Macy's lost \$4.8B!
- Ram charan says : There will be a shift in executive compensation- pay will be linked to long term performance
- Adam Smith said in 1772: "When profits happen to be greater than the ordinary, overtrading becomes a general error...and the rate of profit is always highest in countries that are going fastest to ruin." That's true even today
- Businesses that do not mortgage their future are best poised to succeed
- **Companies like Xerox which are helping clients to save money in these hard times are succeeding (Take away: Are we helping customers save?)**
- What goes up must come down- the banking, security firms and insurance group made a collective profit of \$257B in 2006 and same group lost \$213B in 2008!
- In recession consumer cyclicals -'anything you normally like to do which can be put off' -type of industries get hit most- like cars, home, high end retailers, high end hotels/restaurants/casinos.
  - Some sectors always pose increases or are not affected that much- recession proof!- Health care, technology, daily needs like Colgate (its ad budget is \$1.6B), Movies/TV (DirecTv grew 5% to 17.6M subscribers)

*Source: Fortune May 4, 2009*

## The Indian story:

### Promod Bhasin, Genpact:

- Growth covers lot of sins
- Knee jerk reactions are bad
- Employees have to be educated
- You have to start from the top –sacrifices have to go down from top
- **We have been always median, below median salary payers. So we are not that affected.**
- Employees bind together even better in crisis times.

### Kumar Mangalam Birla:

- Commodity business is cyclical
- **One has to move down the value chain closer to customer , getting into value added products-this reduces cyclical**
- **Sticking to the knitting is not good for India –you have to seize opportunities as they come**
- Acquisitions like Novelis will take 3 to 4 years to bear fruit
- **We are countering slow down by offering technical services to customers**
- One has to preserve liquidity

### Kishore Biyani:

- We do not talk of incentives and deals linked to higher spends
- We have brought back onions and potatoes

- Our new campaign is “ We buy so much so we can sell you at the best price.”
- We have changed the mix of products
- We replaced big ticket items with smaller ones
- **Where we sold packs of 6 and 12 we have smaller packs now**
- To sell lakhs of DVD i discovered a **great price point** of Rs 1200 –**Indians look at great price points (Take away: Have we looked at price points?)**
- To convert fence sitters we did promotions in festivals
- We are in touch with community associations like CA’s ,doctors
- We sell 100,000 Belgian carpets but we also sell 1.5 M terry towels a year; these items give us the footfalls
- India has 10 M weddings p.a –we plan to shop around marriages
- **We learn by making mistakes** –for instance when we introduced an excessive no. Of International brands
- In India everything is grown close together and consumed locally- so it does not need a cold chain

#### **BMW country head:**

- In a downturn luxury brands are the last to suffer because the target group is more affluent!

- If you are set up better in good times, the better you survive in bad times.
- BMW dealership in India is no different from the one in Tokyo

### **Nokia Shivakumar:**

- We continue to invest in advertising and retail
- When a large company plays defensive it loses; we play aggressively in a down turn too
- We have a base of 300 m customers
- Products like 4 in 1 (phone, alarm clock, torch and radio) are great value for money at the bottom end
- **We have failed experiments but no mistakes**
- **We have data by each outlet; we manage the price erosion; we educate the trade; (Take away: Do we have enough data?)**
- The sales guys come every second or third day to serve –so we take care of anything that goes wrong immediately

### **Kris Gopalakrishnan Infy:**

- After checking with customers who said majority would reduce their IT budgets Infy gave a guidance of negative growth
- **They do five year scenario planning , 3 year business plans, one year budgets, and every quarter the budgets are revised**
- In recession adjustments have been made in discretionary spends like travel

- **Variable component in salary is based on performance and that is not changed**
- They have a relative ranking system
- Non performers have been warned already
- Resilience is very important
- **Focus on ethics and values is more important as they get challenged in bad times**

**At last we hear some good news!**

**TOI 14 Aug 2009 says “World stepping out of recession.”**

- **Yesterday we learnt Industrial output grew by 7.8% in Jun 09 in India-the highest since Feb 08!**

**Let us hope the worst is behind us!**

**Ramki**

*Source: Various magazines and papers*