

July 2005

ATKEARNEY

**Introduction to
Scenario Planning**

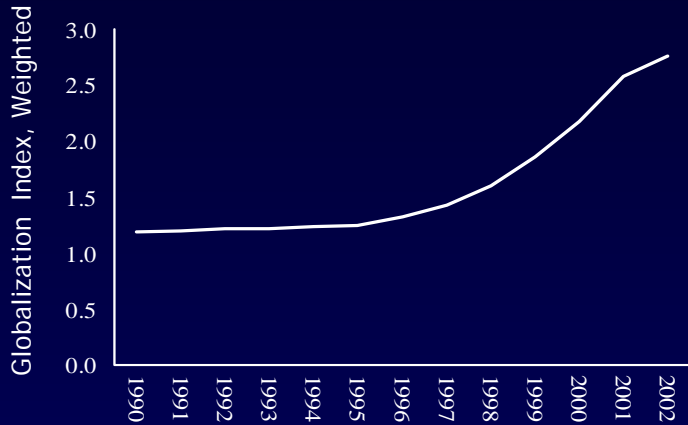
**Overview of the
Five Global Drivers**

**Scenarios &
Wildcards**

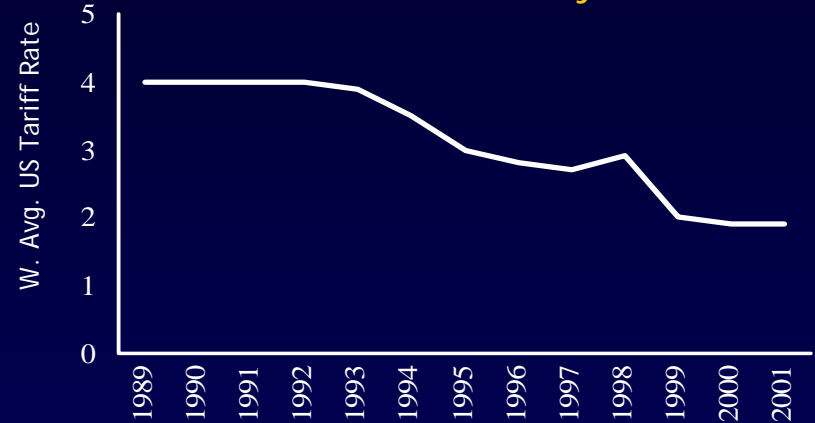
**Navigating Global
Risks**

While the opportunities of globalization have grown

A.T. Kearney's Globalization Index



Trade barriers are steadily on the decline

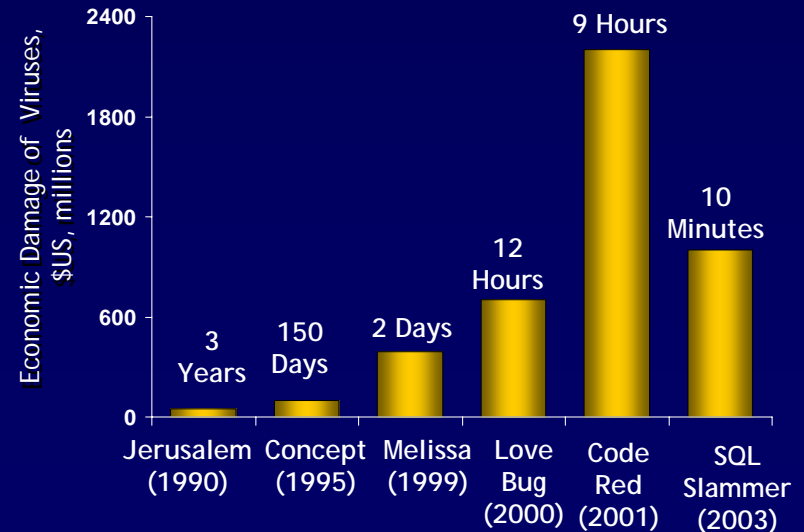


So have the risks

Terrorist incidents are increasingly common



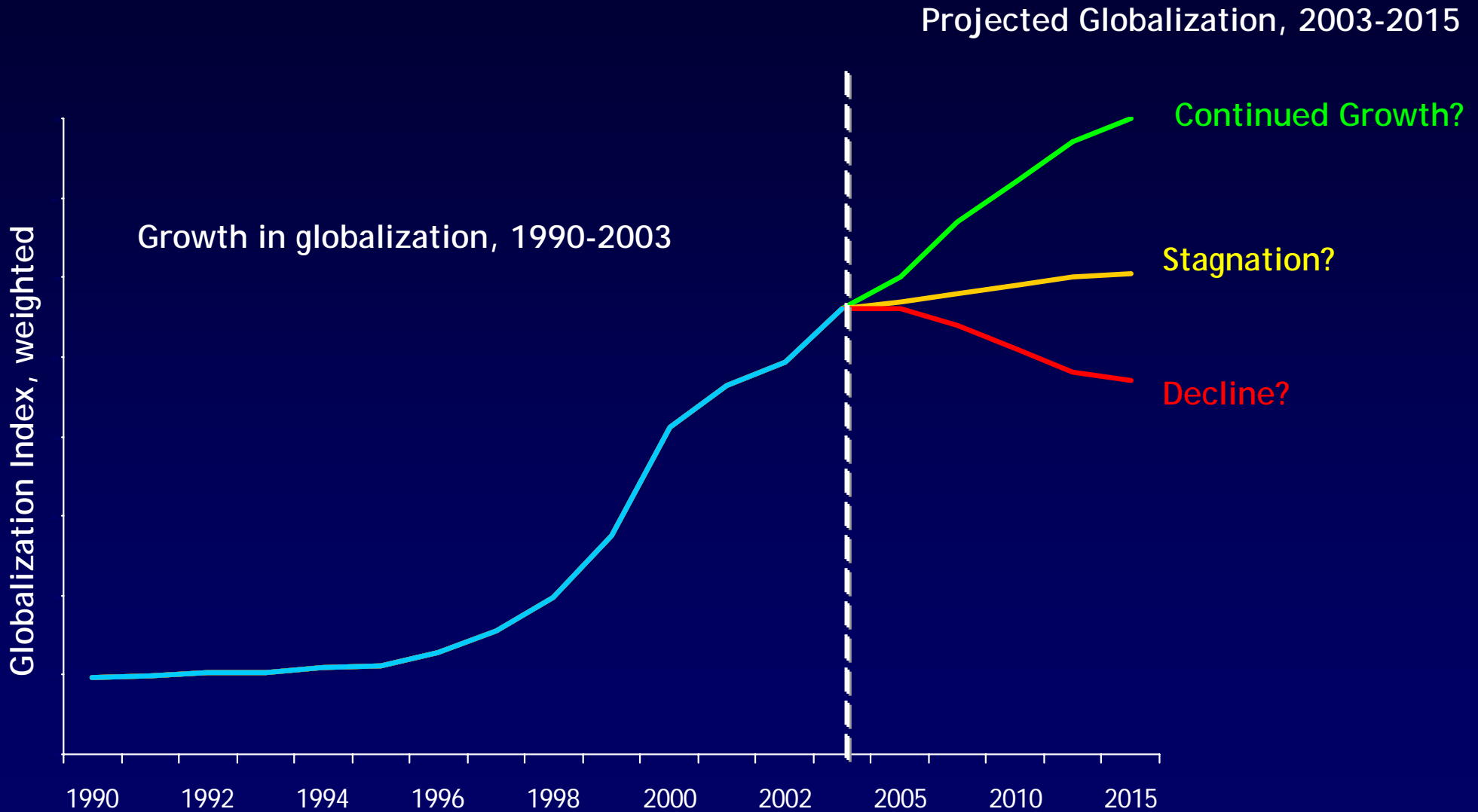
Computer viruses cause more damage in less time



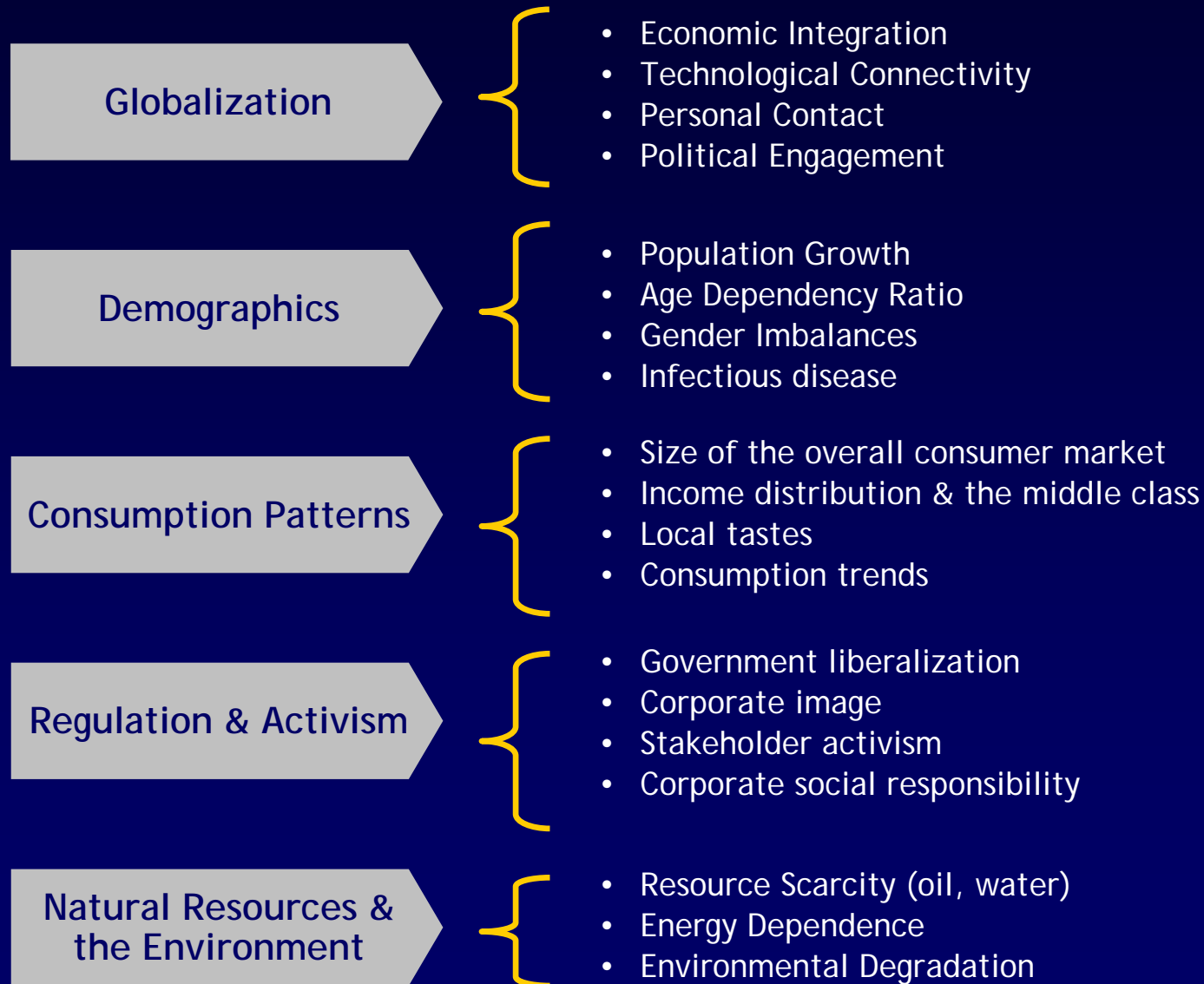
Successful companies must anticipate and manage change according to the key drivers of the global operating environment



Example: globalization - is an integrated world at risk?



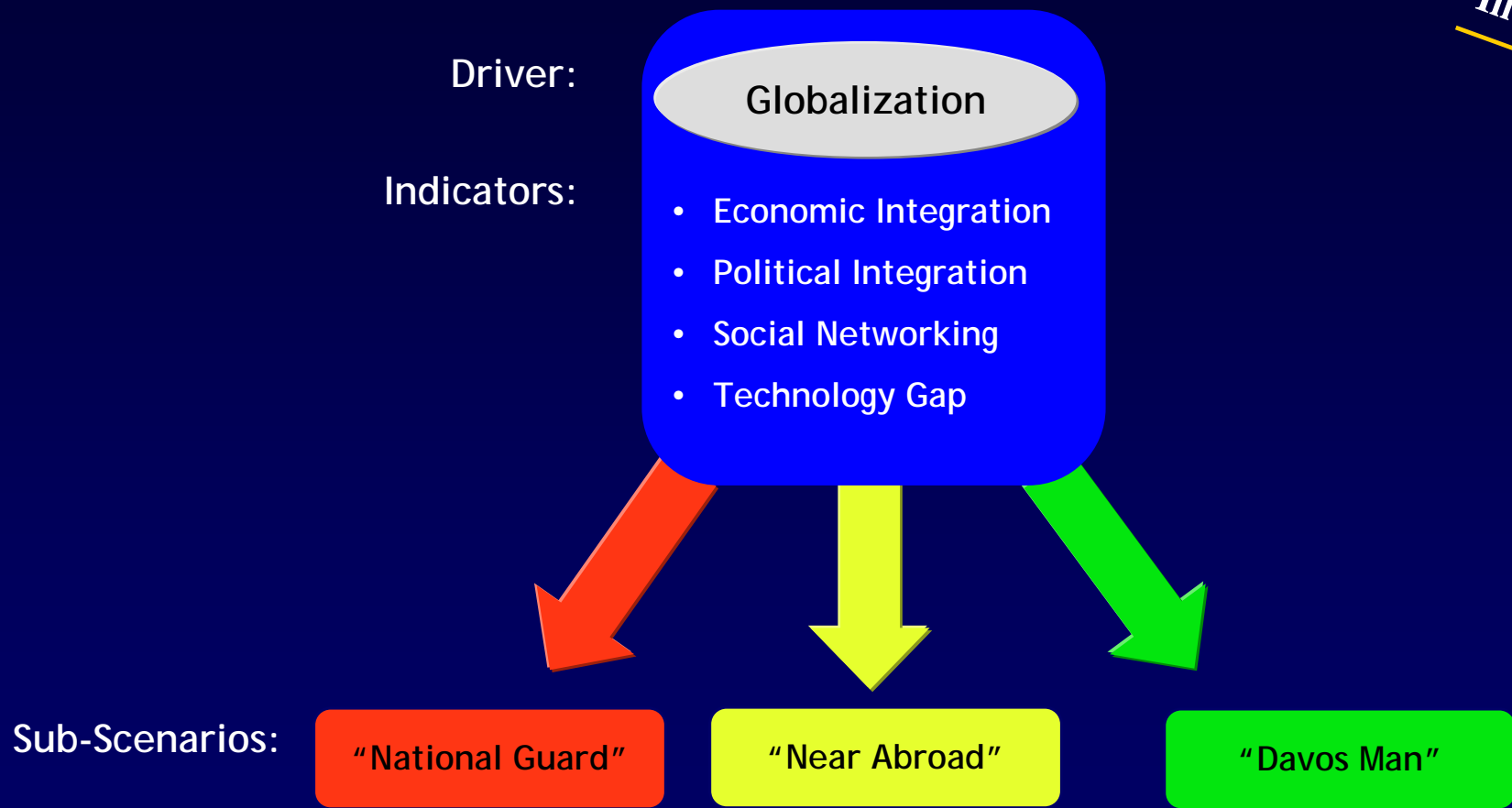
For each driver, we model the component parts



Illustrative

Scenarios are built from the ground up

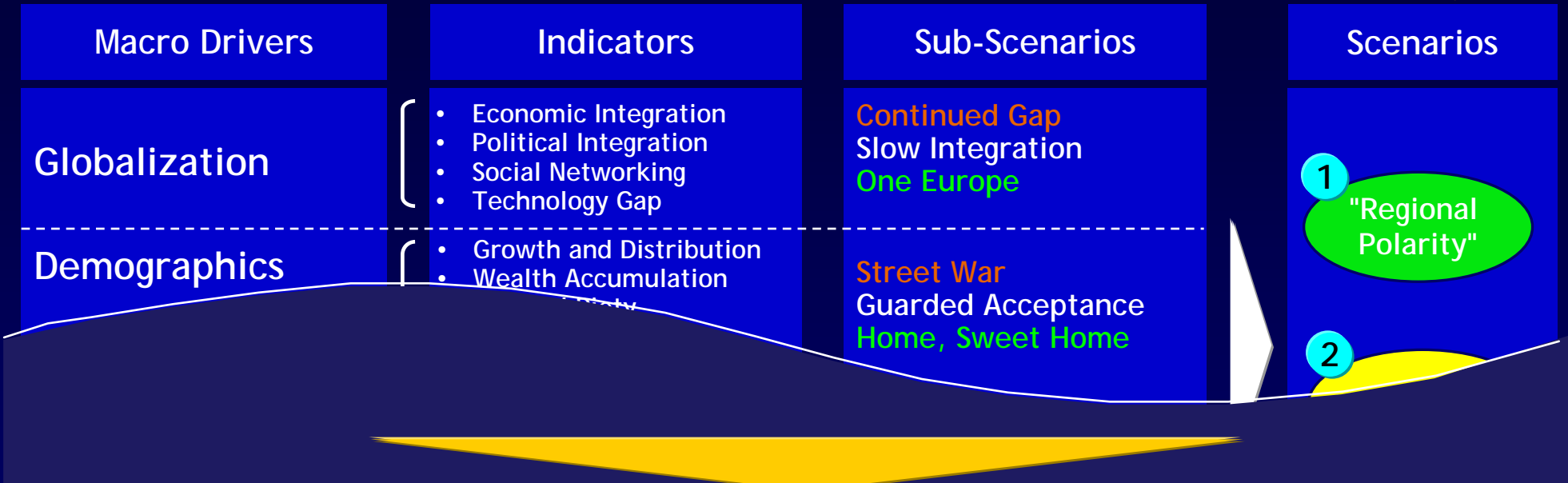
Illustrative



Macro-Scenarios are developed from a combination of sub-scenarios and span the continuum of future possibilities

Generate Scenarios

Illustrative



Management Uses Scenarios as Guidelines

- Prepare risk and action plans for the different scenarios
- Observe drivers and other "road signs" along the way
- Adopt scenarios and plans to changes in the environment
- Restructure business to changing environment

“Powerfully imagined and rigorously researched...scenarios are an indispensable guide to decision-making in an environment of new risks & opportunities” *

Drivers	Full-Spectrum Scenarios for the World in 2015		
	Castles and Moats (Pessimistic)	Patchwork World (Baseline)	Open Borders, Lingering Fears (Optimistic)
Globalization	National Guard: perceived external threats to security fuel nationalism	Near Abroad: globe settles in for long haul of low intensity conflicts	Davos Man: world growth and confidence continue as does global integration
Demographics	Urban Time Bomb: young, poor populations combust while aging hits West	Safety Valve: rich countries are “gated communities” with limited immigration	Adaptive Labor Market: intelligent immigration policies improves prospects
Consumption Patterns	Discount Warehouse: weak growth restrains middle class size in emerging countries	Multiplex: consumption spans a wide spectrum - standardization to customization	Affluent Individualism: world of savvy, sophisticated consumers
Natural Resources & Environment	Toxic Shock: resource competition and regional conflicts	Search for Alternatives: some regional instabilities and ecological concerns	Abundance Renewed: new reserves and technologies come on line
Regulation & Activism	New Dirigisme: populist governments and militant activists	Selective Re-regulation: “rational” government action & self-correction	Back to the 80s: forces of commerce and technology overpower restraint

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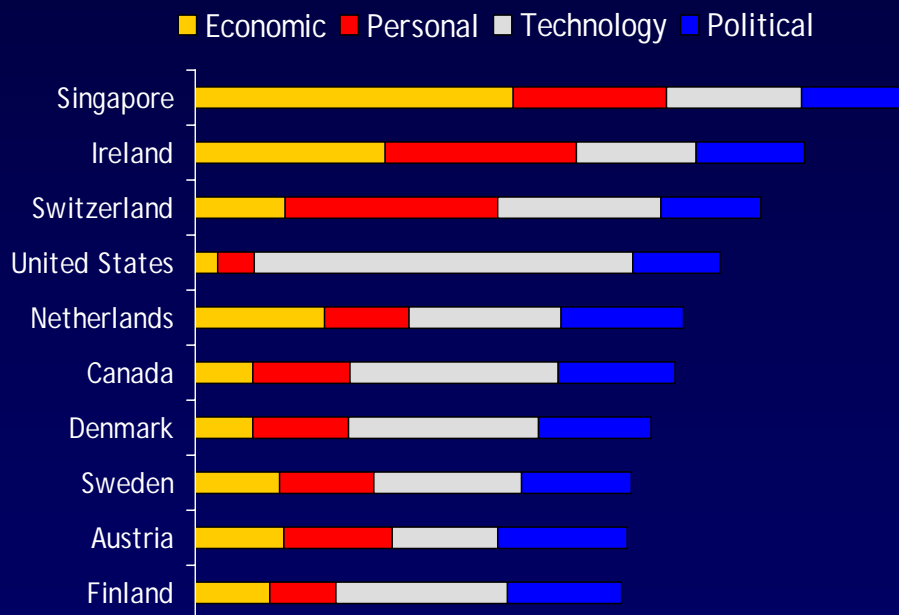
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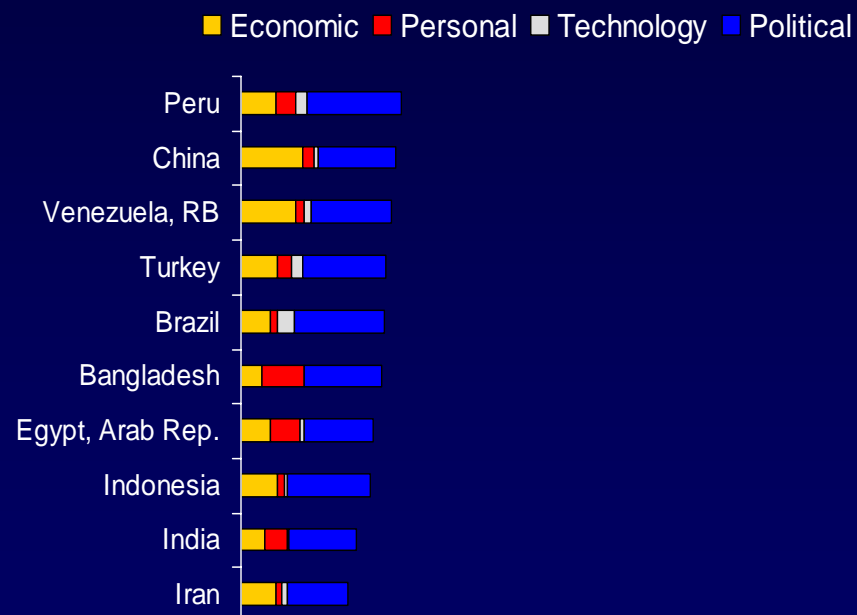
- Globalization
- Demographics
- Consumption Patterns
- Natural Resources & the Environment
- Activism & Regulation

Globalized countries tend to be rich, free and open

2005 Globalization Index Top 10

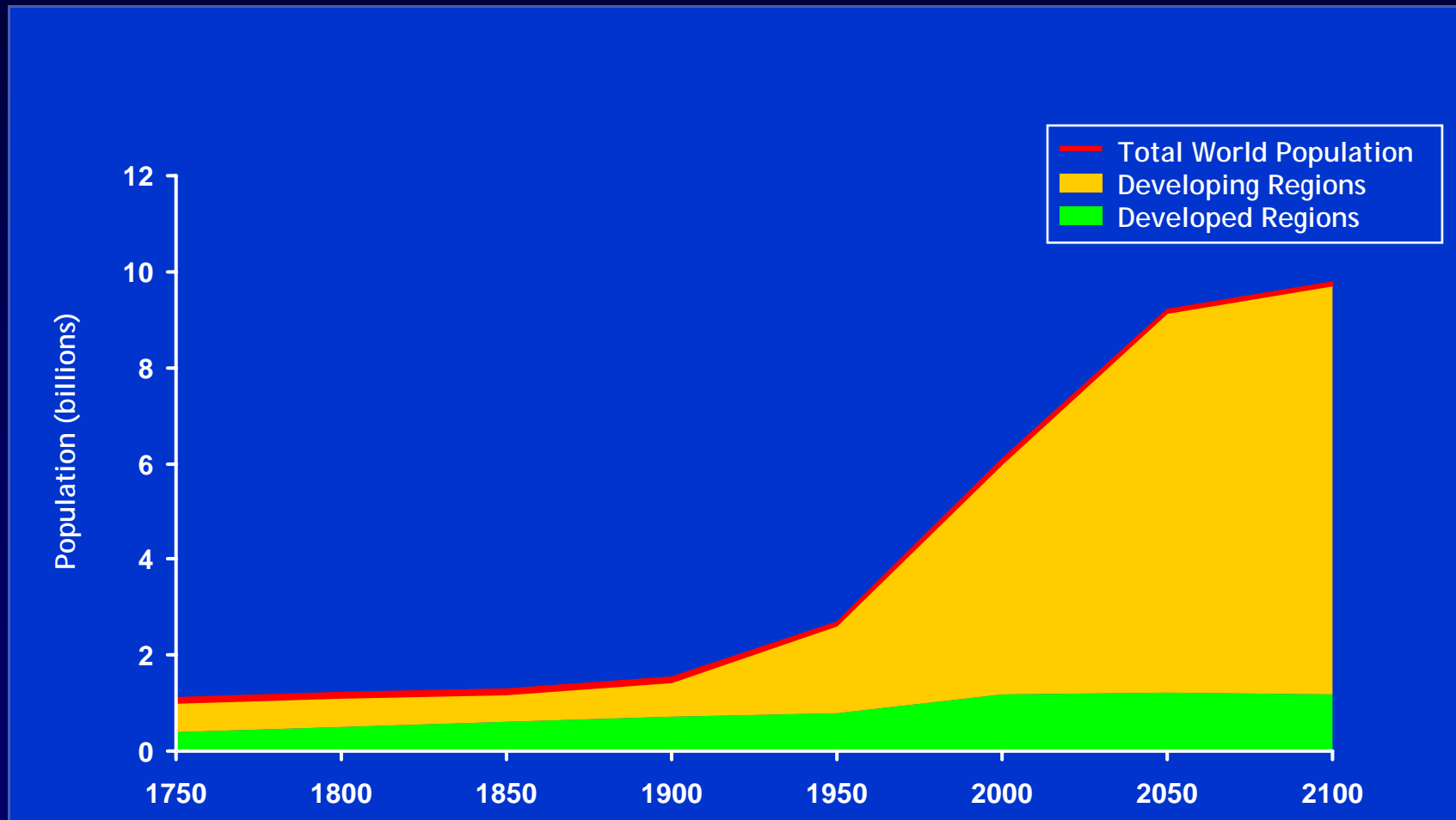


2005 Globalization Index Bottom 10



The developing world will comprise virtually all future population growth

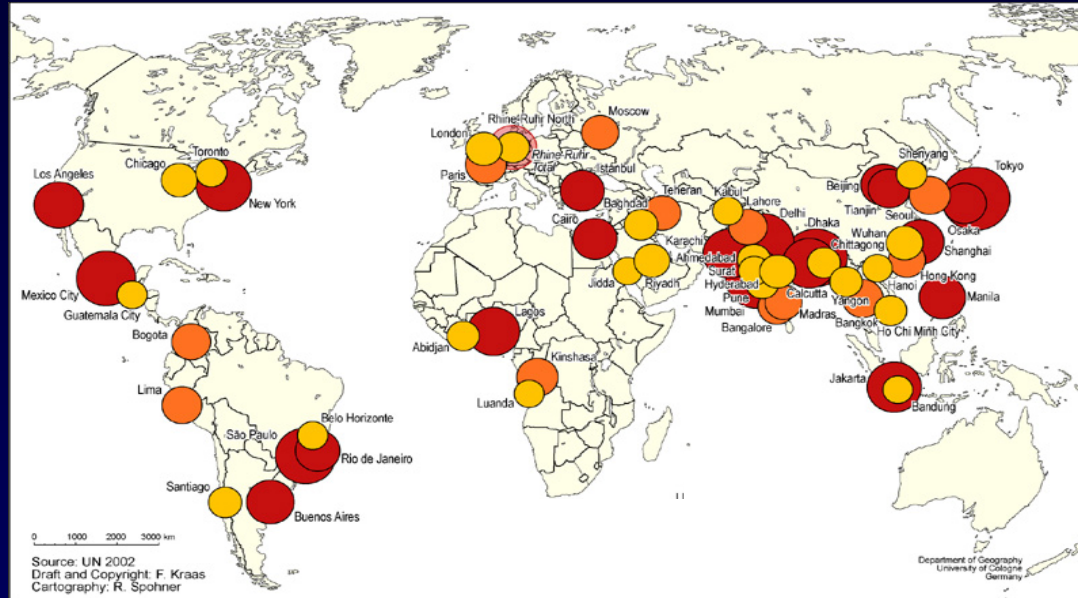
Population trends in developed and developing countries (1750 - 2100)



Developing countries will be urban and young

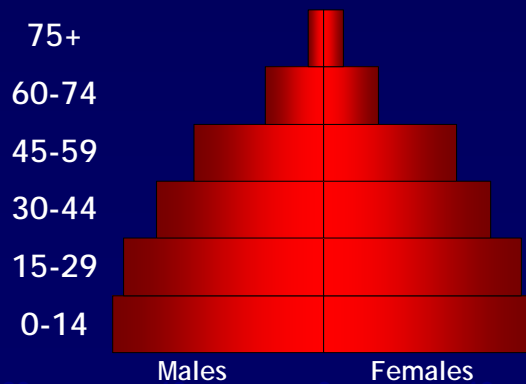
Mega Cities 2015

- 5-8 million
- 8-10 million
- > 10 million

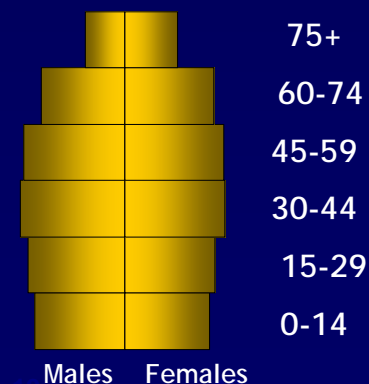


Developing countries in 2020 show a youth explosion... ..while industrialized populations are aging rapidly

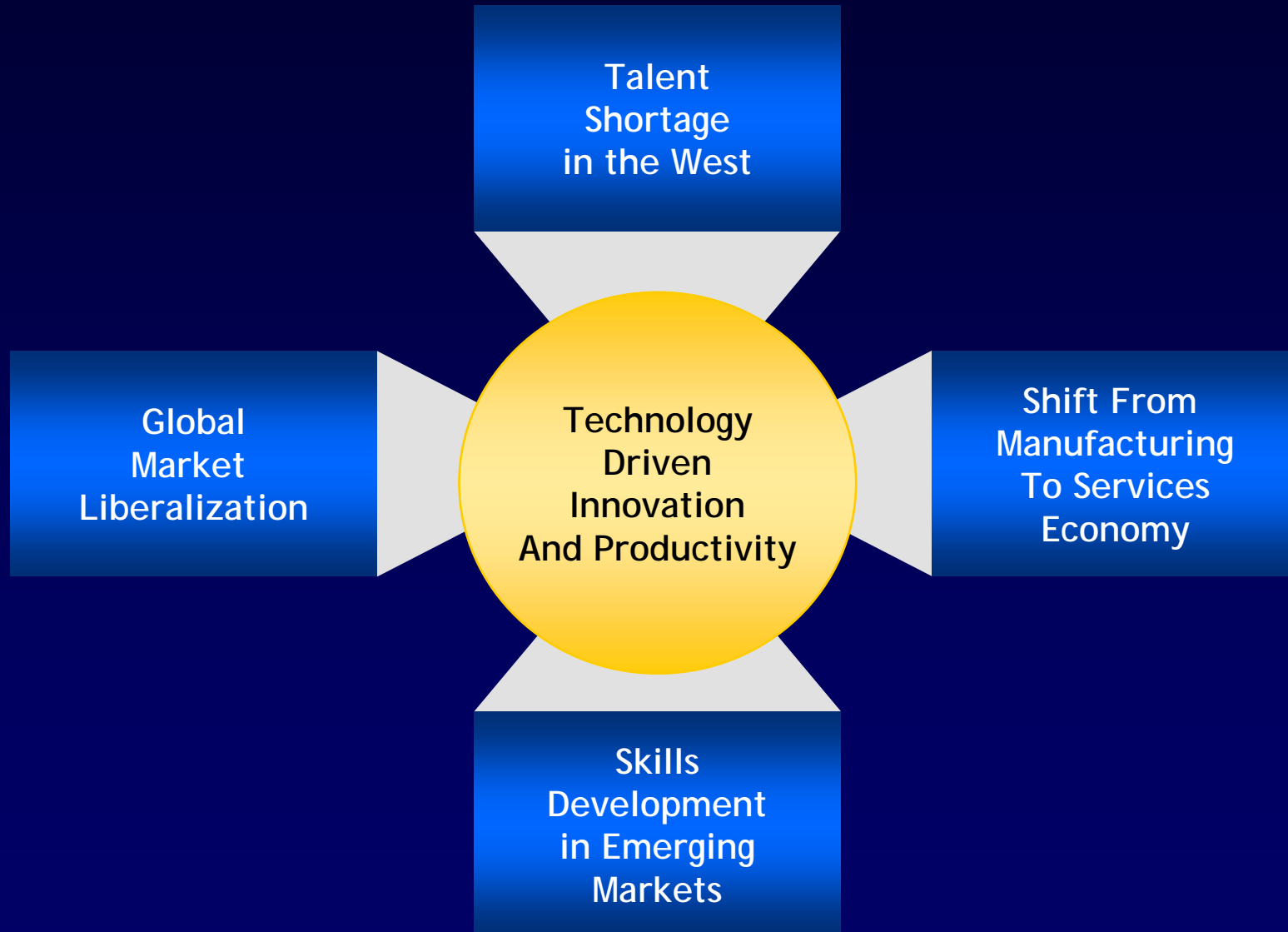
Age Groupings 2020



Age Groupings 2020



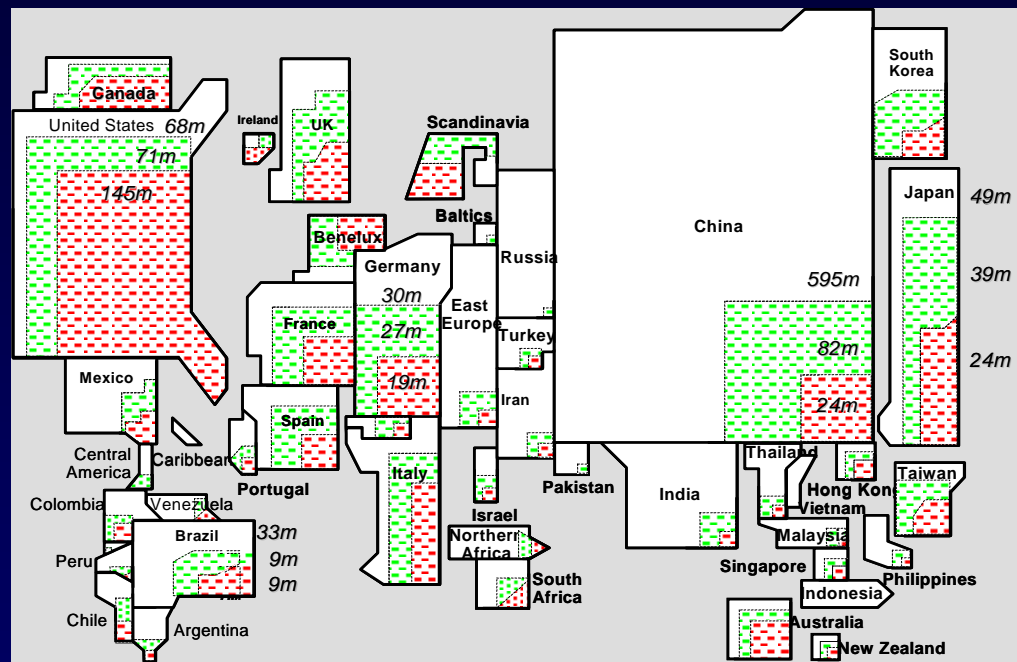
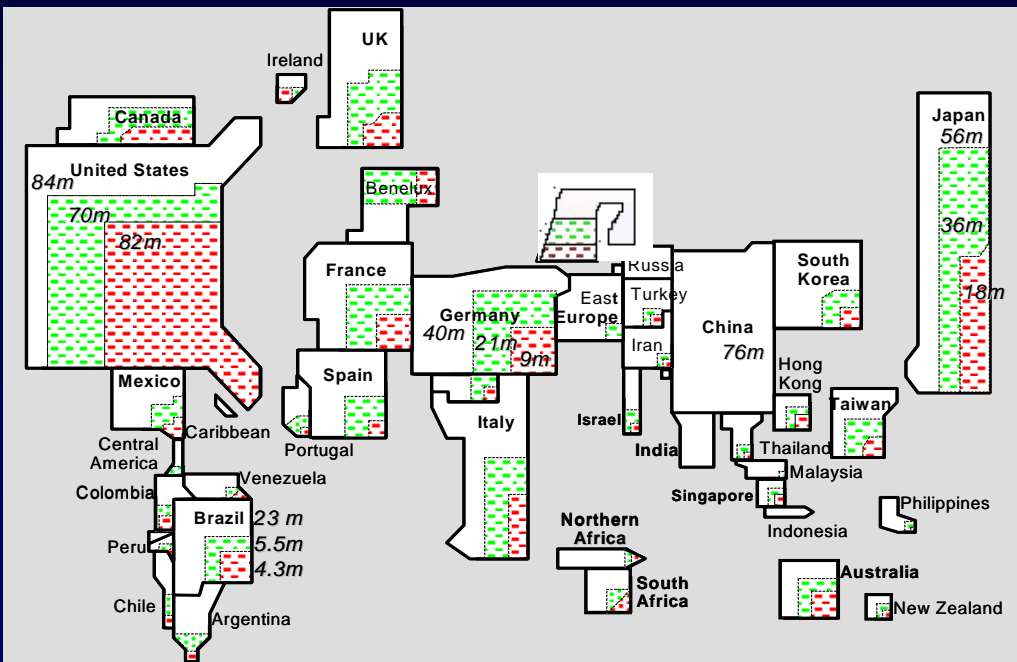
A convergence of forces is creating a new global market for talent



Middle class growth will be largely in the developing world

2000

2015



Consumption patterns are shifting

Advanced Markets: More *Experiences*

- High-end, luxury goods
- Custom features and add-ons
- Individualized leisure activities and entertainment options
- Travel and tourism
- Vacation homes
- Concern for health, longevity
- Growing ecological awareness



Emerging Markets: More *Stuff*

- Status-oriented merchandise
- Electronics
- Consumer durables
- New vehicles
- Housing



Local culture will also drive consumer preferences

United States



English Canada



French Quebec



	United States	English Canada	French Quebec
Time	Do it now	Wait	The past
Energy	Superman	Winter energy	Frustration
Space	The universe	The best place on earth	Shrinking or under siege
The Logic of Emotion	Life, liberty and the pursuit of happiness	Peace, order, and good government	Je me souviens or a sense of remembrance
The Body	A machine	An inconvenience	For pleasure
Food	A machine	Maintenance	Enjoyment
Eating	Fill up the tank	Keep life going	An orgy

Four key factors will drive future energy markets



Politics

- Development of situation in Iraq
- Central Asian regime stability
- OPEC cohesiveness



Technology

- Extractive technology
- New efficiencies
- Alternative energy technology



Economics

- Consolidation of oil markets and firms
- Asian economic development
- Central Asian macroeconomic stability

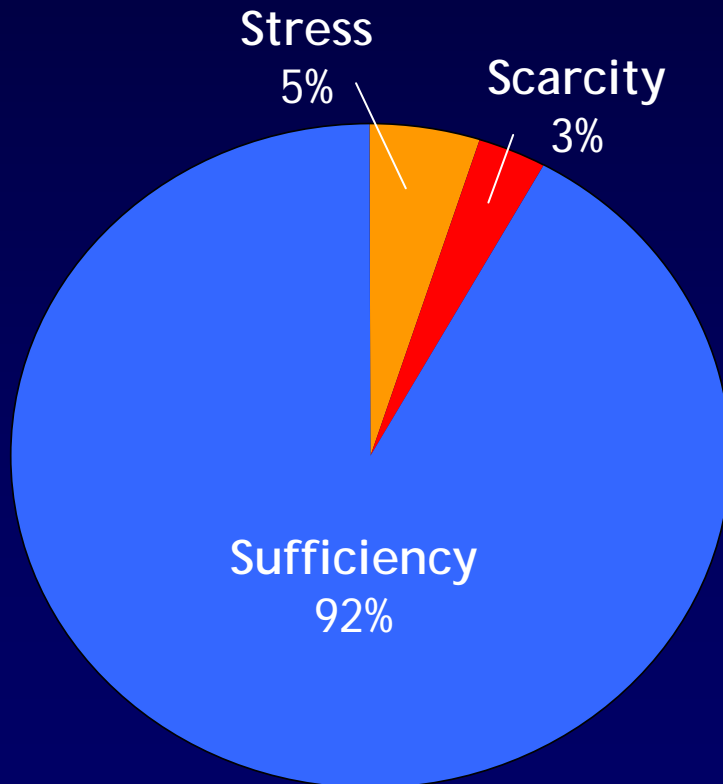


Environment

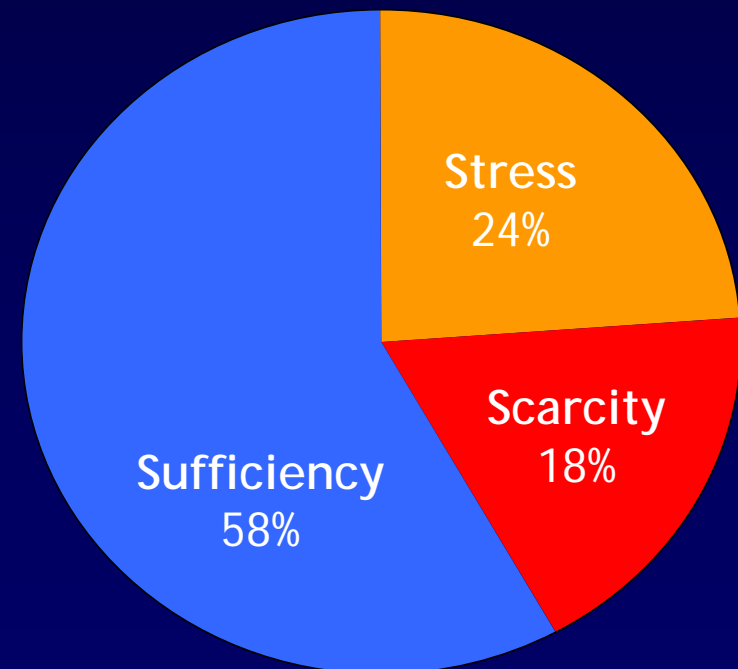
- Degree of observable climate change
- Availability of natural resources

The future will be increasingly characterized by concerns over water scarcity and water stress

2000 Water Availability
As Percent of World Population

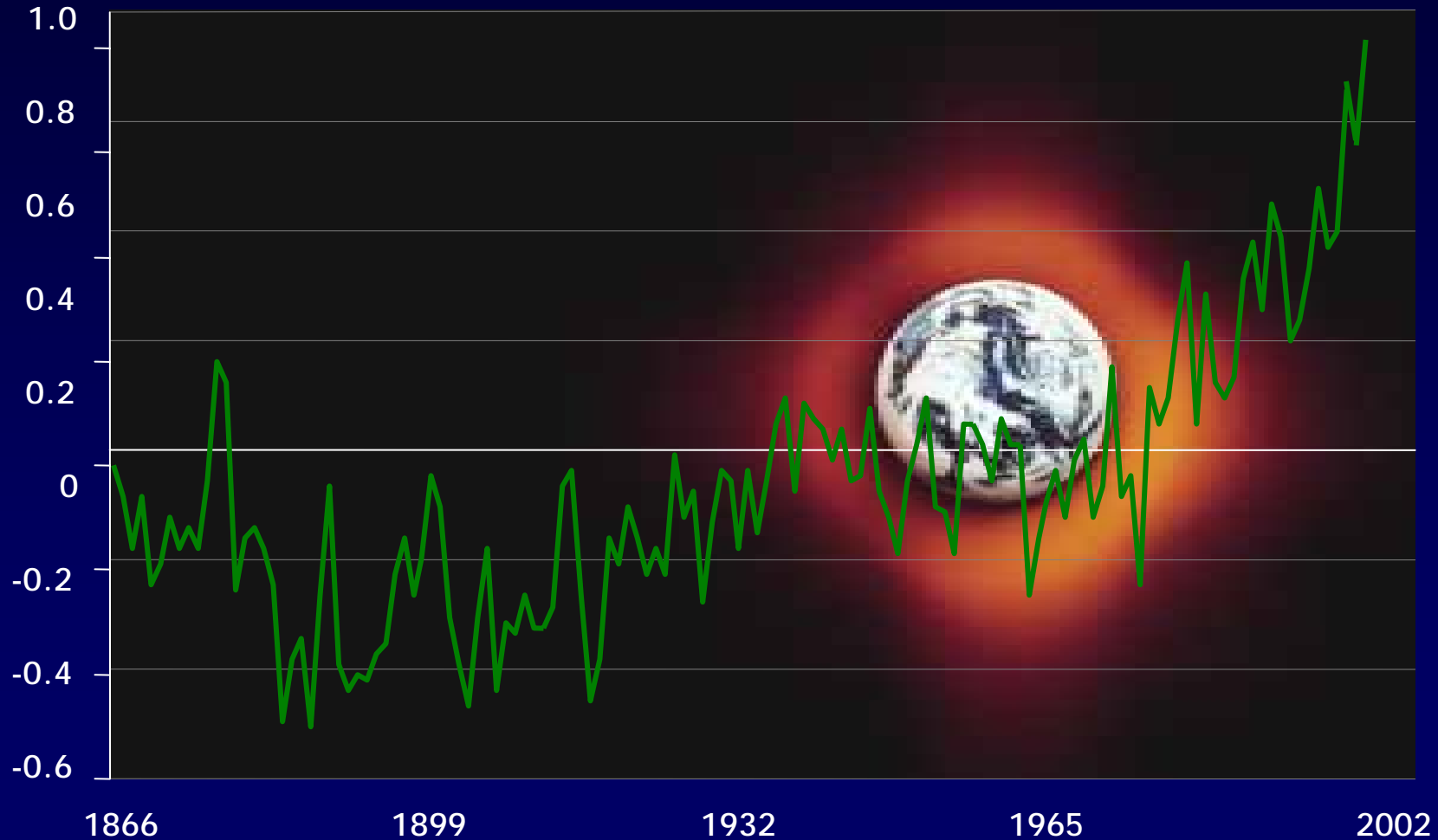


2050 Water Availability
As Percent of World Population



The reality of global climate change is now universally acknowledged

Temperature Change, °C



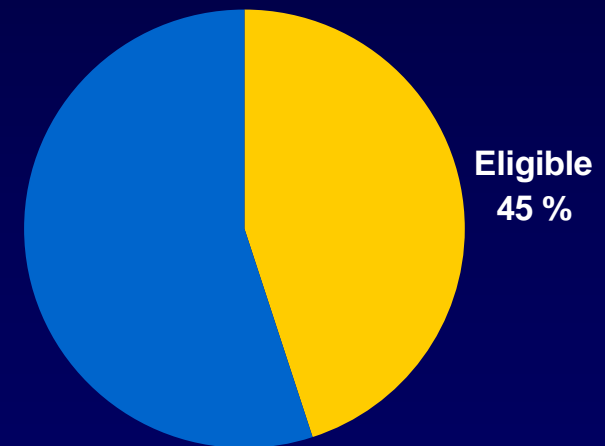
Complex regulatory issues challenge constrained governments...

Issues at the frontier

- Digital technology & privacy issues
- E-commerce
- Biotechnology
- Stem cell research and human cloning
- Genetic testing raises medical privacy concerns

U.S. Government "Brain Drain"

Public Sector Retirement Eligibility, 2005



- Nearly half the senior executives in the US government may soon depart

...while empowered activists challenge corporate behavior

Transnational networking

- Low cost of global transportation and communication
- Decentralized organizations disseminate information rapidly and efficiently

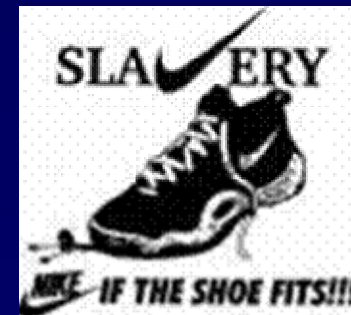
Brand “boomerang” tactics

Brand editing

- Profusion of brand names and identities allows activist groups to educate and instigate consumers



Brand image exploited by activists



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Each scenario has its own set of implications

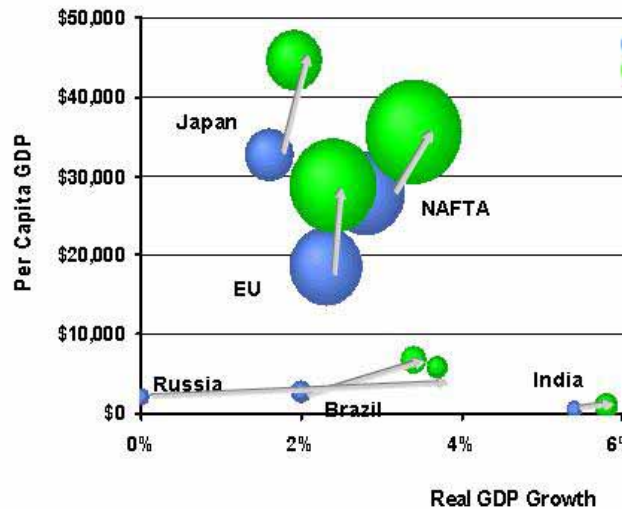
Implications under Open Borders, Lingering Fears

Drivers	Full-Spectrum Scenarios for the World in 2015		
	Castles and Moats	Patchwork World	Open Borders, Lingering Fears
Globalization	Rise of localization	Bilateral half-measures	<i>Homo economicus</i>
Demographics	Restless masses	Immigration queue	Global talent flow
Consumption Patterns	Rice and beans	World bazaar	Hey, big spenders
Natural Resources & Environment	Constrained energy	Necessary innovation	Fuel for growth
Regulation & Activism	Big Brother is watching	Partial restraint	Chicago boys II

- The US and China are the dominant economic and political players on the world scene
- Increased trade and investment openness boost international business activity and technological innovation, but several thorny regulatory and governance issues remain.
- Rising affluence of consumers, with growing middle class in emerging markets
- Industrialized countries become more open to immigrant workers due to aging workforce

Insights derived from the scenarios can be quantified and driven down to the level of geographic markets and key customer industries

China will have the highest growth in the future, but Europe and North America will continue to have the most important markets by size

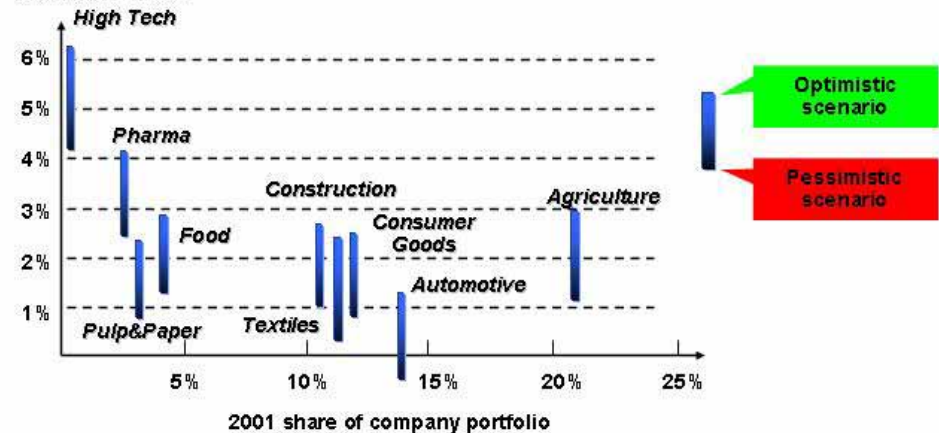


Note: For 2001, real GDP growth is for the previous 10 years. Russia's growth was actually -3.0%
 Source: DRI-WEFA, EIU

The company's existing customer industries are expected to grow only moderately over the coming decade

Company portfolio share vs. industrial customer growth

Industry growth ranges
 CAGR 2001-2015



Source: A.T. Kearney; DRI-WEFA

“Wildcards” must also be considered

Wild cards are low-probability, extremely high-impact events that:

- (1) directly affect the human condition;
- (2) are potentially disruptive (negatively or positively);
- (3) are intrinsically beyond the control of any institution, group or individual;
- (4) are rapidly moving



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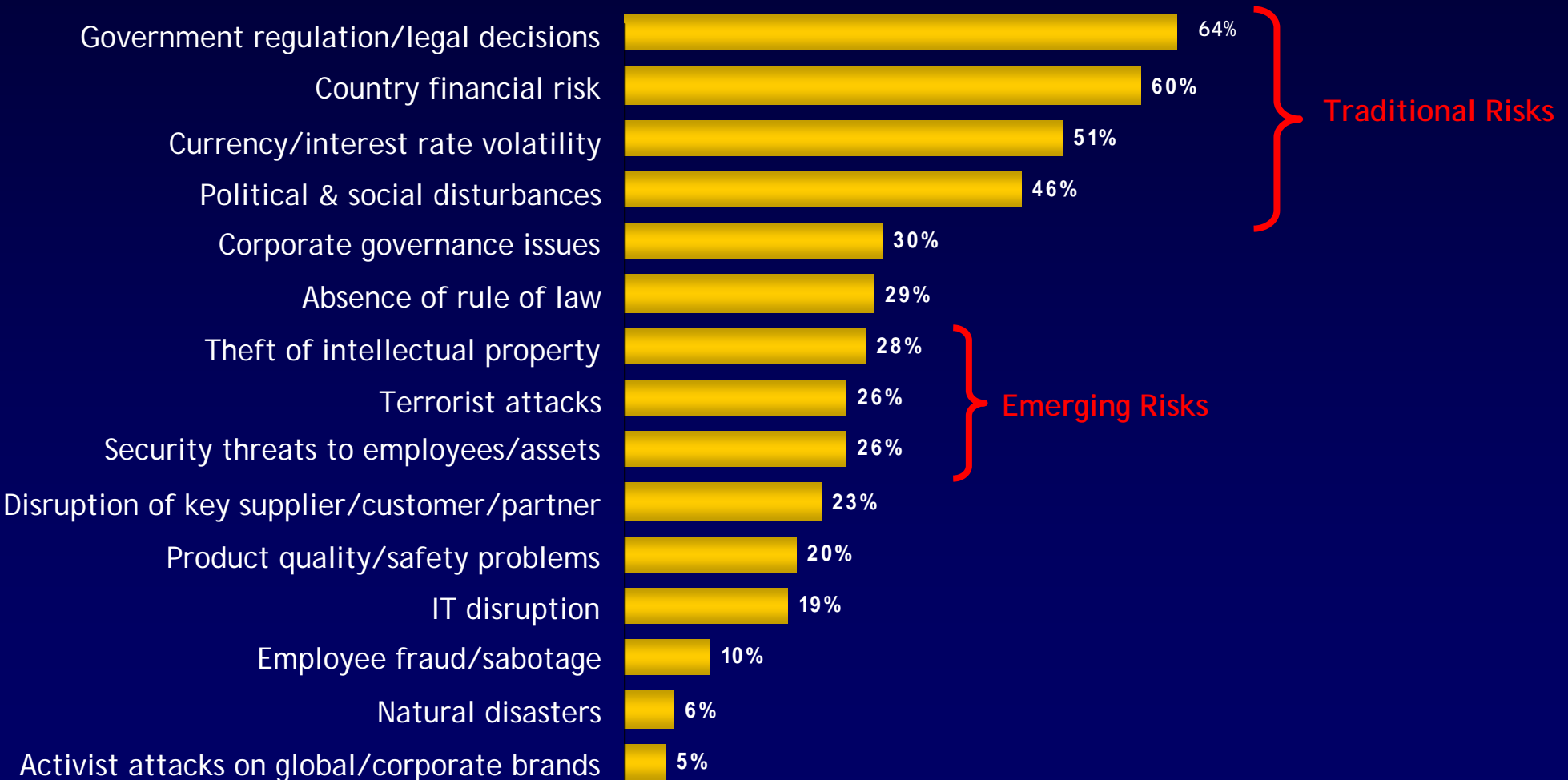
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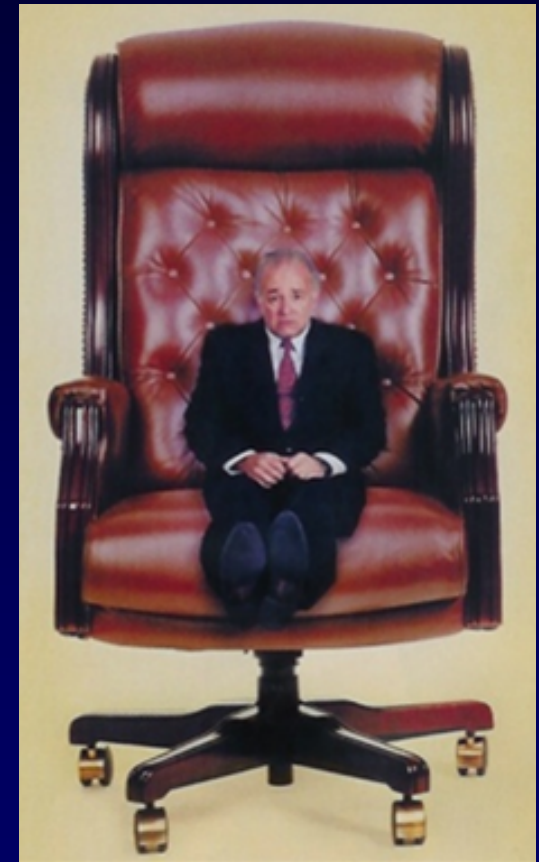
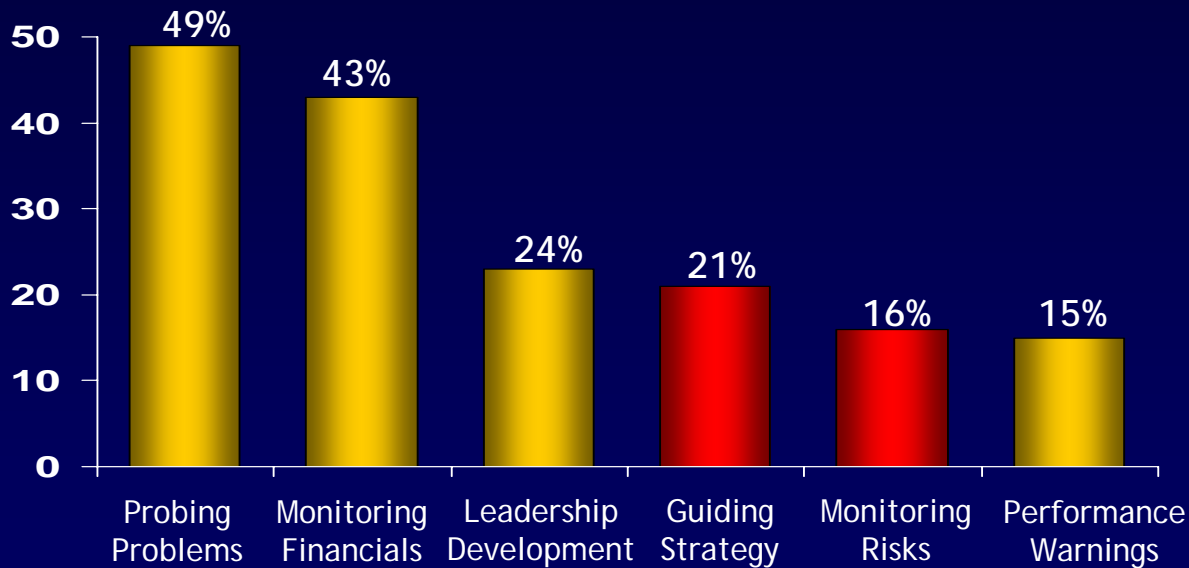
In this rapidly changing business world, corporations face an increasingly complex risk environment

Greatest risks impacting FDI decisions, 2004



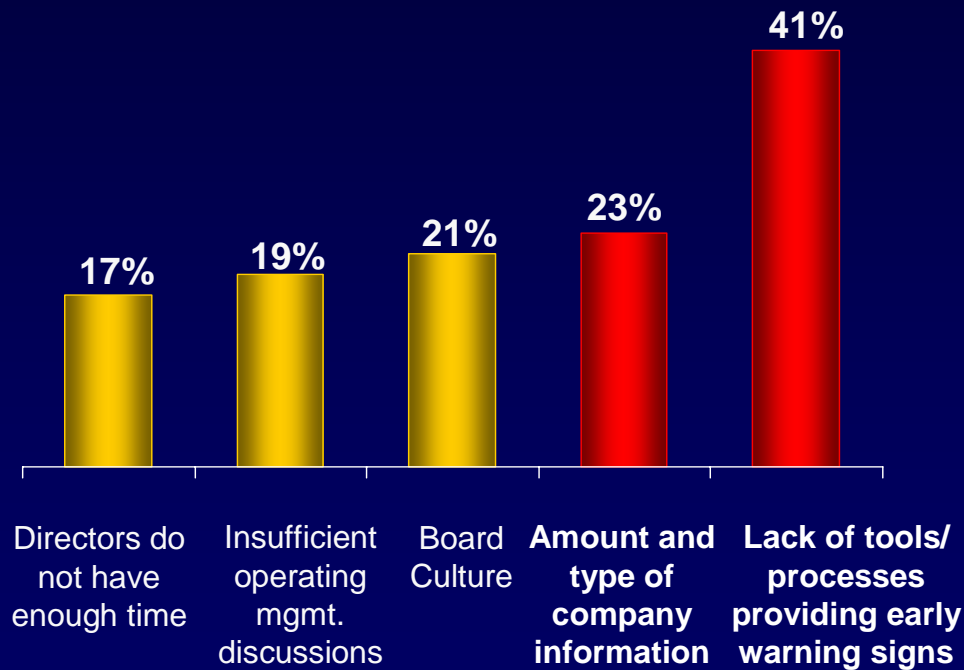
S&P 500 Directors fear they are unable to properly assess emerging global risks and opportunities

Percent S&P 500 Directors Rating Board as "Very Effective"

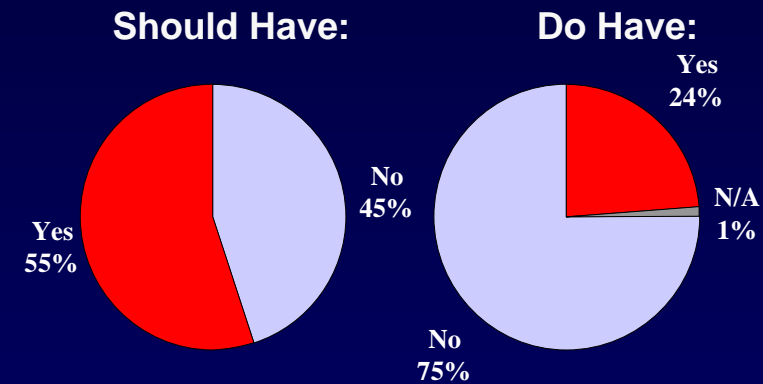


Lack of appropriate tools and objective information are seen as the biggest impediments to effective strategy and risk monitoring

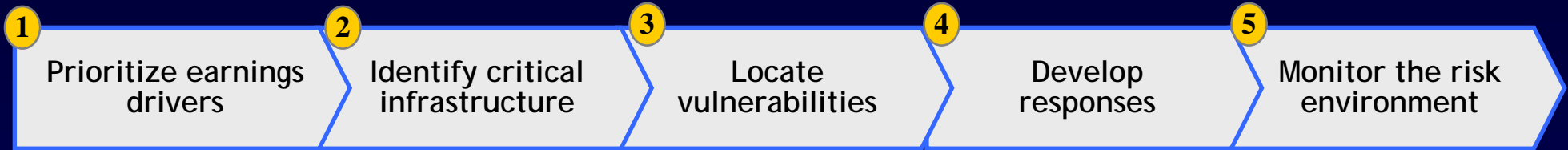
What are the impediments to monitoring business performance?
(% of directors ranking in top 3)



Regular, independent, third-party reviews of governance practices:



Managing risk requires five key steps



Examples

- Intellectual Property
- Delivery & Logistics
- Raw Materials & Inventory
- Personnel & Customer Support
- IT & Telecom Systems
- Manufacturing, Plant & Equipment

Priority sourcing locations



● Key Port/Node ↑ Flow of Goods

Risk responses

Illustrative

Key Characteristics	Not considered	On "to do" list	Implementing
Flexible			
Redundant			
Strategic			
Collaborative			

A risk/response matrix should be agreed upon to define the responses required at each level of risk

Risk/response matrix for procurement/sourcing operations

<u>Risk Level*</u>	<u>Profitability Impact</u>	<u>Action Required</u>	<u>Accountability / Report Level</u>
<i>Severe</i>	High	<ul style="list-style-type: none"> Operations in affected country to be stopped immediately 	<ul style="list-style-type: none"> CEO and Executive Team
<i>High</i>	High	<ul style="list-style-type: none"> Action plan for diverting operations to be created within 1 month 	<ul style="list-style-type: none"> CPO Legal, Financial Departments
<i>Elevated</i>	Moderate	<ul style="list-style-type: none"> Explicit risk mitigation/diversification strategy to be created within 1 month 	<ul style="list-style-type: none"> Procurement and Supply Chain leadership team
<i>Guarded</i>	Moderate	<ul style="list-style-type: none"> Report on key risks to be submitted; validation of current strategy 	<ul style="list-style-type: none"> Regional Sourcing Managers Category Managers
<i>Low</i>	Moderate	<ul style="list-style-type: none"> Regular risk monitoring 	<ul style="list-style-type: none"> Risk audit core team

* Sample gradations; additional complexity can be incorporated in model, including probabilistic distribution, variability in risk assessment, etc.