

Risk vs. Opportunity: The Challenge

“This is an unprecedented global catastrophe and it requires an unprecedented global response.”

“We join the world in feeling enormous sadness over a great human tragedy... The carnage is of a scale that defies comprehension.”

In 2008, quotes like these were used regularly to describe the economic recession. In fact, these quotes from Kofi Annan and George W. Bush described the tsunami that devastated Southeast Asia in 2004. For many, the impact of the global economic crisis left them with the same helpless feeling. A year ago, financial institutions were failing at an alarming rate, and it looked like there was no end in sight to the burgeoning recession. From 2007 to March 2009, stock values dropped approximately 55 percent. But the global economy has started to recover, and there are expectations that stock values will increase 15% every year for the next eight years. Fast forward to the end of 2009 and the economy has stabilized, with many positive economic signals. What does this portend for businesses in the near future? First, there should be unprecedented opportunities for economic growth in the months and years to come. While the recovery may seem tenuous to some and employment continues to lag, business growth opportunities are emerging at a quickening pace, as evidenced by the growing number of merger and acquisition deals. The interview

with Hans Steininger, CEO of MT Aerospace AG, is a strong example of this. MT Aerospace has achieved record EBITDA despite the recession due to solid strategic position, excellent technology and key positioning in the public and commercial sectors.

Second, the meltdown of the financial markets created a massive credit crunch that destroyed many firms. The companies that survived are emerging from this crisis stronger, with better liquidity and business fundamentals. In some ways, this recession culled the financially weakest organizations, resulting in a landscape of firms better positioned to take advantage of growth opportunities. Jürgen Kohler's discussion of Turn-around Management describes the urgency and potential value creation from taking a company through a transformation process to emerge stronger.

Paolo Cervini and Marco Occhetta introduce another tool that has been successfully used by Tefen Italy to help streamline organizations: Zero-Based Costing. The zero-based approach emphasizes cost optimization through an analytical, creative and shared approach by minimizing inefficiencies throughout every cost center. Zero-Based Costing has helped many companies emerge from the recession with a stronger income statement.

Third, the depth, scale and uncertainty of the downturn have caused consumers and

businesses to think radically different about “risk.” Prior to the recession, incentives of virtually free capital encouraged many to become highly leveraged with a risk profile off the charts. Now that the crash occurred, the concept of risk is in the forefront for all players in the global economy. How they deal with it will define virtually all aspects of business behavior, resulting in a different environment for global commerce.

Tefen USA's Andy Schramm and Joe Kelly highlight the issue of supply-chain risk in today's uncertain economy. Given the combination of supply-chain complexity, globalization, increases in regulation and our current economic downturn, supply-chain risk is getting significant attention in the Life Sciences Industry. As they note, most business executives feel they are unprepared to deal with this risk factor, and mitigating these risk factors is imperative to their firm's survival. Clearly, managing risk is gaining momentum as a driving decision factor during this recovery period.

We hope the ideas contained in the Tribune stimulate ways to lift your company with the tide of the global economy continuing to rise.



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