

### **Outline Scenario – Feb 2009 onwards**

There are 'green shoots' as ever in the economy. However, the skill is to determine which are 'weeds' and which are not! Organisations will have to re-stock at some point and there are lots of 'bargains' for both personal and commercial buyers with cash and security. These will no doubt have an impact and give the impression of the recession 'bottoming out'. Again the challenge is to guess this correctly – many fortunes are lost on false dawns, but what we can rely on is that the strong, wealthy individuals and organisations will no doubt get stronger.

At the moment our views do not indicate the bottom has been reached. We anticipate that a new wave of company closures will soon commence. These are not the badly-managed or heavily indebted organisations - that "low hanging fruit" has already gone, or is well on its way.

These companies will have been traditionally profitable and well managed but will collapse due to a pure lack of cash. The restriction on lending by the banks and the lack of easily available credit insurance will be the primary cause but then this will be accelerated by lack of payments as serial company failures occur. Of course this will tighten lending by the banks precipitating further crises.

The organisations that survive this will do so through savage cost cutting and tight managerial control. Expect to see something like a 25% cost reduction target in most private sector organisations.

Following this in the longer term, beyond 12 months, the organisations that survive may well struggle to return to real profitability, let alone growth. The likely scenario here is that these organisations begin to seek mergers with each other to achieve economies of scale. Again in this situation we will see significantly more redundancies and closures.

The voluntary, not-for-profit sector will also feel the pressure. We anticipate a raft of charity organisations failing over the coming months, leading to more pressure on existing public services where applicable.

Increasingly though the public sector will be pressurised as previously predicted. The concept of externally auditing against 'best practice' will be challenged as innovation and variety in delivery is needed to drive change and deliver effective and efficient affordable solutions.

Politicians will also have to change and start to control less and stimulate more and let local growth and innovation take place. There may well be the opportunity for more local mayors with greater autonomy who can react and deliver to local needs free from central control.

The government supported PPF, pension regime will come under considerable increasing pressure, possibly leading to its collapse or suspension.

The evidence of fraud will continue to emerge within the finance sector with the strong likelihood that 'insurance related' fraud will be the next to hit prominence.

There are lots of opportunities though for enterprising individual and organisations. Obviously, budget hotel chains like Travelodge should continue to profitably expand as demand continues but UK manufacturing, particularly automotive, should be in a healthy position given current exchange rates and reducing labour rates, but only if materials are sourced locally and not imported.

Connected to this though is the growing essential skills shortage. Real reforms to the way in which apprentices are paid for and trained need to be investigated – maybe we will see a return to the old training bodies of the 60's and 70's?

The retail High Street will continue its decline, eventually leading to large ghetto like areas in town and city centres. These will pose challenges to regeneration – maybe areas may be returned to inner-city parkland or even farmland.

Squatting and other forms of social unrest will become more prevalent. We also see the rise of 'e-sputing' where groups of disenfranchised people join together electronically to deliver social unrest.

We are also intrigued to see how well devolution works in a recession. Will there be greater pressures for more separation or will re-integration become preferable.

Socially as well the drive to self-sufficiency will increase. This will be initially at a personal level before becoming a local and national driving force. There is a significant challenge here to the conventional concept of increasing globalisation.

We are now entering a new post-consumerist society and we are intrigued to know how this will manifest itself. Our particular views on this are that people will seek new 'role models' and 'leaders' that lead ethical lifestyles and will choose to support and emulate them. There could well be a new genre of reality TV programmes supporting this as people look to become personally responsible for their own lives, cut debt, become self-sufficient, reduce energy consumption and seek moral comfort in things other than materialism. The 'baby-boomers' could see a re-incarnation of Blue Peter designed especially for a mature audience!

The real challenge for us all however, is to determine what will stop the decline.

We see this breaking down into three main areas. The first is how to ensure organisations retain or generate sales/income, the second is how to provide essential finance and the third is what sectors can provide sustainable growth.

Our view on the first is that we still see many smaller successful businesses all offering excellent service and with a clear identity, both locally and often directly to the owner. No doubt this is why so many franchise operations are still doing well within the recession. Whilst large organisations like Tesco and others are always going to be relatively successful, the indicators are there that other organisations need to be smaller, adaptable, flexible and focus on good quality personal service and not just price. The day of the 'Me2' organisation that just copies what others do is well and truly numbered.

The second area is critical and revolves around how to provide finance to where it is needed at affordable rates. What we believe is that the existing banking structure is fundamentally flawed and probably not fit for purpose. The government is effectively lending money to the banking sector supposedly to then pass onto commerce as required. However, this is obviously not working effectively and banks may be more inclined to use the money provided to bolster their own reserves and continue to restrict lending to those businesses they clearly don't know, don't understand, can't evaluate and as such determine the element of risk. This will only lead to more business failures as we have predicted. Our solution would be to form local 'business credit unions' with the sole aim of recruiting members, knowing them and their businesses and then lending to them on attractive commercial rates and working with them to ensure they survive and prosper. Unlike the banks, they would be limited in size and only receive a fixed commission on money lent and as such then they couldn't develop the 'fat-cat' bonus culture plus would be focussed on actual lending. Government money could be used to pump prime these new organisations before they become independent and free to raise their own money from their own member investors.

The third area is what should the government focus on to stimulate growth and help halt the slide into depression? Our view is that this should be sustainable and focussed around essential needs. Education and essential skills are vital as is the transport infrastructure. We all need food and water, clothing and housing along with power and energy. It is in these areas that we need to invest as there will be long term demand and therefore these sectors can some support themselves economically after start-up. As we have said before the focus has to be on significant 'cleaner energy' technological and infrastructure development, but using home-grown skills, equipment and expertise. What is wrong with protectionism in essential areas?