



Planning for growth

Embracing the new "normal"


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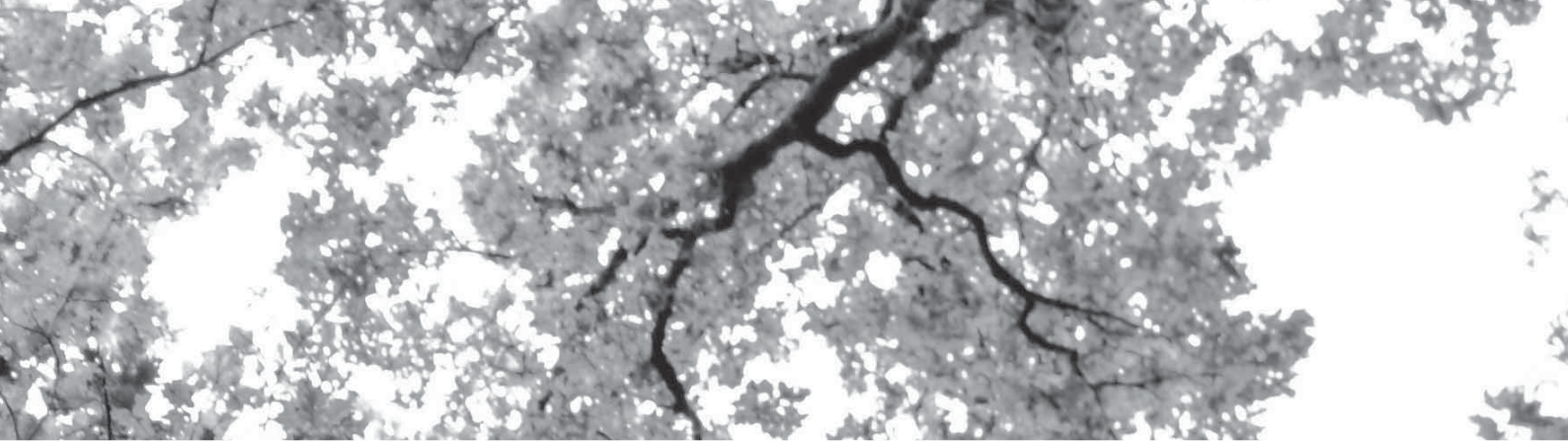
A set of complementary reports outline the impact of the new performance agenda on the key functions and processes in an organization: strategy and business evolution; customer reach; supply chain; finance and capital markets; governance, risk and compliance; IT and infrastructure; and human resources.



Introduction: adapting to change

Since the immense scale of the economic downturn became apparent in 2008, Ernst & Young has been helping business around the world to respond effectively to the market changes.

Early in 2009, we launched our *Opportunities in adversity* program to help companies identify and implement the right course of action for their situation. In October 2009, we followed this with *Lessons from change*: based on our experience and over 45,000 meetings with clients around the world, we identified a new performance agenda emerging as companies adapted to their new market. The Performance Wheel (*shown opposite*) identifies the eight key performance goals and the related programs of action that lead to them.



This new report – *Planning for growth* – seeks to build upon this program by exploring the longer term response that successful companies are planning.



When crisis hits, there is a natural and practical tendency to put your head down and focus on the immediate; but while looking at the ground may avoid a fall, it will not guarantee progressing in the direction that you want. As the challenge of the new becomes the new “normal,” the opportunity returns for management to lift their heads to check that they are heading in the right direction, or whether a change in direction is needed.

The *Planning for growth* report is based on further global research – both externally and internally – to try to form an overview of the next three years from the business world’s perspective. We asked our respondents four key questions:

- Are the changes in the global market temporary or permanent?
- What trends do companies anticipate over the next three years?
- How are companies adapting their business functions – now and over the coming three years?
- What is the impact on companies’ internal measurement system and key performance indicators?

This was followed up by more research in May 2010,¹ to evaluate whether perceptions had changed over the ensuing months and to establish further the criteria of the new “normal”.

¹ Please see page 29 for criteria of research.



Executive summary



After the crisis the only certainty is uncertainty

The market and economic changes witnessed by businesses over the last few years could never have been predicted. Globally, the crisis hit quickly and hit hard. Yet despite the severity of the crisis, the recovery is happening faster in some markets than many could have either hoped or expected but slower in others. As companies look forward, the one certainty of which management is sure is that post-crisis, nothing is certain.

Respondents to our survey are looking forward to a positive rebound – albeit one in which growth will be slow to return. Although this recovery is a global phenomenon, the expected growth will not be consistently distributed by country or by sector, and we believe that significant variations will remain.

While it is true that the “emerging markets” expect a stronger performance than developed economies, this is not a global movement – Russia, in particular, is expecting only slow growth. Interestingly, respondents from the US agree with many European countries in expecting significant change; equally, in the emerging markets, many of the most positive responses are from those companies which have built rapid change into their “business as usual” model.

Returning to growth is not returning to “normal”

Returning to growth will not be the same as returning to the “normal” conditions that existed before the economic crisis. In our research during May 2010, four in 10 companies responded that they do not expect business to “return to normal” for them. This is an increase of almost 25%

compared with the results we gathered from the research in November 2009.

The volatile tide of economic events over the last couple of months has led to a significant impact and this higher degree of sensitiveness shows that although businesses are confident, they have become more cautious during the last eight months.

A changed world

All respondents are looking ahead to a changed business environment. The rise of new economic giants like China and India, as well as additional regulation, increased tax and the potential return of inflation, are all seen as factors which will make businesses less profitable, unless they are effectively addressed.

A consistent theme that runs across our findings, both in terms of market outlook and planned business response, is the expectation of increased volatility and complexity. Markets are expected to see major swings in growth, and both the volume and depth of change is expected to increase.

Two factors emerge as being critical to future corporate success: the speed with which a business can respond to both opportunities and threats, and the flexibility that it builds into its operation to enable it to do so.

A changed company

As a result of the situation, companies are planning many changes in the way that they operate. These changes are also extending to the way they measure their performance: while the top five performance indicators are expected to remain the same, there is a significant increase in the use of others, with a major move from quantitative to more qualitative and relative measures as key performance indicators (KPIs).

Companies have already started to revisit their business model – or plan to do so. Evidence shows that, after economic downturns, companies tend to concentrate on their core business; and

we believe that this will become a trend within the next couple of years. As part of the business model review process, there was an expectation that we would see a move by companies from a centralized to more decentralized organization.

In a world where change is more prevalent and rapid, no company can afford to focus its attention on immediate events, or simply react to the latest problem; to be successful, it will have to become aware of what's happening on the global stage and be prepared for the impact of long-term trends. Learning from key development trends in other markets and sectors will be crucial for staying ahead of competition.

Successful companies in mature markets will need to focus on global innovation management. Future market leaders will be companies which are both entrepreneurial and agile. However, the characteristic that will truly determine which companies are the dominant players in 2012 will be the ability to make and execute decisions quickly.

When times are uncertain, no one can predict what may be around the corner, so the need for flexible responsiveness has never been greater.

More detailed information about the implications of achieving these goals is addressed in our complementary series of *Planning for growth* documents.

Returning to growth



Global in implication, but not in impact

The economic downturn has been a global phenomenon, but it has not been a consistent and shared experience. While economies have been affected around the world, the impact by market has varied considerably: some markets have shrunk significantly, while others have merely slowed, and some will only do this for a brief period of time.

A great deal has been written about the relatively stronger performance of emerging economies as opposed to developed economies. In practice, there

is considerable variation in the performance of both groups; for example, Russia is a notable emerging market that has suffered even more than the markets of the US or Western Europe.

The current market remains challenging

The stock market may have rebounded around the globe, but large parts of the business world although optimistic, are much more cautious. In our November 2009 research, 62% expected to see recovery in 2010, and 38% expected conditions to stay the same or get worse in the current year. By 2011, however, 84% expect a little economic improvement, while 35% anticipate seeing “significant improvement” by 2012 (up from 11% in 2010). Manufacturers are relatively positive about 2010. All business sectors

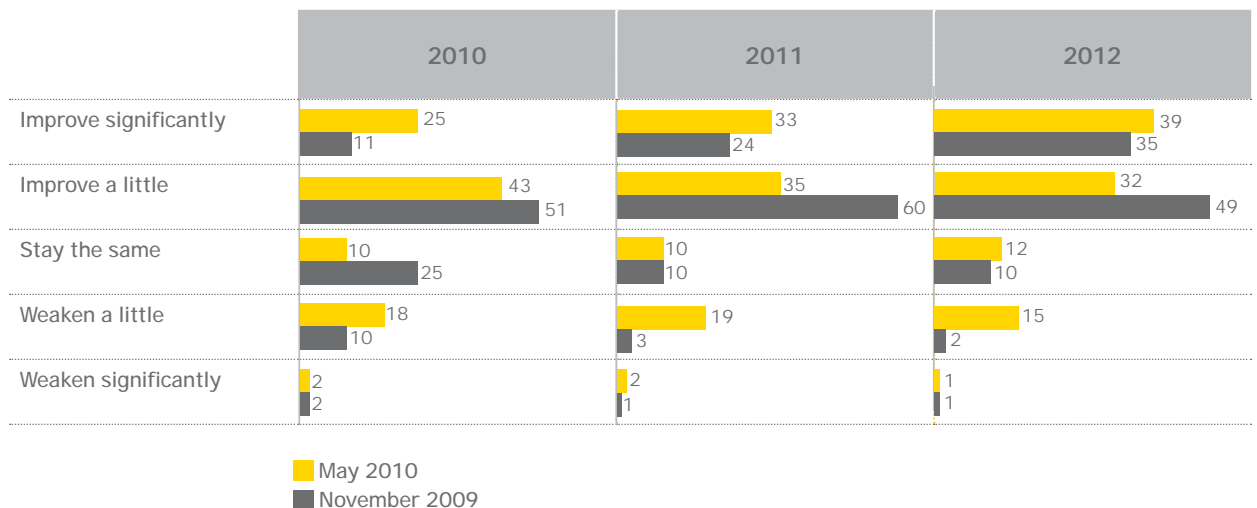
expect improvement in 2011 and even further improvement in 2012.

As our survey results show, from country to country there are significant variations in the level of confidence that economic conditions will improve. We found high levels of optimism for business prospects in the emerging economies of Brazil, India and China, where respondents anticipated strong growth throughout the next three years; for example, 91% of Brazilian and Indian respondents expect improvements this year. There is a much lower figure for Russia (41%), marking a dramatic shift away from the “BRIC configuration” in which Brazil, Russia, India and China enjoyed similar status as rapidly emerging economies. In Western Europe and the United States, only 54% and 55% respectively expect an improvement in the economic outlook during 2010.

The additional research undertaken in May 2010 showed that the majority of business leaders are still confident for 2010; the expectation for 2010 grew and 68% of the companies believe that they will achieve better results compared with 2009; however, the prospects for 2011 and 2012 were reported as being less positive. Just 68% expect economic improvement by 2011, and for 71%, the expectations for 2012 are not much higher.

What are the reasons for the changed perception over the last eight months? The euro crisis has influenced not just the currency rate; the financial difficulties of Greece and other countries have made it clear just how fragile the economical upswing is. Companies have also discovered a permanent change in economic development: even if there is a positive economic trend, companies have to deal with an increased number of short-term ups and downs, and to a much greater degree in both directions.

Figure 1: How do you expect your country's economy to perform over the next three years?



Base: November 2009, all respondents (866); May 2010, all respondents (147)
 Shown: percentage of respondents



What drives the future?

The most common reason for respondents' belief in improved economic conditions was "returning optimism": this suggests that sentiment, rather than more tangible problems, is thought to underlie much of the current downturn. One of the most significant impacts of the credit crisis was to cause great uncertainty about the credibility of information – both within companies and between them. However, it would be wrong to think of the crisis as simply the shattering of market confidence: the imbalance of assets and liabilities, and the damage to the global financial market has been substantive, not subjective.

Again, there was significant variation in national perspective (see figure 2). Business confidence was especially strong in India (62%), Brazil (60%) and China (44%); but much weaker in Russia (23%), Western Europe (21%) and the US (12%),

where there is recognition of more practical reasons for the downturn. Overall, 12% of respondents expected "increasing efficiencies" as a major change factor over the next three years, but with wide geographical disparities: 28% of US respondents saw it as an important driver, whereas it was not mentioned by Chinese respondents at all.

Other drivers of change identified by respondents included:

- **Greater regulation** (particularly in China and the US). Many stakeholders believe either that a lack of regulation caused the financial crisis, or that increased regulation may be required as a consequence.
- **Changes in consumer behavior** (particularly highly reported in the US). For example, there is a heightened price consciousness among consumers through access to

online comparison sites, along with a greater willingness to accept "own-label" goods rather than premium brands.

- **Difficulties in borrowing** (this was particularly marked in the US, with 11% of respondents noting this factor, but it did not register for Chinese and Brazilian respondents). Western banks have not returned to pre-crisis levels of lending as they attempt to repair their own balance sheets, and many remain concerned about the risk of companies defaulting.

A stakeholder's view

"There will be no strong recovery. There might be some structural change. The Government's fiscal stance will be quite tight, investment will also be tight. There will be growth in environmental sectors. Companies will look at cost-cutting, partially because overseas competition will be fiercer." (UK, Civil Servant)

Figure 2: What are the most significant changes that you expect to see in the business environment over the next three years?

	Total	Western Europe	USA	Brazil	China	India	Russia
Returning optimism	28	21	12	60	44	62	23
Greater regulation	14	13	16	13	16	11	8
Increasing efficiencies	12	16	28	4	0	14	8
Reduced competition	7	8	7	9	0	0	6
Change in consumer behavior	6	5	17	5	9	6	0
Difficulty in borrowing from banks	6	9	11	0	0	2	3

Base: Brazil (55), China (75), India (65), Russia (66), USA (76), Western Europe (364), all respondents (866)
Shown: percentage of respondents by country



A company's view

"Consumers are shifting towards the 'value' element of products and, even when the economy comes back, the new-found value emphasis will linger for a while. We will continue to see companies eliminating costs, focusing on efficiency and outsourcing more: I don't think all the waste will come back, because companies have learned! There will be consolidation in various aspects of different systems; also fewer competitors, because so many will go bankrupt." (US, FD/CFO)

While all sectors see returning optimism, the sector perspectives vary significantly. For example:

- The **financial services** sector faces a greater level of regulation in the future and a much higher level of risk-averse behavior reshaping their market.
- The **chemicals** sector has a similarly high expectation of increased regulation, but think that the drive for efficiency and the threat from the Far East will cause more significant effects.
- The **manufacturing** sector sees the future being dominated by a focus on increased efficiency and a growing awareness of environmental protection.
- The **real estate** sector believes that the recovery will take longer for them than for other sectors because they are still struggling to adjust to lack of liquidity and tighter credit conditions.

We also interviewed a wide collection of stakeholders: regulators, administrators, opinion formers and academics. They shared management's belief that optimism is returning to the market and would drive improved performance, but they saw regulation taking a bigger role in shaping the future. Interestingly, they perceived accessing finance as being twice as difficult as those in management who are actually seeking access to it. This could be because management is simply being realistic - you either have the finance, or you don't - while external commentators are more likely to focus attention on those who are reporting that they cannot access such funding.

Returning to “normal”?



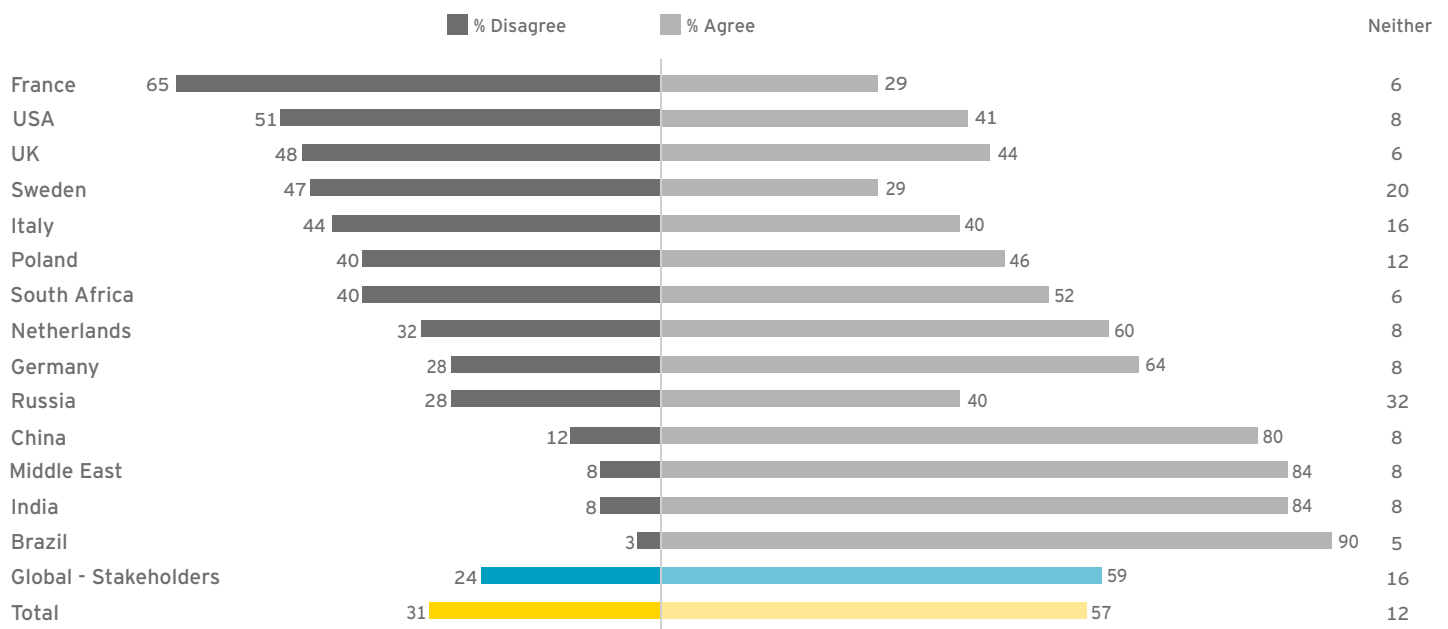
The history of the global economy is characterized by boom and bust; waves of confidence and slowdowns that have evolved the modern business model, but not fundamentally changed the assumptions that underlie it. Even today, business schools are still teaching the same philosophies they taught in the 1980s; including the unmatched power of the free market, the pre-eminence of the shareholder and the inevitable inefficiencies of government intervention.

These assumptions, however, are now under growing scrutiny – the free market didn’t work, the shareholder is not the only stakeholder, and government intervention has been essential to save the private financial services sector.

Many believe that the recent financial crisis has raised issues that may require a fundamental rethink about how the global economy should operate.

As a follow-up to our investigation into their economic forecast, we asked companies when they believed business would “return to usual” (see figure 3).

Figure 3: Do you agree that once the economy recovers companies will return to operate on a "business as usual" basis?



Base: all respondents (866), Brazil (40), China (60), France (51), Germany (50), India (50), Italy (50), Middle East (50), Netherlands (50), Poland (50), Russia (50), South Africa (50), Sweden (51), UK (50), USA (61), stakeholders (153)

Shown: percentage of respondents by country

When we drilled down into these results, we found that they were remarkably consistent across sectors (from 29% in financial services through to 35% in manufacturing), but there were some significant country variations:

- The most pessimistic group of countries, which included France, UK, Sweden and the US, mainly comprises developed economies which have been undergoing significant market change for some time: almost 50% of these respondents believed that business would not return to usual. The presence of France, UK and Sweden is not surprising, as all are developed

countries where there is high awareness of the ongoing challenge to compete in a global economy from a high cost base. However, the presence of the US is surprising, given the robustness of the US economy, and the optimism and cultural confidence they are associated with. This suggests that the impact of the financial crisis, whether real or perceived, has been particularly large.

- The middle group of respondents, which includes the Netherlands, Germany and Russia, mirrored the overall results, with around 30% believing that business would not go back to usual. The Netherlands and

Germany are both developed trading nations which have seen many recessions before and have historically exported their way to growth; however, it is interesting that Russia, one of the leading emerging economies, is in this group.

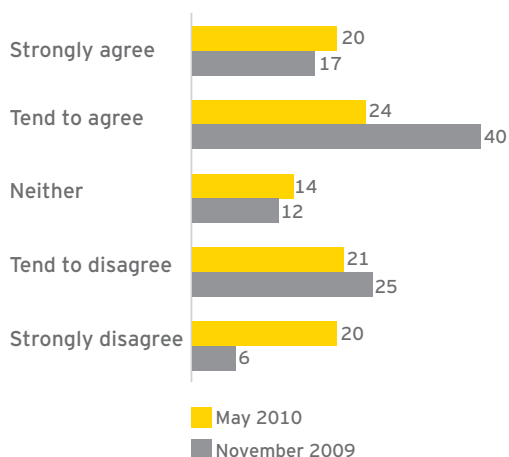
- The most optimistic group of respondents comprised some of the major emerging economies: China, India, Brazil and the Middle East. Over 80% believed business would go back to usual.



In exploring this final group, we can make two observations:

1. The financial crisis has had less impact in emerging economies where lending is less widespread, more companies are state-controlled, and GDP has continued to rise over the past two years, e.g., China's predicted GDP growth for 2010 is 8% and India's is 6%.
2. The concept of rapid change – perceived as a threat to “business as usual” in many countries – is more ingrained into emerging economies' perceptions of what “business as usual” means. For example, it is common for companies in China to expand from employing a handful of people to a workforce of several hundred in just a few years; and in India, companies like Tata have acquired many international competitors in recent years, turning themselves into global corporations.

Figure 4: Do you agree that once the economy recovers companies will return to operate on a “business as usual” basis?



Base: November 2009, all respondents (866); May 2010, all respondents (147)
 Shown: percentage of respondents

Interestingly, the number of business leaders who think that the changes made necessary by the crisis will be permanent has increased over the last six months. In November last year, only one in three respondents believed that we faced a permanent economic change; our May 2010 research (see page 29) has discovered that this number has now increased by 25%.

Why some things may have changed for ever?

We asked respondents why they thought that business would not return to “usual” for them. We can group their responses into five categories (see figure 5) :

1. *The market has fundamentally changed* – This response was driven by observations that customer behavior has altered because of the crisis, with fewer consumers prepared or able to increase their personal debt; this will act as a major damper on some business models. Similarly, there is a greater awareness that there has been a shift in economic power toward the new economic giants such as China and India, which have already demonstrated that they have a different perspective on economic management than the West. A minority of business leaders have already initiated internal change programs; however, although they can see the necessity of adaptation, the majority of companies have not developed their master plan yet.



2. *Businesses will be more cautious* - This is because tighter regulations and business failures are expected; therefore risky behavior, such as derivatives investment, is now out of favor. This may only be temporary, but it could refocus business efforts onto innovation in product and process, rather than finance. The May 2010 research results show that this cautiousness has increased.
3. *Businesses need to operate more efficiently* - There is still a strong emphasis on cost reduction, with much more competition from international rivals; this will raise the threshold for companies as they review their activity portfolio.
4. *Lessons have been learned from the crisis* - There are significant variations in the lessons that could, or should, be drawn from the downturn. The financial services sector, in particular, has had to learn some tough lessons about responsibility and transparency.
5. *Businesses need to become more adaptable to market changes* - This factor is applicable to all sectors, but particularly real estate and retail, where a reduction in credit availability has caused a dramatic downturn.

For US respondents, the most important issues concerned adaptability and the fact that both the market and consumer behavior had changed. For respondents in Western Europe, there was less emphasis on changing consumer behavior and more importance given to businesses becoming more cautious and operating more efficiently.

Predictably, drivers of change also vary by industry sector: manufacturers noted fundamental change and a slow rate of recovery, but financial services companies stressed the need to learn lessons; consumer product companies know that customer behavior has changed and that they require greater efficiency; real estate, health care, and chemical industry respondents noted the need for cost reduction and efficiency, along with the necessity to become more adaptable to market changes.

Figure 5: Why do you think companies will not return to operate on a "business as usual" basis?

		Manufacturing	Retail and consumer products	Financial services	Real estate	Chemicals and health sciences
Our market has fundamentally changed	26	26	9	29	13	11
Businesses will be more cautious	25	21	22	21	17	11
Businesses will need to operate more efficiently	21	21	25	17	30	37
Implement lessons learned	19	19	16	29	13	16
Become more adaptable to market changes	18	13	28	13	35	26
Slow rate of recovery	18	23	25	13	4	21

Base: all disagreeing there will be a return to "business as usual" (271), manufacturing (53), retail and consumer products (32), financial services (24), real estate (23), chemicals and health sciences (19)
 Shown: percentage of respondents by sector

A new market environment



Although there are differences in how quickly companies from different countries expect to regain growth, there is broad agreement on the eight factors which will experience the greatest change in coming years. More than 64% of respondents expect to see:

- **An accelerating shift in power to the new economic giants (83%)**

China has the world's largest foreign exchanges, amounting to US\$2.4 trillion in December 2009.² China and India have continued to issue strong GDP growth figures, their exports are rising and Indian companies are conducting an increasing number of overseas business acquisitions.

- **Increasing regulation (75%)**

In Western economies, regulations governing the financial services sector are already taking effect, with more likely to emerge. In developing economies, such as India, new tax regulations are changing the business environment and bringing greater consistency.

- **Consolidation in their sector (75%)**

Even though the mergers and acquisitions (M&A) markets were quiet in 2008 and 2009, there is a widespread

expectation that activity will pick up through 2010 into 2011, across sectors and geographies. We believe there is likely to be consolidation in media and advertising, telecommunications and consumer products; also pharmaceuticals, with medicine patents expiring in 2012 and price pressure likely to decrease turnover by between 30% and 50%.³

- **Increasing inflation (72%)**

Over 7 out of 10 managers expect inflation to return, seeing it as a major challenge for their business. For many, the past decade has been a period of unusually low inflation, which has enabled companies to have certainty in their business and financial planning. The expectation is that this is now going to change as a result of the macro-economic steps that have been necessary to refloat the financial economy.

² Source: *The Wall Street Journal*, 10 January 2010.

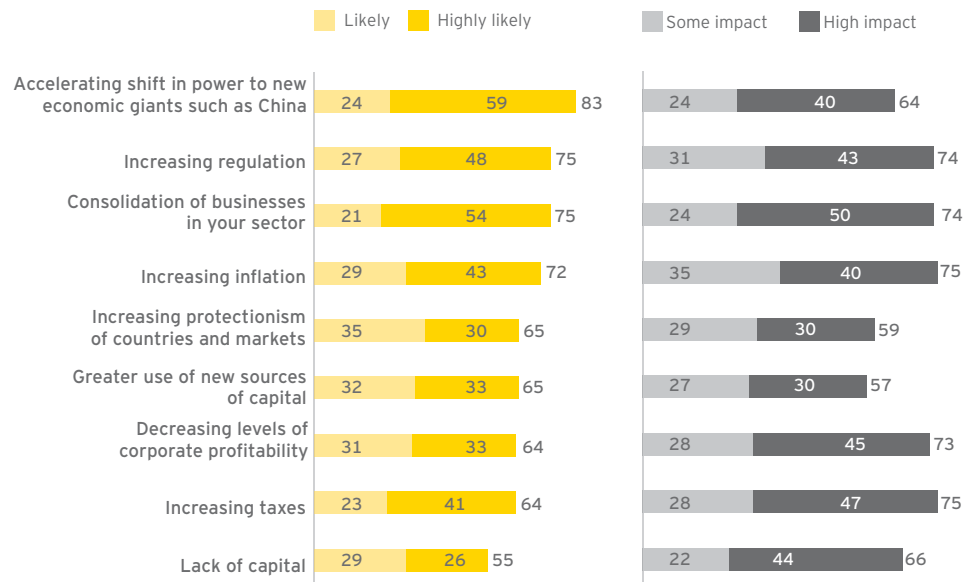
³ Source: *Le Figaro*, December 2009.

- Increased protectionism (65%)**
 Our research has indicated that, on a range of factors, the immediate impact of the crisis was to reduce the “globalization” of the global economy, but the trend towards a more integrated economy is expected to resume from 2010. Managers, however, tend to believe that the reliance on public sector funding to secure the recovery may lead to increased demands for national or regional protectionism, as has already been seen in the US.

- Decreasing corporate profitability (64%)**
 Even though management expects to see increased consolidation in the market, most anticipate less profitability in the future. This could be driven by a number of factors, including increased complexity, price sensitivity and taxation; but also through a decrease in the periods of stability that allow profits to be optimized from stable productivity.

- Increasing taxes (64%)**
 There is widespread expectation that taxes will increase to help governments recover much of the public money that had to be spent to support the economy.

Figure 6: How likely do you think each development will happen in your organization over the next three years? And, how much of an impact would development have on your business?



Base: all respondents (866)
 Shown: percentage of respondents

When asked about the impact of these changes, managers are most concerned by increasing inflation, taxes, reduced profitability and increasing regulation; and less worried about the impact of the new economic giants. This is perhaps because a proportion of the respondents are actually located in the new giants and because many others will be able to profit from trading with them.

A view from Russia
“If a company’s headquarters is in Germany, it can easily roll out its business to Italy or Spain; but in Russia, it’s much more complicated. Many Russian companies understand that they need to change to international accounting standards, but this is perhaps not seen by the Government.”
 Ernst & Young, Moscow

Planning the response



Not surprisingly, given the degree of change anticipated, our respondents are planning to make significant changes to their operations.

Almost 75% expect a reasonable amount of change will be required, but 40% expect that change to be extensive: this is consistent across all geographies, but particularly in Western Europe, as well as consistent across all sectors.

Three issues dominate how businesses expect to change in the coming three years: the expansion into new international markets, the reduction in costs and the pursuit of greater efficiencies (see figure 7).

Figure 7: **What will be the most important change to your business over the next three years?**



Base: all respondents (866), corporates (713)
 Shown: percentage of respondents

Areas of focus vary by geography and sector

We identified significant geographical variations:

- Brazil, India and the US anticipate international expansion
- Western Europe and the US are looking for cost reduction and increased efficiency
- Russia is focused on efficiency
- Brazil has high expectations of merger and acquisition activity
- IT investment is expected in India and Russia
- China has a strong emphasis on improved quality

Similarly, there is a significant variation in planned response by sector:

- Retailers and consumer product companies are looking for international expansion
- Financial service companies expect debt reduction
- Real estate and retail companies anticipate increased efficiencies

Organizational consequence

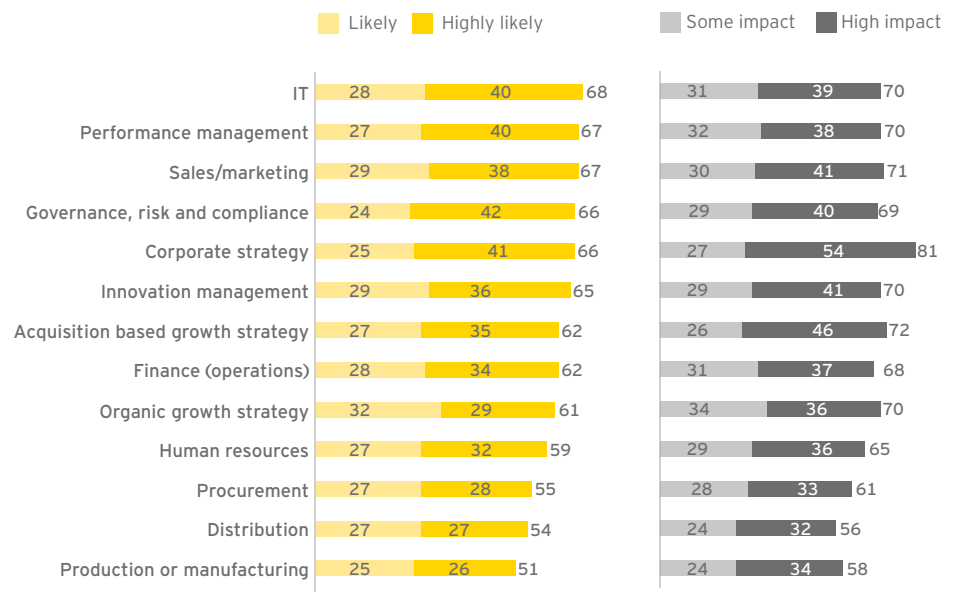
When confronted by radical change in the industry, it is not surprising that many respondents expect change to take place widely across their company, affecting every business function. Corporate strategy and risk management are the two areas where change is assumed to be most likely as a company is rethinking its market and trying to avoid repeating the mistakes of the past.

This is reflected in our findings, where the functions identified as most likely to change are:

1. IT
2. Performance management
3. Sales and marketing
4. Governance, risk and compliance
5. Corporate strategy

However, these functions are put in quite a different order when ranked according to impact. This shows that, while most companies do not expect to prioritize their strategic evolution, it will nevertheless prove crucial to their prospects in the future.

Figure 8: How likely do you think development in each function will happen in your organization over the next three years? And, how much of an impact would development in each of these functions have on your business?



Base: all respondents (866)
Shown: percentage of respondents

There are significant variations in the likelihood of change and its impact from country to country. Western Europe, Russia and China see the least need for broad change, except in the area of innovation management where China has a major focus. The US is in a middle position, although many respondents see IT systems and strategy as areas for improvement. India and Brazil, however, indicate the highest level of change expectation, especially with regard to IT, marketing and strategy.

Sector variation is also significant. Manufacturing companies are focused on innovation management and new IT systems; whereas retail and real estate companies are focused on marketing. Financial services have the highest expectation of change, with a focus on new approaches to risk management, change in performance management and new IT systems.



Implication for key functions and processes



The implications of the new performance agenda are significant and complex. Each of the eight goals on the Performance Wheel is supported by numerous potential actions, and none of these goals operate in isolation from the others.

Seeking to optimize customer reach, for example, will require organizations to increase their flexibility, optimize their market reach and re-evaluate their business model. This is particularly true for the many functions and processes that comprise an organization – all of them will be affected fundamentally by the changes that are required.

Strategic change will involve internal transformation activities on a significant scale, including upheaval to organizational structure, the introduction of new technology, and big challenges to the way people are recruited, developed and managed. Below, we highlight this by showing the principal functional effects of each goal on each core function:

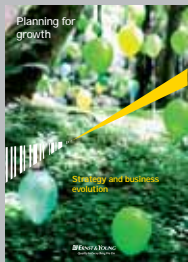
Figure 9: Effects of each goal on each core function

	Strategy and business evolution	Customer reach	Supply chain	Finance and capital markets	Governance, risk and compliance	IT and infrastructure	Human resources
Optimize operational flexibility	H	H	H	L	L	H	H
Optimize market reach	H	H	H	M	M	H	M
Re-evaluate the business model	H	H	H	H	H	M	M
Accelerate decision-making and execution	H	M	M	M	H	M	H
Strengthen management talent	L	M	M	M	L	L	H
Optimize capital availability and deployment	L	L	L	H	M	M	L
Revitalize risk management	M	M	M	M	H	H	L
Strengthen stakeholder confidence	M	L	L	H	H	M	M

□ = Low ■ = Medium ■ = High

We have built on these survey responses with a more detailed examination of the challenges and activities within each of the main business processes and functions (a specific report on each of these subjects is available separately).

Implication for key functions and processes



Strategy and business evolution

Companies have started to revisit their business model and look for ways to evolve so that they can approach the new challenges head on. This means proactively identifying better ways of working in every function, and driving the company

philosophy consistently throughout the organization.

We believe that one of the major lessons companies should learn from the crisis is the value of gaining business flexibility – in the operating model, the processes and in the cost structure – and realizing the vital importance of improving every point of contact with the customer, e.g., finding opportunities to use the diverse variety of communication channels to address their audiences, as well as keeping a focus on satisfying stakeholders.

In a world getting faster and more global, innovation management will become the key factor for success, especially for companies situated in mature markets; only continuous innovation will allow companies from mature economies to compete successfully with competitors in emerging countries. The new performance agenda will also require companies to move from a centralized to a more decentralized organization.

Nowadays, a company simply can't afford to be slow in making and executing decisions. Reducing the time to market requires not just entrepreneurial spirit, but a genuine effort to improve information systems, team collaboration and all the management processes which support positive change.



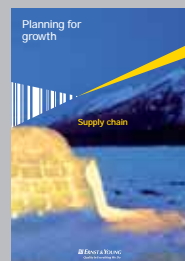
Customer reach

Companies will have to re-evaluate their business model to enable them to respond to a customer-centric culture. Customer processes need to adopt the appropriate level of flexibility through sustainable cost reduction and revenue management, as well as efficient customer management and

an effective marketing mix.

Customers have changed the way they traditionally purchase goods and services, competition is tighter than ever before, and customer loyalty is hard to achieve and maintain. Digital media, especially the easy availability of price comparison websites, along with the global downturn, has enabled customers to shop around and be more prepared to accept cheaper alternatives to major brands.

At the same time, the trend toward increased globalization of markets continues. Optimizing market reach will require companies to adopt new approaches on how they “go to market,” including increased segmentation, focused niche strategies and flexible value pricing. Global consistency in methodologies, a robust customer management system that allows full data access, service delivery tools and Q&RM procedures will help companies speed up the way they solve their clients' issues.

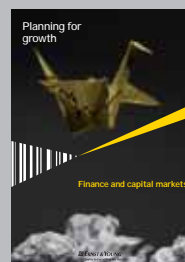


Supply chain

As a result of the crisis, many companies are focusing on reducing their costs and getting more flexibility into their procurement, manufacturing and distribution facilities. It is crucial to gain true visibility of the total supply chain's delivered cost (cost of goods sold, cost to serve and inventory holding cost) and incorporate this knowledge into decision-making.

Moving into new markets has a profound impact on the supply chain, but only through a high-performing supply chain can businesses increase the speed and quality of delivery of their goods, in response to the fluctuating and demanding needs of customers.

Reaching more markets in an increasingly flexible way is placing great strains on the supply chain: this is particularly true at a time when margins are under threat from falling prices, rising raw materials and energy costs, and the impact of environmental legislation. More than ever before, supply chain professionals need to focus on securing their fundamentals such as maintaining cost reduction, improving inventory management, optimizing tax benefits and dealing with sustainability.

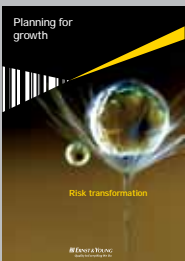


Finance and capital markets

Today's finance function needs to support the business in responding to the present challenging financial situation, while also preparing for the future; playing a central role in achieving the new performance agenda.

The CFO, as part of the senior management team, needs to ensure that planning, forecasting and reporting systems are up to date and accurate, so they can help accelerate decision-making while optimizing capital availability and revitalizing risk management. They must also take responsibility for improving investor relations to strengthen stakeholder confidence.

The finance function should develop and maintain a broader and deeper view of the business. To be able to serve the business in a more effective way and support the business in its growth strategies and plans, the function itself needs to be more innovative and have a longer-term perspective. Finance must also increase the flexibility of cost structures, e.g., through outsourcing; and upgrade fraud detection as the company's global reach increases.



Governance, risk and compliance

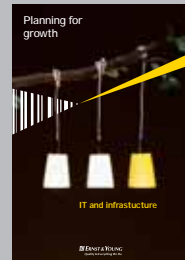
Companies around the world are giving increasing attention to governance, risk and compliance (GRC) in the wake of the financial crisis. Improving performance means balancing growth with the

appropriate controls to avoid problems, and improving flexibility by integrating risk management and strategy into a company's thinking.

Entering new markets or broadening existing market reach is an inherently risky process, especially if a company is entering new geographical markets where it has limited, if any, direct experience. In addition to robust due diligence, companies need to increase their efforts in the fraud prevention and compliance area, so that they can distinguish regulatory and cultural differences from fraud and establish a suitable control environment.

Business flexibility increases risk; therefore, the risk function needs to have a sufficiently broad and forward-looking horizon, so that it can be proactive in identifying and assessing upcoming risks. This also requires a company to implement a common risk language across the organization and to evolve and communicate the company's risk appetite to all functions.

Risk management plays a central role in accelerating decision-making and strengthening stakeholder confidence: this includes aligning and enhancing GRC functions within a company from corporate decision-making to business operations, and increasing transparency.



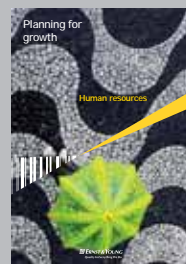
IT and infrastructure

Operational flexibility and accelerated decision-making are dependent on access to the latest data, and that in turn relies on the IT systems that companies put into place to facilitate and manage knowledge. Business intelligence systems are also critical in supporting the innovation and consistency

that is required, especially in a global business environment.

Availability and accuracy of data ensures robust, reliable and timely reporting; supporting business cases and strategic direction, and helping to maintain stakeholder confidence. It also aids international company growth by enabling alignment and connectivity within the organization.

In any customer-focused company, the reliability of IT to support sales and marketing, and the ability to capture and analyze customer data, are essential. Increasingly, the IT function also needs to take responsibility for delivering an essential interactive presence in internet-based communication channels, using the latest technologies.



Human resources

The success of an enterprise rests on the people it has, and the ability to harness human capital will distinguish the leaders from the laggards. Lending primacy to the human resources function can indeed be a vital differentiator, and even more so where business models of organizations are

continuously evolving in their effort to "stay ahead of the game."

Planning for growth makes it imperative for the HR function to proactively build response mechanisms in line with the strategic changes radically altering the processes of many organizations. The acquisition of the right talent, creating a shared vision, organization redesign, talent management, performance management and leadership development are critical, with the need for continuous innovation across the value chain of HR aligned to specific business needs and organizational context.

HR departments will need to gear up for a large-scale transformation of the function to anticipate changing employee expectations, enable continuous innovation, empower entrepreneurial management, enhance speed and agility, and nurture the requisite competencies across levels to equip the organization with management personnel who have the skills to handle the increased complexities of the new market.

From quantitative to qualitative – changes in measuring growth

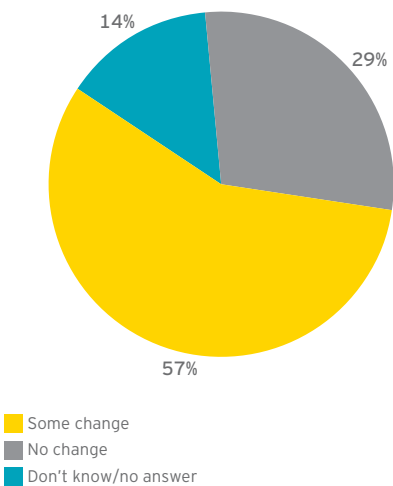


Key performance indicators (KPIs) are critical as they are often the mechanisms for driving the remuneration and hence the behavior of executives. During our survey, we asked if companies expected changes in the KPIs that they use to manage their business and to report their performance – almost 60% of respondents expect that these will change in the course of the next three years (see figure 10).

Although the top five KPIs in 2009 are likely to remain in this position through to 2012, other indicators are widely expected to rise in importance:

- Ethics and sustainability metrics: up from 42% to 66%
- Levels of product and service innovation: up from 46% to 66%
- Compensation models based on long-term goals: up from 37% to 57% – this issue is vitally important in helping to prevent a contributory factor to the recent financial crisis, created when investors took irrational risks in order to improve their short-term gains

Figure 10: Do you expect to make changes to your KPIs over the next three years?



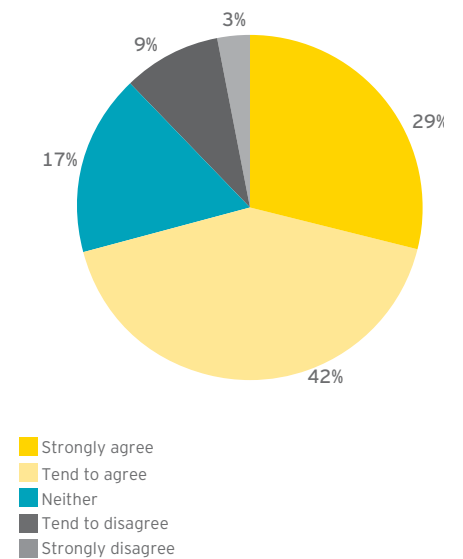
Base: all respondents (866)
Shown: percentage of respondents

Almost 70% of respondents believe that the economic crisis has increased the importance of qualitative KPIs, taking information far beyond the simple quantitative measurements they have used in the past (see figure 11). The most important qualitative KPIs are seen by our respondents as customer satisfaction, profit (whereas pure turnover is quantitative), and product and service quality.

There were interesting variations in the qualitative KPIs that individual countries and regions rate as most important. For Western Europe, the US, Brazil and India, customer satisfaction is prominent; for China, profitability is by far the most important metric; while for Russia, product and service quality comes first.

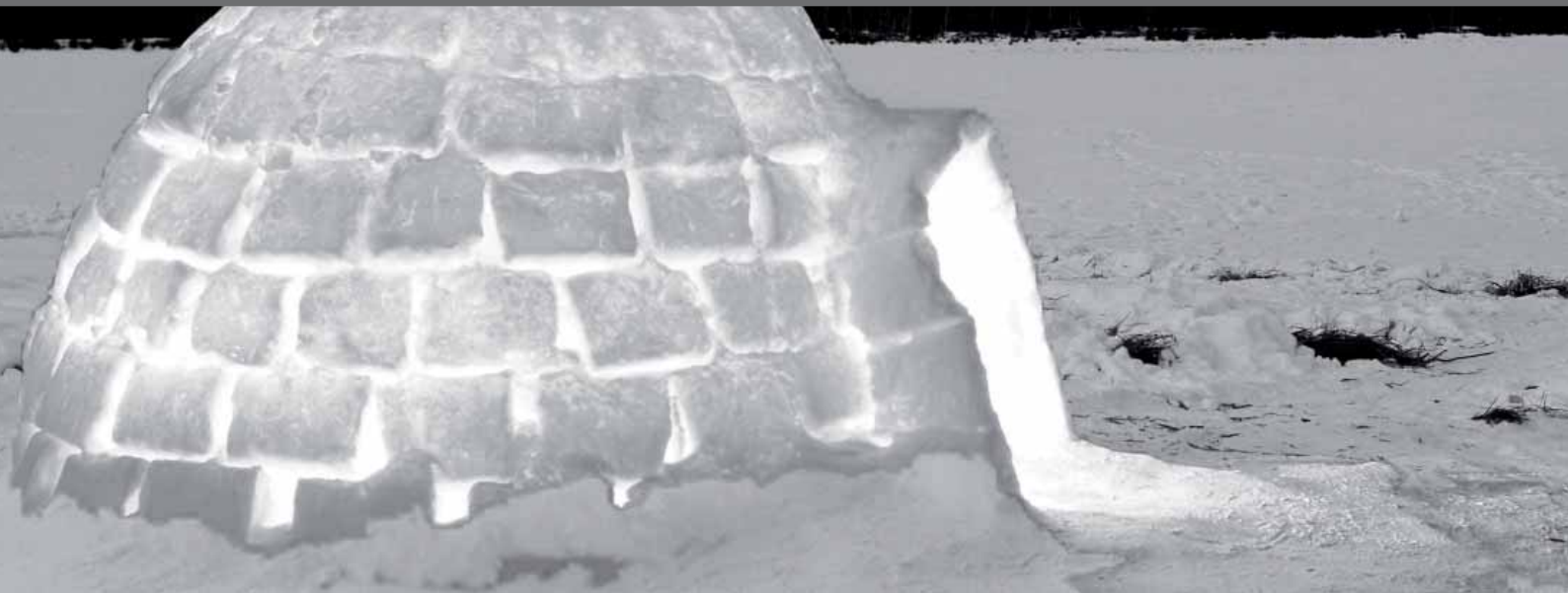
There are also equivalent variations of response by sector. For example, retail puts an emphasis on customer satisfaction; real estate focuses on profitability; but product quality is the main objective for manufacturing.

Figure 11: To what extent do you agree that the current economic crisis will mean companies place more importance on qualitative KPIs in the future?



Base: all respondents (866)
Shown: percentage of respondents

The need for speed and flexibility



For a significant proportion of global businesses, there is no doubt that the recent financial crisis has changed their outlook, their operations and their prospects in a permanent way. Some are still coming to terms with the severity of the downturn, while others have consolidated and reduced their cost base so they are now well prepared for future growth.

The economic situation has spread around the world but, as this report shows, responses to the crisis – by geography, sector and business function – have been extremely varied. There are, however, certain reactions to the crisis that most companies share:

- The normal changes that businesses make in the course of their commercial life have accelerated; as a result, companies will have to think and act more quickly, and make efforts to identify trends and anticipate future changes
- Companies have to be more flexible in their approach to change, which means being quicker to identify and implement the changes that they identify as necessary
- To achieve such speed and flexibility, companies must concentrate on building a solid foundation – the most advantageous IT systems, a responsive and dynamic HR function and a robust and consistent finance function – to create a flexible and efficient value chain: they also need to put in place more qualitative KPIs
- Importantly, they must support all of this with strong and decisive management

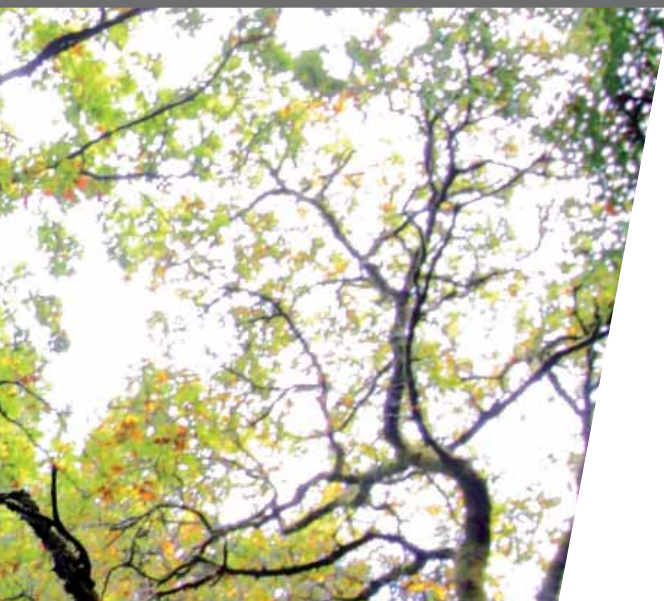


Planning for growth – issues to consider

- 1 How far has your company accepted that “business as usual” is no longer an option?
- 2 How are you dealing with the shift of power to new economic giants such as China?
- 3 Are you prepared for increasing regulation in your sector?
- 4 Do you have a strategy for national or international growth through acquisition?
- 5 What are your plans to reduce costs and increase efficiency?
- 6 Is risk management playing a more important role in your corporate strategy?
- 7 How do you balance customer satisfaction against corporate profitability during an economic downturn?

About this report





This report is based on a global survey carried out for Ernst & Young between September and November 2009 among 866 executives and senior managers; together with 52 one-on-one interviews with Ernst & Young partners carried out in early 2010.

The survey comprised 866 telephone interviews with stakeholders, CFO/finance directors, head of strategy/corporate development, financial controllers and other finance function reporting to the CFO, other operational functions reporting to the COO, and other senior executives reporting to the CEO. The interviewees comprised of professionals in the IT, risk, customer relations, finance, human resources, supply chain, and strategy disciplines; together with others who have specific knowledge of geographical areas. They covered all the main industry sectors, and were based in the following countries: Australia, Brazil, China, France, Germany, India, Italy, Netherlands, Poland, Russia, South Africa, Sweden, United Arab Emirates, United Kingdom and United States.

Additional research to evaluate changes in perceptions during the early part of 2010 was carried out in May 2010 among 147 respondents from UK, France, Germany, Netherlands, Poland, China and India. Industries included banking/capital markets/asset management, automotive, pharmaceutical/biotechnology, consumer products, insurance, media and entertainment, oil and gas, power and utilities, telecommunications and transportation.

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