Opportunity in Crisis

A pocketful of ideas.

- The Crisis - Introducing risk and opportunity
- Ideas for individuals, investors, businesses
- More ideas for business.
1929

• October 29 to November 13
  “$30 billion disappeared from the US economy”

• 13 million people were out of work

• Industrial production dropped by 45% between 1929 and 1932

• House-building fell by 80% between 1929 and 1932

• From 1929 to 1932, 5,000 banks went out of business

• Stock market dropped 90% over 3 years.
Situation (since November 2008)

- Financial system (bank) equity wiped out
  - Too much debt built on unproductive/overvalued assets
- We are in unknown territory
- Nationalisation of banks. “Socialism”? 
- Is government debt good/risk free?
- Taxation up, benefits down.
- Are even the rich insulated?
- Real economy is threatened
  - No flow of money, no consumption, no compensation – a vicious downward spiral
  - Food production threatened
- But infrastructure (roads/IT/energy) is in place.
The Great Depression vs The Financial Crisis

- 1.8 billion people
- 0.25 billion in US, EU, Japan
- Rich GDP per head $ 7,000
- Europe 25% of population
- Africa 8.5%
- No TV
- Rail and road
- Army, church and rich science
- Newspapers and pony express
- New oil

- 6.6 billion people
- 1 billion in US, EU, Japan
- Rich GDP per head $ 38,000
- Europe 11% of population
- Africa 14%
- TV, Cars, Homes
- Planes, cars, trucks and trains
- Education and technology
- Phones and internet
- Oil shrinking
Credit then and now

<table>
<thead>
<tr>
<th>Then</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional standards</td>
<td>Industrialised lending</td>
</tr>
<tr>
<td>Crony capitalism</td>
<td>Incestuous</td>
</tr>
<tr>
<td>Robber barons</td>
<td>Regulated</td>
</tr>
<tr>
<td>Emerging regulations</td>
<td>But broken</td>
</tr>
<tr>
<td>Asset backed lending</td>
<td>Credit cards</td>
</tr>
<tr>
<td>Financial multiplier ~ 10 x</td>
<td>Financial multiplier ~ 100 x</td>
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<tr>
<td>Global weight of money $ 3 trillion</td>
<td>Global weight of money $ 70 trillion</td>
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<tr>
<td>Nominal assets ~ $ 30 trillion</td>
<td>Nominal assets $ 7 quadrillion</td>
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<tr>
<td>Nature's services unknown</td>
<td>Nature's services ~ global economy</td>
</tr>
</tbody>
</table>
Don't forget to breathe.
As a VC, aware of risks in good times and bad … So, be diligent and flexible.
Crisis = Danger + Opportunity ...

• A fanciful folk etymology, used by motivational speakers and Chinese bosses for a couple of decades.

• While it may be a fallacious interpretation of etymology, there is great value in the positive thinking that derives from this equation.

• Difficult times do make us aware of risks
  – Realism is better than pessimism, and optimism

• Difficult times reveal opportunities.
  – For change, reengineering, ...

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It's a matter of perspective.

- Unaccounted production, Eg, female labour.
- Hobbies, education.
- DIY, home food, family and friends.
- Quality of Life indicators.
- Beyond GDP
  - Human development Indicators, Happy Planet Index, World Happiness Index, Time Distance Method.
- Success without growth.
- (Making Money by Terry Pratchett)
Quality of Life

- Education.
- Employment structure
- Energy efficiency.
- Environment
- Health
- Human Rights

- Income (changes in the standard of living)
- Infrastructure
- National Security
- Public Safety
- Re-creation
- Shelter
What can you do ...

Consumer

Investor

Business
  • Analysis and scenarios
    • Cash
    • People
Personal consumption

- Reduce travel
- Spend on education
- Cut out the junk.
- Cook at home. Cook healthy (less meat, less processed, less packaged)
- Reduce alcohol, cigarettes.
- Holiday/vacation with family/friends/locally. Bicycle and camp.
- Repair and maintain. Don't buy new.
Investment

- Direct investment is preferred. Long term rather than short term.
- Price (and low management fee).
- Due diligence: cash flow, value, capital structure, margins, market, management.
- Diversify.
- Buy operating assets in the real economy that are not dwarfed by debt.
- Invest in Asia and Africa (via/with local operators).
- Real assets – food, energy, commodities, agriculture, forestry
- Not land-fill assets – shirts, motorbikes, CD players
- Budget/quality providers. Eco-related businesses.
- Later on – financials and builders.
Business Action: Analysis and scenarios

- Scenario planning is critical now.
- Strategic
- Financial
- Full spectrum
- Anthropomorphic analogy
- Systems dynamics
Analysis: Strategic, financial.
Project needs based on past performance, strategy and market conditions.

**Strategic Analysis**

**Past** establishment and other milestones

**Present** Current production base, JVs etc

**Future** growth plans

**Substitutes**
- Product Substitutes

**Suppliers** local/import, number of suppliers, % of costs, buyer strengths.

**Manufacturer Substitutes**

**Competition/Key Factors**
- Key factors for success and does the company have them.

**New Entrants/Barrier to Entry**
- Economies of scale, capital required, customer switching costs, access to distribution channels, product differentiation, cost advantages etc

**Customers** main customers, % of sales, market shares, geographic breakdown.
Analysis: full spectrum, anthropomorphic, ...

Communications (circulation & nervous system)

Working capital & fixed assets

Administration
Marketing
Production
Supplies
Distribution
Business Action: Cash, Capital, People

- Cash is king
- Working capital focus - but customers are your blood. Watch numbers.
- Cut from the top.
- Expenses – entertainment, travel, associations, “perks”
- Work with banks. Raise capital.
- Partner with other businesses.
- Emulate successful competitors – don't be afraid to change.
- Discuss with staff. Make it a team. Allow buy-in.
- Focus on customers and your strengths.
- Self-help (cash) ... business coaching (fee) ... turnaround help (equity)
Business Action: Cash is king

- Due diligence
- Debt is out, cash is in.
- Reduce top executive overheads. Facilitate employee equity buy-in.
- Reduce travel, but maintain relationships via phone and internet.
- Establish partnerships to reduce operating footprint while maintaining business.
- Barter.
- Negotiate professional service fees and long term contracts.
- Reduce inventories.
- Reconsider investment.
Financial engineering options in distress situations.

- Extend credit
- Compose liabilities (accept 60% of face value)
- Voluntary bankruptcy proceedings
- New capital (subordinated debt or equity derivatives)
Business Action: People are your key

- Transform culture
- Focus on lifestyle
- Parallel decision making
- Mind mapping
- Open space
- Self-management
- Task sharing
- Manners work
- Training.
- Back to school.
- Time sharing.
- Sabbatical.
- Voluntary redundancy.
- Volunteering.
Seven levels of organisational consciousness.

1. **Survival**
   - Purview: Pursuit of profit and shareholder value
   - Focus: Financial soundness, employee health and safety, exploitation, over-control

2. **Relationship**
   - Purview: Relationships that support the organization
   - Focus: Good communication between employees, customers, and suppliers, manipulation, blame

3. **Self-Esteem**
   - Purview: High performance systems and processes
   - Focus: Productivity, efficiency, quality, professional growth, bureaucracy, complacency

4. **Transformation**
   - Purview: Continuous renewal and learning
   - Focus: Adaptability, innovation, teamwork

5. **Internal Cohesion**
   - Purview: Development of a strong cohesive culture
   - Focus: Commitment, enthusiasm, shared values

6. **Making a Difference**
   - Purview: Strategic alliances and partnerships
   - Focus: Employee fulfillment, community involvement

7. **Service**
   - Purview: Service to humanity
   - Focus: Ethics, social responsibility, future generations

Source: Richard Barrett

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Emergent values – success without growth.

<table>
<thead>
<tr>
<th>Level/Zone</th>
<th>Values</th>
<th>Organisation values</th>
<th>Essence</th>
<th>Opposite essence</th>
<th>Objective</th>
<th>Positive traits</th>
<th>Action</th>
<th>Soul</th>
<th>Elemental force</th>
<th>Excessive traits</th>
<th>Negative traits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helicoid Being</td>
<td>Collective individualism, cosmic spirituality, earth-changes</td>
<td>Natural interdependence – holarchy not hierarchy.</td>
<td>Being</td>
<td>A-personalisation</td>
<td>Wisdom, knowledge, consciousness</td>
<td>To know</td>
<td>Universal</td>
<td>Informatio n</td>
<td>Overly intellectual, spiritual addiction, confusion, disorientation</td>
<td>Learning difficulties, spiritual skepticism, limited beliefs, materialism, apathy</td>
<td></td>
</tr>
<tr>
<td>Integral Behaviour/Service</td>
<td>Natural systems, self-principle, multiple realities, knowledge</td>
<td>Service to Humanity – ethics, social responsibility, future generation, cooperation.</td>
<td>Awareness</td>
<td>Attachment</td>
<td>Self-knowledg e</td>
<td>Self-reflection</td>
<td>To see</td>
<td>Archetype</td>
<td>Light</td>
<td>Headache, depressions, hallucinations, delusions, difficulty concentrating</td>
<td>Poor memory, poor vision, uncontrolled patterns, denial</td>
</tr>
<tr>
<td>External cohesion/Consensus</td>
<td>Emotions, feelings, sharing, caring, community</td>
<td>Strategic Alliances – employee fulfillment, community involvement</td>
<td>Intuition, imagination</td>
<td>Illusion</td>
<td>Psychic perception, accurate interpretation, imagination, clear seeing</td>
<td>To speak and be heard</td>
<td>Creative</td>
<td>Sexual</td>
<td>Excessive talking, inability to listen, over-extended, stuttering</td>
<td>Fear of speaking, poor rhythm</td>
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<tr>
<td>Internal cohesion/Strategy</td>
<td>Materialistic, consumerism, success, image, status, growth</td>
<td>Development of collective culture – commitment, enthusiasm, shared values</td>
<td>Communication</td>
<td>Lies</td>
<td>False communication, creativity, assurance</td>
<td>To love and be loved</td>
<td>Social</td>
<td>Air</td>
<td>Complacency, poor boundaries, possessive, jealous</td>
<td>Shy, lonely, isolated, lack of empathy, bitter, critical</td>
<td></td>
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<tr>
<td>Impersonal/Authority Transform</td>
<td>Morning, discipline, traditions, morality, rules, live for the future</td>
<td>Continuous renewal and learning – adaptability, innovation, teamwork</td>
<td>Grief</td>
<td>Self-acceptance</td>
<td>Emotional balance, compass life, self-acceptance, good relationships</td>
<td>To set</td>
<td>Ego</td>
<td>Fire</td>
<td>Demanding, blaming, aggressive, scattered, constantly active</td>
<td>Weak will, poor self-esteem, passive, self-centered, fearful</td>
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<td>Personal/Ego-centric/Self-oriented</td>
<td>Giftification, glam, conquest, action, impulsive, live for the moment</td>
<td>High performance systems – pursuit of profit, productivity, efficiency, quality, professional growth</td>
<td>Power, will</td>
<td>Self-definition</td>
<td>Vitality, spontaneity, strength of will, purpose, self-esteem</td>
<td>To feel</td>
<td>Emotional</td>
<td>Water</td>
<td>Overly emotional, poor boundaries, sex addiction, addictive attachments</td>
<td>Frigidity, apathy, rigidity, emotional numbing, fear of pleasure</td>
<td></td>
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<tr>
<td>Animalistic/Relationship</td>
<td>Ritual, ritual, taboo, superstitions, rites, folkways and lore</td>
<td>Routines for the organisation – communication between employees, customers, suppliers</td>
<td>Sensuality, Guilt, compassion, desire</td>
<td>Self-satisfaction</td>
<td>Fluidity, pleasure, healthy sensuality, desire</td>
<td>To be here, to have</td>
<td>Physical</td>
<td>Earth</td>
<td>Health, happiness, obesity, healthiness, empathy, attachment</td>
<td>Frequent fear, lack of discipline, ruthless, underweight, skinny</td>
<td></td>
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<tr>
<td>Vegetative/Instinctive/Survival</td>
<td>Food, water, procreation, warmth, protection, staying alive</td>
<td>Pursuit of revenues – financial solvency, employee productivity</td>
<td>Survival, Fear</td>
<td>Self-preservation</td>
<td>Stability, grounding, physical health, proper diet</td>
<td>To be here, to become</td>
<td>Physical</td>
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Good management is the same.

• Increase importance of finances, customers, courage.
• Don't cut without care.
• Performance can prove your worth.
• Survive … reorganise … reputation.
And nurture the opportunity.
Be human.

• Innovate and train.

• Take care and communicate.

• Offer value.

• Seek market share.

• Time is money too.
Opportunity in Crisis
a pocketful of ideas

Thank you.

GRI Equity
Financial and business advice and due diligence.

Tom Butler
Ballin Temple, Ardattin, Carlow, Ireland
+ 353 59 9155037  info@griequity.com
www.griequity.com