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North Texas CFO Forum

Downturn perspectives from ten CFO's

Deloitte Consulting LLP

November 25, 2008

Executive Summary

Survey Background

- Deloitte hosted a CFO forum in the Dallas, TX region on November 20, 2008. The topic of discussion focused on ***The current economic downturn and strategies to run the business during uncertain times.*** This session is hosted on a quarterly basis by Dave Scullin of Deloitte.
- In advance of the session, Deloitte distributed a survey advance survey regarding economic downturn to gain CFO perspective on the current environment. The survey responses were collected during the week of **November 3rd**.
- Ten company CFOs participated in the survey including:
 - BNSF Railway
 - Brinker International
 - Celanese
 - Deloitte Consulting
 - Kimberly Clark
 - Lennox International
 - Neiman Marcus
 - Rent-a-Center, Inc.
 - Texas Instruments
 - Zale Corporation
- A discussion forum was held with six of the CFO's. The session was facilitated by David Brainer and Tony Forcum of Deloitte Consulting. During the session the survey results were shared and the CFO's provided perspective on the downturn. The forum was free flowing and interactive.
- The results of the survey and comments from the forum are by no means statistically significant. However, the observations and comments provide useful perspective on the Downturn challenges, concerns and actions being taken by CFO's and their organizations.

Observations from the CFO discussion

- The current situation is extremely different than anything anyone has experienced before
- We are in a burning platform environment; “Get fit now”
- Some organizations are seeing an unprecedented shift in demand and buying patterns
 - Sales are greater in the first half of the month indicating a paycheck to paycheck buying mentality
 - Sales of high value products are off considerably
- Infrastructure spend , which previously appeared immune, has now “rolled over”
- Large customers, like Wal-Mart, are yielding power in terms of demanding better pricing
- Pension plans have declined, many by as much as 30% or more, creating funding challenges
- A major national bank offered to ‘buy back’ a long term credit line from an organization for a “fee”
- The current environment provides an opportunity to ‘get fit’ and force hard portfolio choices
- The current environment also provides an opportunity for this generation of new leaders to learn
- No negative concerns were expressed regarding the new Presidential administration or potential policy changes

The economic downturn is viewed as very challenging. Discussion centered around a number of themes important to weathering the storm

Scenario Planning

Plan for the worst, hope for the best

- Planning and forecasting is challenging across all sectors
- Scenario planning was discussed as a management solution
- Management is developing scenarios for best and worst case conditions, considering critical variables such as: currency, pricing, volumes, pension ranges
- Input costs are volatile; oil prices have declined but specialty materials are in short supply
- Developing guidance is challenging; using ranges and scenarios to describe the outlook
- Some challenges around what to present to the Board

Expectations

Increase communications , help set expectations and build consensus

- Everyone is looking for answers and guidance
- Corporate and the business units may have different views of the economy and outlook and challenges
- Many in management don't understand the convergence of factors creating the current economic downturn are eager to understand them
- Sharing knowledge with the Business leadership is helpful in gaining understanding and consensus for difficult choices. One CFO mentioned using a recent strategy forum to educate and build consensus for action
- The CFO can and should play a more proactive role in these communications

Action

Expedite actions

- The rapidly changing environment makes decision making challenging
- Forecast/planning cycle are being condensed and occur more frequently
- Leadership is challenging all capital investments
- The CFOs role in budgeting and planning for Business Unit owners is changing. Greater direct involvement may be needed, representing a shift in the working relationship with the business
- Greater need for tough choices on capital and investment decisions
- Asset sales to focus the business portfolio are not practical due to depressed process and limited buyers; everyone is selling

The current economic downturn is viewed as a long term situation, a 2009 recovery is not expected, key discussion themes centered around actions to whether this storm

Cost Management

Make difficult choices to reduce costs

- Looking at operating expenses, not just capital expenses
- Approach varies somewhat by industry
- Areas discussed include IT spend, special projects, and marketing spend. Focusing on making spending “Sticky” by changing review/approvals
- Magnitude of change needed is much greater than management realized. Incremental costs are gone. More structural changes needed to size the business for the economic conditions
- Straight cost reduction is not good enough. Need to stop doing work to eliminate cost
- Labor arbitrage is going away fast. Outsourcing doesn’t offer the advantages of the past
 - Perspective that shifting offshore is a lot of effort and complexity with limited savings

Cash Generation

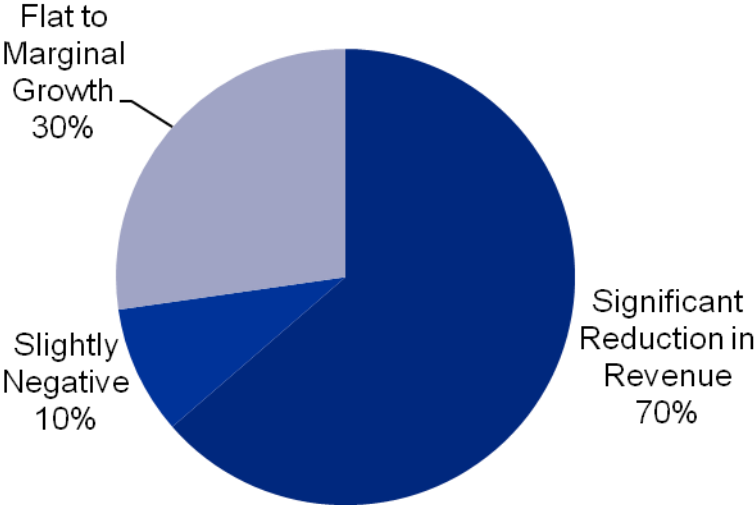
Building a strong cash position is critical

- Working capital is a priority issue
- Creating a safety net to cover accounts receivable or customers who can’t get credit to buy; anticipating financing customers and suppliers
- Holding shipments to some customers who are paying slowly
- Working collections hard to generate cash
- Companies are extending payables in some cases, in others, paying on time if relationships are critical to gain “preferred” status
- Building a safety net to cover customers who can’t get credit; may have to become the lender of last resort
 - One CFO described how they were offering their Citigroup credit facility to specific customers

Survey Findings

8 of 10 CFOs believe the economic conditions will impact their business negatively in the next 12—18 months

To what extent do you believe the economy will impact your business in the next 12-18 months?

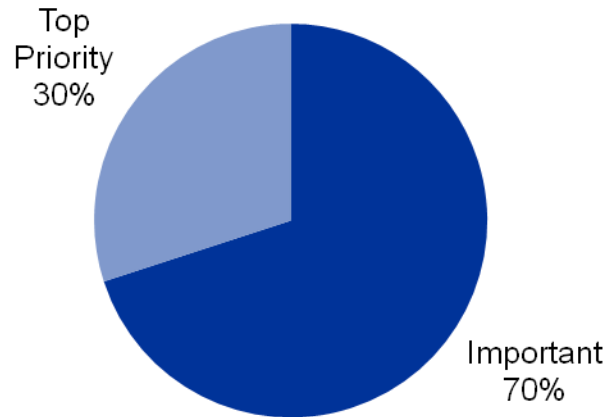


Potential Impact

- More than two thirds of respondents indicated that the economy will have a significant impact on revenues and profitability; defined as a greater than 10% reduction
- Approximately 10% of respondents felt that growth would be slightly negative but not disastrous
- The remaining respondents felt that the economic conditions would yield flat to marginal growth
- Survey participant comments include:
 - “Housing and retail markets will be down”
 - “We are planning for the worst”

Most CFOs surveyed indicate that incremental cost reduction efforts are important, with incremental or structural actions being needed

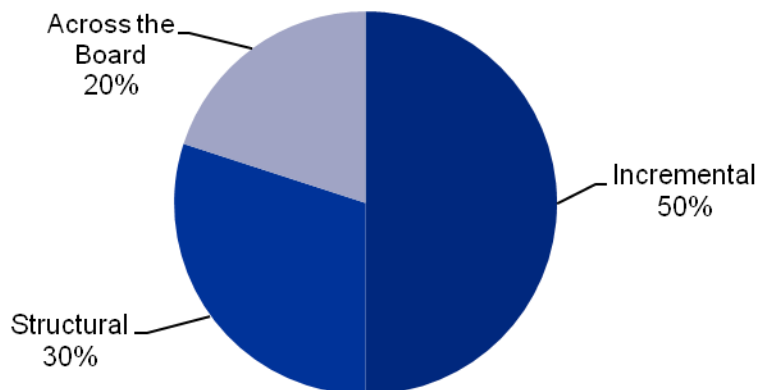
To what extent is the organization focused on reducing spending and costs?



Cost Reduction Priority

- Seventy percent of respondents are focused on reducing spending and view spend management as an important priority
- 30% of respondents indicated that reducing costs is the number one priority across all businesses and functions
- Selected respondent comments included:
 - “No customer impact is key”
 - “More focused on long term opportunities”
 - “Heightened focus on prioritization”

What has been the focus of your cost reduction programs to date?

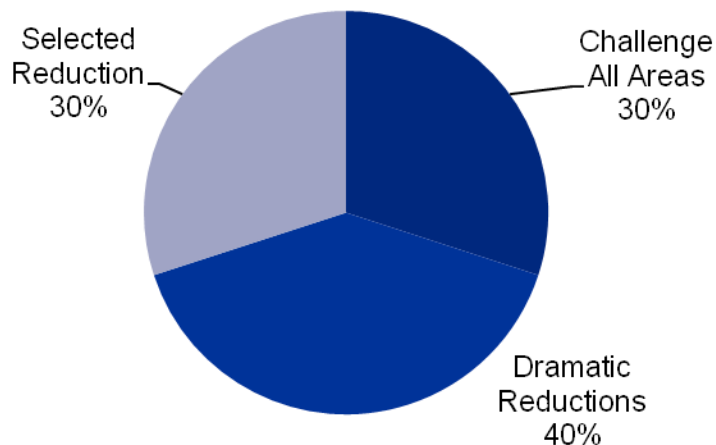


Cost Reduction Focus

- Approximately half of respondents have been implementing incremental and continuous improvement focused cost reduction efforts
- Thirty percent are taking a transformational approach to cost reduction focusing on structural change and improvements
- Just about 20% are implementing across the board reductions in cost
- Selected respondent comments include:
 - “Focus is on areas where we have lacked discipline”
 - “We are undertaking a transformational assessment”

Changes in cost reduction programs appear imminent, and CFOs are concerned with potential upheaval of the business ‘ecosystem’*

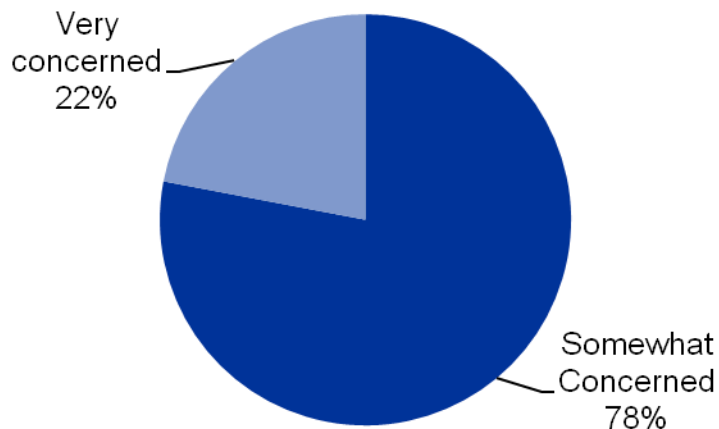
How do you see your cost program changing, if at all, in the coming months?



Cost Reduction Changes

- 30% of respondents will challenge both operating and capital expenses across all areas of the business to reduce costs as much as possible
- 40% of CFOs responding will need more dramatic changes in the cost structure to meet cost takeout objectives of 10-15%
- 30% will require additional cost reductions in select areas of the business to meet their targets of 10% cost takeout

To what extent are you concerned about your business ‘ecosystem’* of relationships?



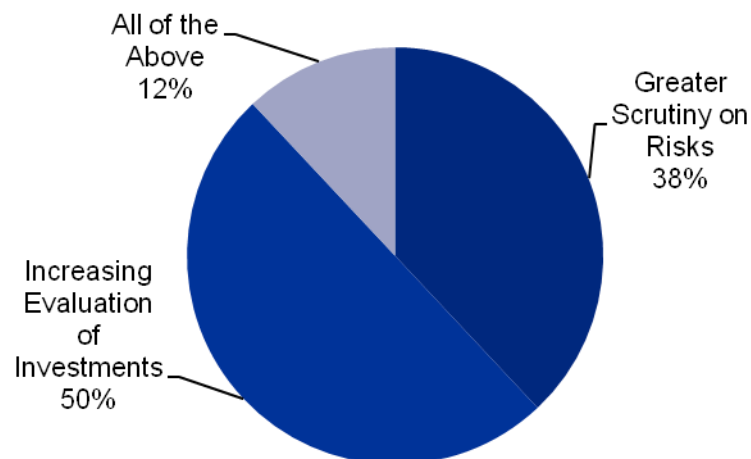
‘Ecosystem’ Concerns

- Examples of the “ecosystem” of relationships included Banking, investors, vendors and suppliers and key customers
- Approximately 80% of CFOs responded that they are becoming concerned, however adequate options are believed to exist if disruptions occur
- Just over 20% said they are very concerned that the business environment has created new risks and challenges for our eco system of relationships

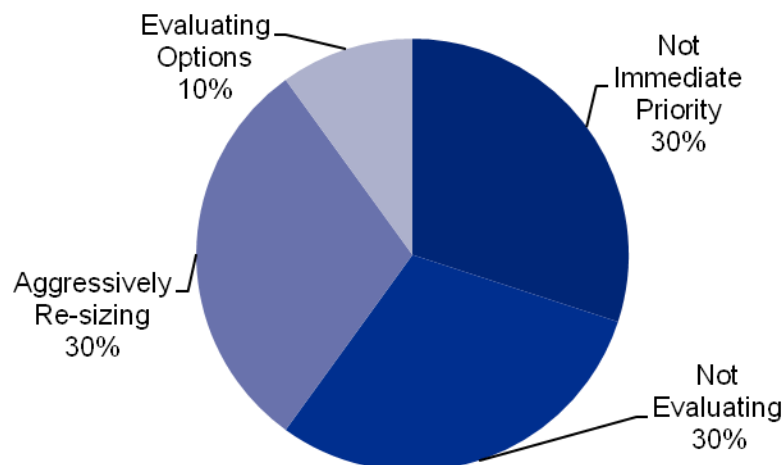
*Includes banks and investors, vendors and suppliers and key customers

Most CFOs are placing more scrutiny on their global operations as well as considering re-sizing within their business

To what extent are you concerned with international operations and subsidiaries?



To what extent are you considering resizing the company to anticipate changes in market demand?



Global Impact

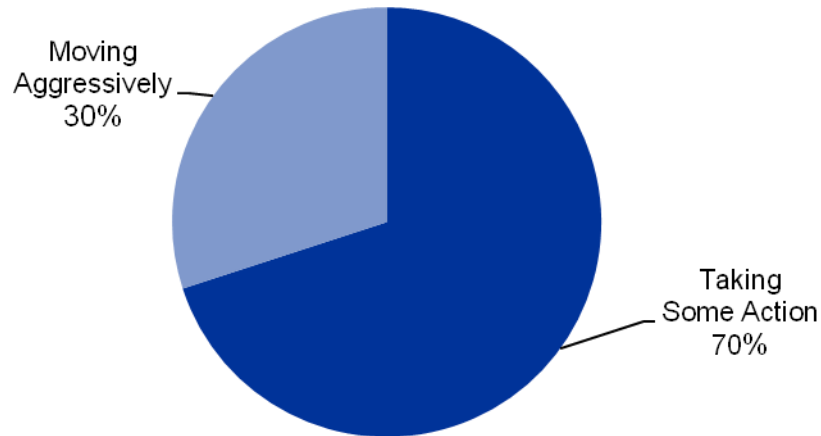
- The health, outlook and risk of Global operations is of concern
- Approximately 40% of respondents are putting greater scrutiny on all international operations, profitability and risks
- Half of respondents are increasing the evaluation of their international investments

Re-sizing Considerations

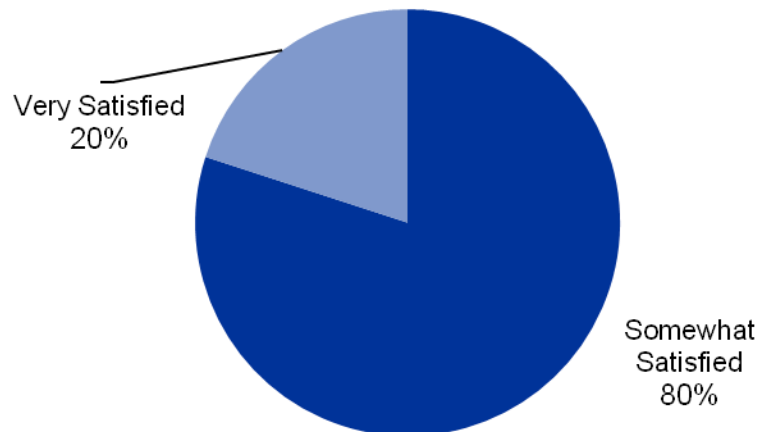
- Thirty percent of responding CFOs are considering re-sizing the business, although it is not an immediate priority
- An additional thirty percent of respondents are aggressively re-sizing businesses and related functions
- Ten percent are in the process of evaluating options for re-sizing
- Thirty percent of respondents are not evaluating resizing options at this point

CFOs indicate that they would like to see a more rapid response to the downturn challenges; Some objectives are being met, but there is room for improvement

How satisfied are you with the speed your organization is responding to the changing economy?



How satisfied are you with the results and outcomes of the organization's downturn response?



Response to the Economy

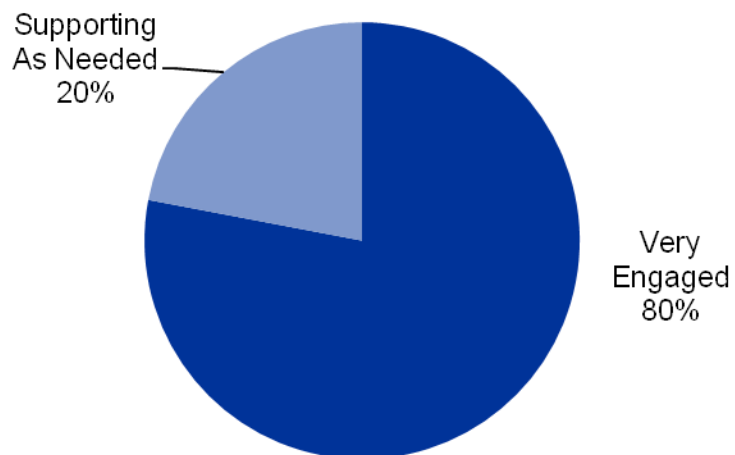
- A majority of surveyed companies (70%) are taking action in response to the economic changes, however they believe that there is room to improve both pace and results
- Approximately 30% are moving very aggressively in their response to current challenges and opportunities
- Selected respondent comments:
 - “We are beginning to see a greater sense of urgency”
 - “Our leaders have responded aggressively to requests to downsize the cost structure”

Outcomes

- All respondents feel that they are making progress against downturn related organizational objectives
- 80% of those surveyed are at least somewhat satisfied with the outcomes to date and are meeting some but not all objectives. There is room for improvement.
- 20% are very satisfied with outcomes to date and are exceeding objectives and targets

CFOs are engaged in the business response to the downturn. The level of engagement and direction may represent a cultural shift for some organizations

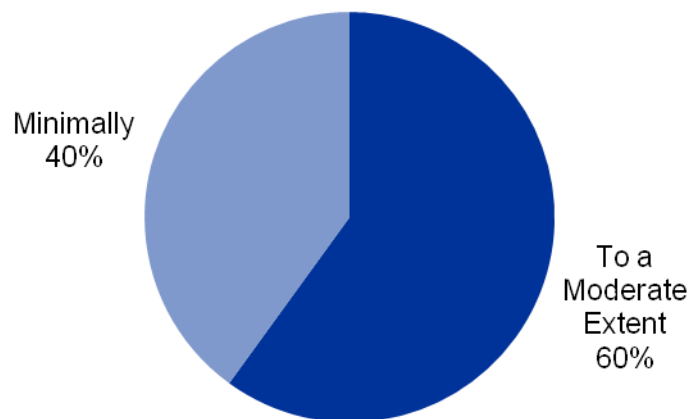
To what extent is the finance organization supporting the business in the 'downturn' response



Finance support of the Downturn

- 80% of CFO respondents are very engaged with the business units and/or functions and are playing a key leadership role in supporting the organization through the downturn
- Only 20% of CFO respondents are supporting the organization on an as needed basis

To what extent has your organization decided to reduce margins or add features to existing products to take market share during the downturn?

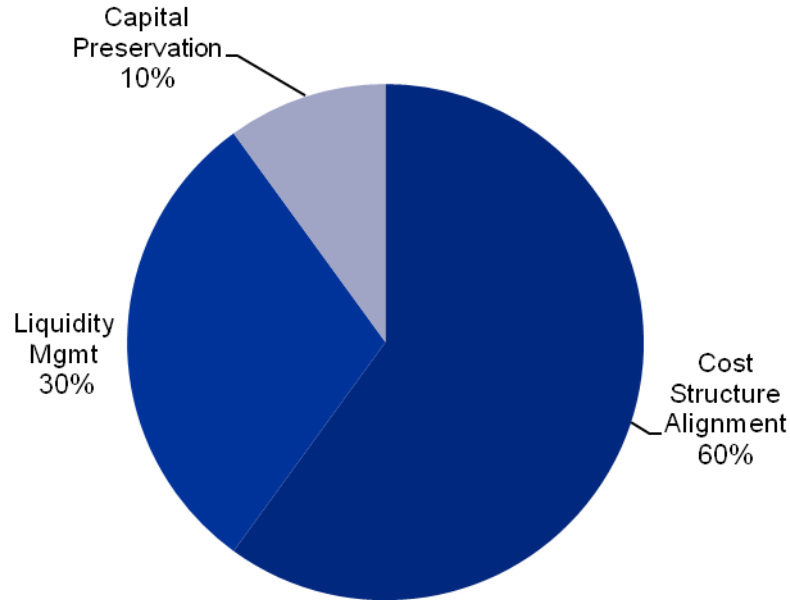


Market Share

- Approximately 60% of responses indicate that organizations are reducing margins (pricing) or adding features to protect or increase market share
- 40% of respondents are placing limited or no focus in this area

The greatest day to day concern of surveyed CFOs is cost structure alignment

Which of the following concern you most day to day?



Greatest Concerns

- On a day-to-day basis, CFO respondents are concerned with cost structure alignment with the current level of business
- A significant number of respondents (30%) are concerned with liquidity management
- Only 10% of respondents are most concerned with capital preservation
- Selected respondent comments:
 - “We are finding opportunities to invest in long term”
 - “We are also focused on top line growth”
 - “We are concerned that we won’t be positioned for a turnaround if we cut too far too fast”

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