

Globalization Competition in a Flat World

Hilton Head Island, SC

October 13th, 2005

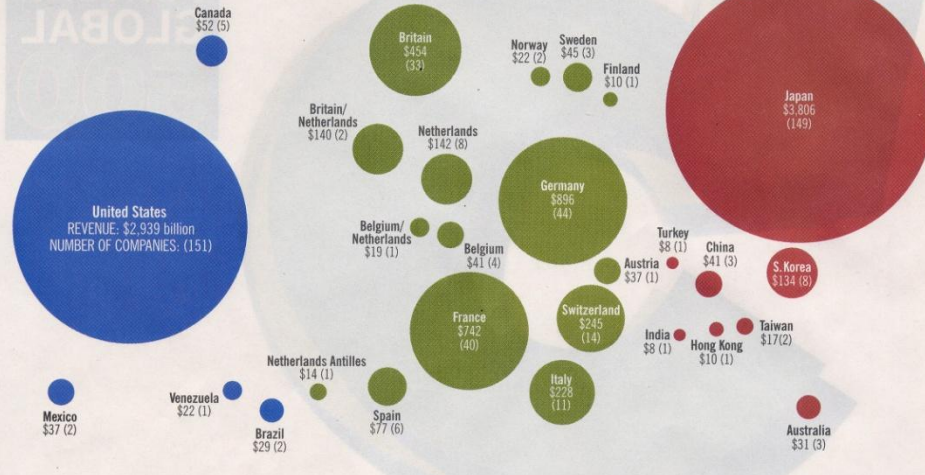
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Global 500 Players by Country –

Changing Fortunes

THE GLOBAL 500 TEN YEARS AGO ...

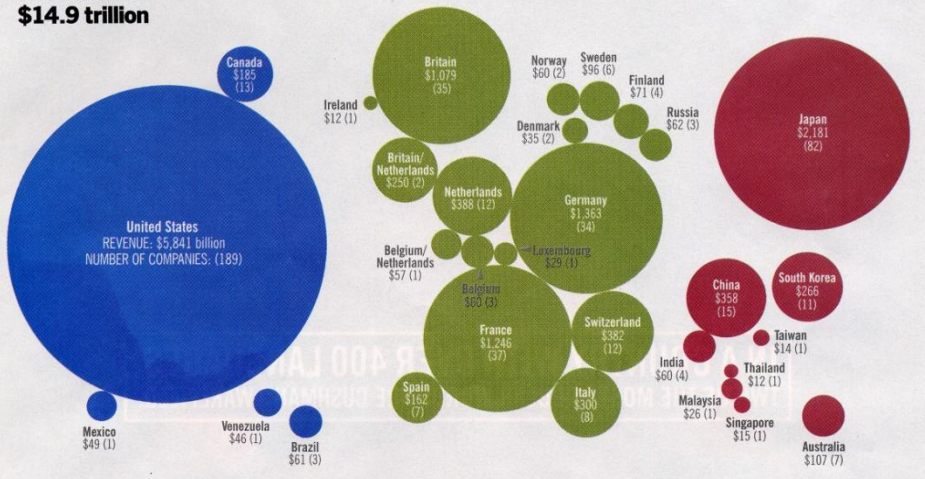
1994 total revenues
\$10.3 trillion



AND TODAY

Each circle represents the total revenues of all Global 500 companies in that country, 1994 (left) and 2003 (below). The U.S. and Europe have filled out, while Asia has seen a shift in economic clout.

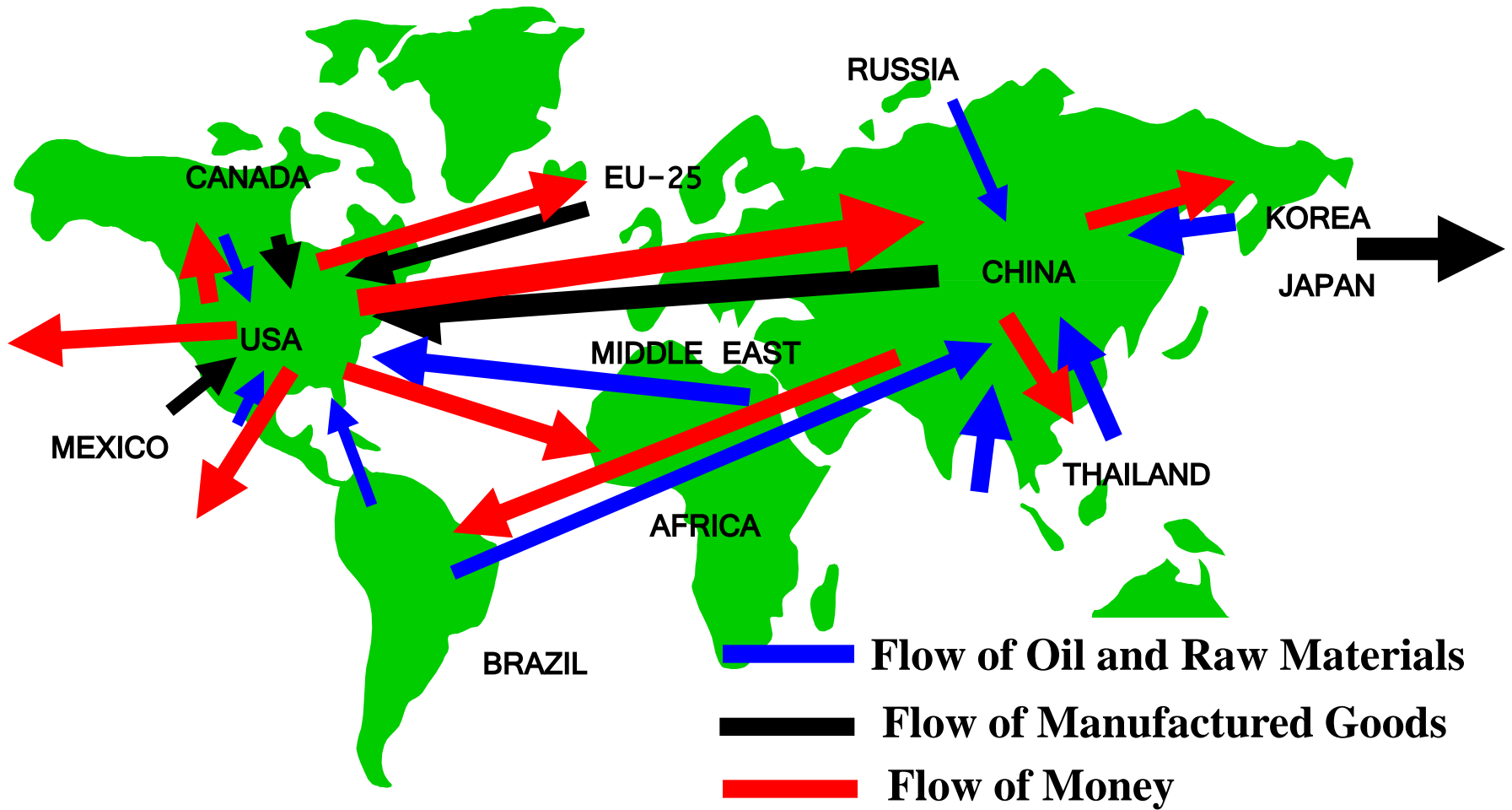
2003 total revenues
\$14.9 trillion



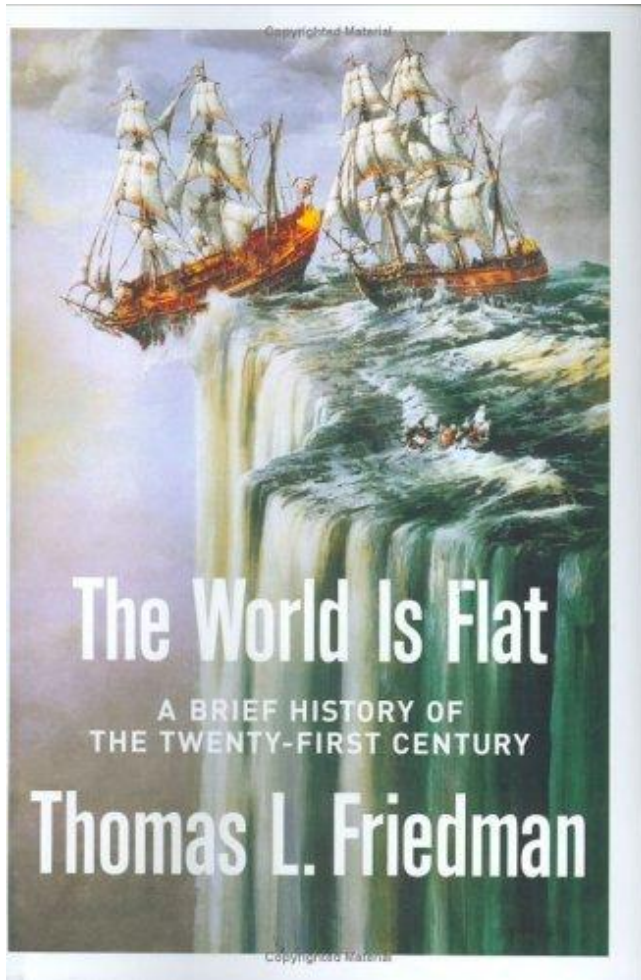
- Biggest Grower
 - United States
 - Britain
 - Germany
 - France
 - Netherlands
- Biggest Decliner
 - Japan
- Emerging Markets Growers
 - China
 - South Korea
 - Singapore
 - Malaysia
 - Brazil

What will this look like in 10 more years?

Global Economic Imbalances



Competing in a “Flat World”



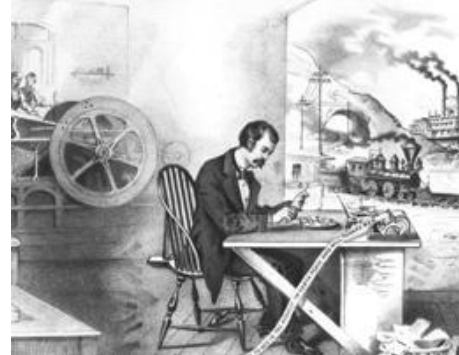
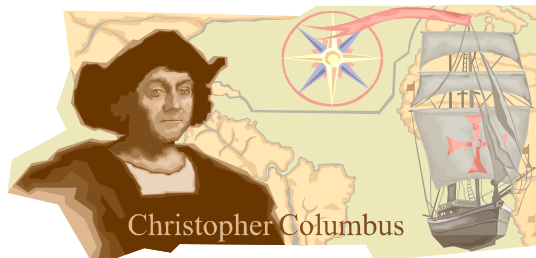
- Traditionally, a Number of Political, Economic, Cultural and Geographic Barriers Caused Companies Around the World to Compete on Different Bases
- Recently, Geopolitical, Technological, and Business Strategy Developments Have Caused Companies to Compete in a “Flattened” World

“The playing field is being leveled.”

Nandan Nilekani
CEO, Infosys Technologies
(Indian Technology Company)

Three Phases of Globalization

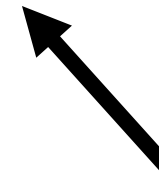
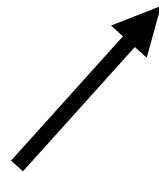
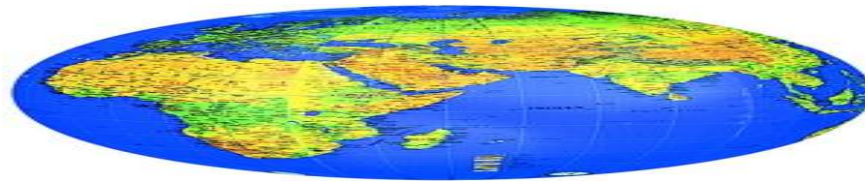
	Globalization 1.0	Globalization 2.0	Globalization 3.0
Timeline	Columbus (1492) to ~1800	~1800 to 1980	1980 to ?
World Size	Large to Medium	Medium to Small	Small to Tiny
Key Geography	Europe	Europe/US	Global
Drivers	<ul style="list-style-type: none"> • Countries • Muscles • Religion • Imperialism 	<ul style="list-style-type: none"> • Multinational Companies • Industrial Revolution • Transportation Costs • Communication Costs 	<ul style="list-style-type: none"> • Technology • Capitalism • Individuals
Key Question	<i>Where does <u>my country</u> fit in the global economy?</i>	<i>Where does <u>my company</u> fit in the global economy?</i>	<i>Where do <u>I</u> fit in the global economy?</i>



We are entering a fundamentally different phase of globalization than the world has ever seen!

“Perfect Storm” Flattens the World

Geopolitics



Business Practices

Technology

13 Days That Flattened the World

Date	Event	Trend	Implication
August 12, 1981	IBM and Microsoft Launches the PC with MS-DOS	Standardization	Computers Worldwide Run Common Software (Eventually Windows) on Compatible Hardware
February 10 th , 1982	Intel 286 Chip Launched	Fast Computing	First Chip with Over 100 K Transistors; 2004 Itanium Chips Have 592 M Transistors
May 1, 1984	Michael Dell Forms Dell Computer	Cheap Computing	Focuses on Direct Sales of Wintel Computers; Millions of People Can Afford Personal Computers
February, 1988	David Glass Named Wal-Mart CEO	Supply Chaining	Glass Drove the Development of the Largest Retail Supply Chain in the World
November 9, 1989	Berlin Wall Falls	Capitalism	2 B People Join the Global Entrepreneurial Race
August 9 th , 1995	Netscape Goes Public	Web Surfing	Browser Enabled Everyone Globally to Easily Access Content from Any Computer Anywhere
June 22 nd , 1998	IBM Launches Apache Software Based Web Server	Open Sourcing	“Cost of Playing” in Technology Declines; Global Network Standardization Begins
December 31 st , 1999	Y2K “Meltdown” Averted	Outsourcing	Crunch Timeline Resulted in Outsourcing to India; Started Globalization of Technology Services
March 2 nd , 2001	UPS Buys Mail Boxes Etc.	Insourcing	Little Guys Can Go Global with 3 rd Party SCM
December 11 th , 2001	China Joins the WTO	Offshoring	Race by U.S. Companies to Relocation Production to China Goes to New Level
January 31, 2002	Global Crossing Files for Chapter 11	Cheap Global Bandwidth	Fiber Optic Network Built with Dot Com Cash Provides Others Fast, Cheap U.S. Access
August 18 th , 2004	Google Goes Public	Informing	Personalization and Ease of Finding Information
July 12 th , 2005	U.S. Cell Phones > Landlines	Mobility	FCC Reports That as of 2004 the U.S. Has More Cell Phones Than Landlines

Technology

Geopolitics

Business Practices

Synergistic Flattening

Geopolitics

Capitalism

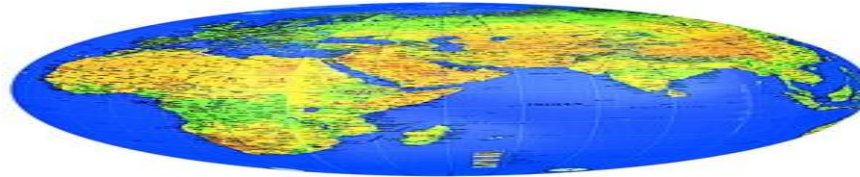
Motive

Offshoring

WWW Accessibility

Fast Computing

Mobility



Open Sourcing

Cheap Global
Bandwidth

Cheap Computing

Standardization

Means

Outsourcing

Infrastructure

Supply Chaining

Technology

Informing

Methods

Insourcing

Business Practices

Components of a Healthy Economy

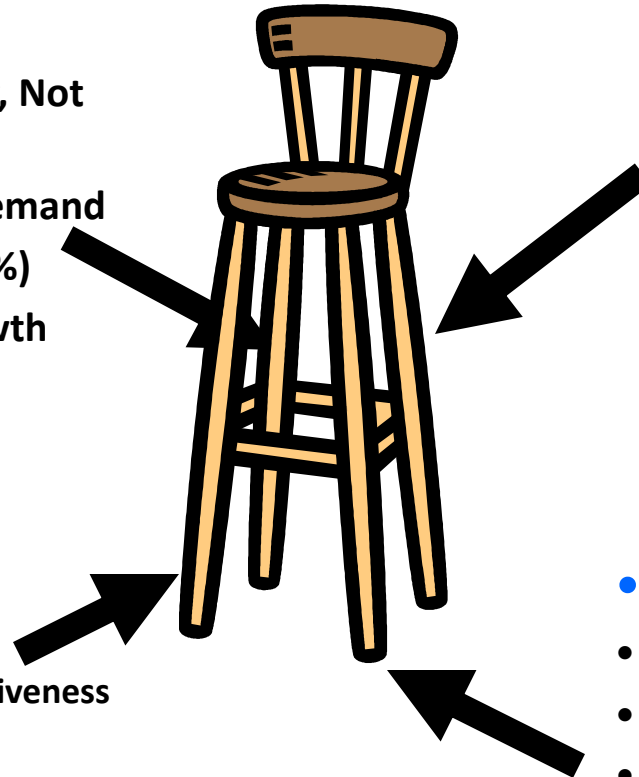
Four Key Things

• Healthy Consumer

- Population Growing Steadily, Not Rapidly Aging
- 4-6% Growth in Domestic Demand
- Healthy Savings Rate (15-25%)
- Steady Job and Income Growth

• Healthy Government

- Budget Balanced + or – 1.5%
- Balanced Policies
 - Global vs. Domestic Competitiveness
 - Business vs. Consumer Needs
 - Monetary Policy Promotes Growth Without Asset Inflation



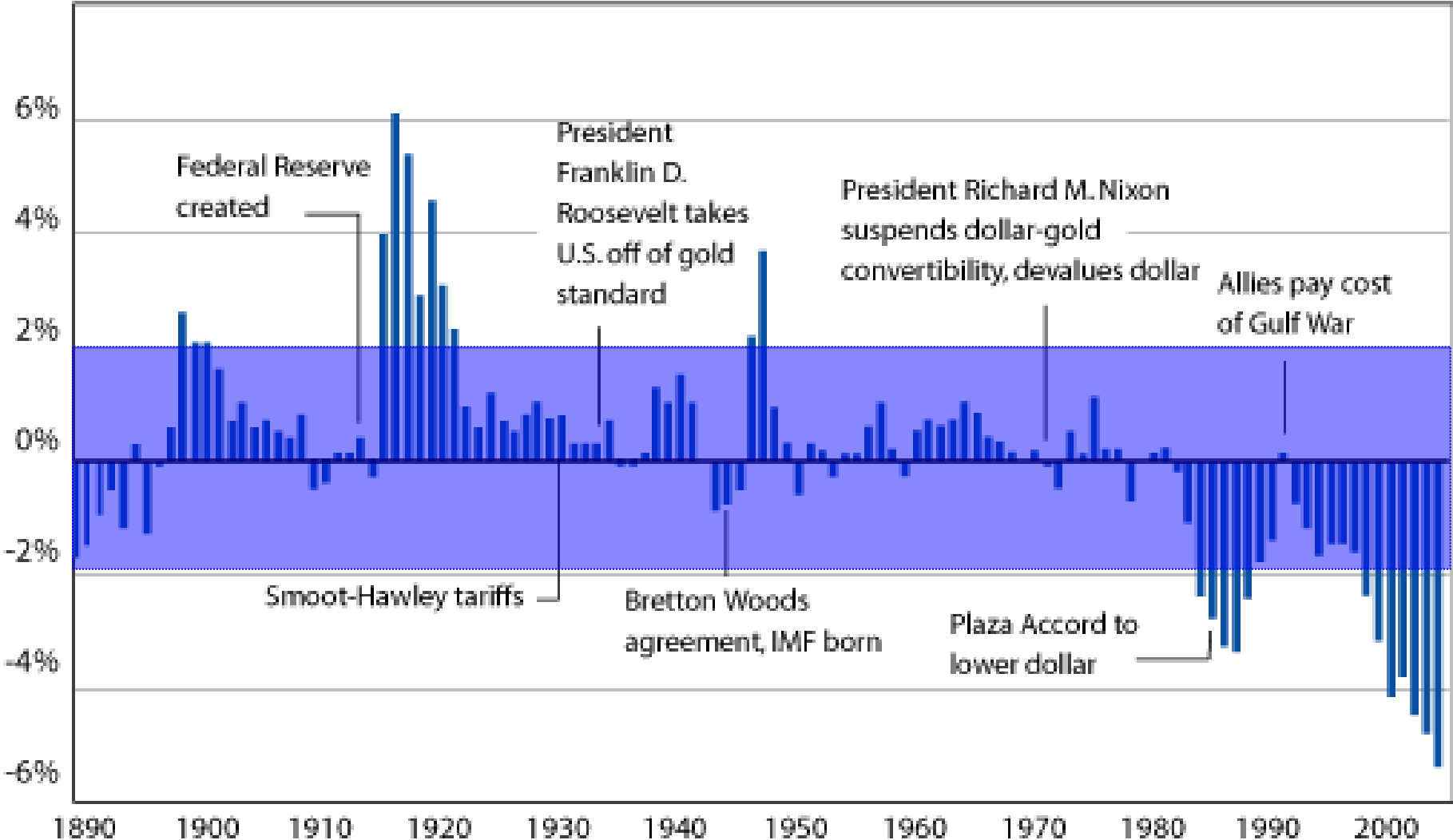
• Healthy Business

- A Net User of Cash By Investing for Future
- Prudently Leveraged
- Investing in Employees, Plants and Equipment

• Healthy Trade

- Open Trade
- Fluid, Exchangeable Currencies
- Shared Labor and Environmental Commitments

U.S. Surplus/Deficit History



Source: Wall Street Journal

Net Savings Contributions to the Global Economy, 2005

Expected contribution of net savings to the global economy in 2005



What happens to the global economy without this demand?

The United States' Net Consumption Dwarfs Others; Europe Has Mix of Net Savers and Spenders

SAVINGS

SPENDING

Current Global Economic Health

- Consumers
 - Global Housing Boom Greatly Increasing **Consumer Debt** Levels
 - **Developed Consumers** Spending Too Much, **Saving Too Little**
 - **Developing Markets** Consumers Save Too Much, **Spend Too Little** (Export Dependent Economies)
- Business
 - **Manufacturing** Businesses in **Asia** May Be **Expanding Too Fast** (Vulnerable to Global Housing/Consumer Retrenchment)
 - Businesses in **Developed Countries** **Not Investing Enough** (Outsourcing Production, Downsizing, Buying Back Stock)
- Government
 - Huge **Deficits in U.S. and Developed World**
 - Huge **Surpluses in Developing Countries** (T-bonds)
- Trade
 - Robust Trade But **Protectionist** Rumbblings
 - Significant **Global Currency Adjustments** Underway
 - Economic Turbulence Could Result in Significant **Trade Turmoil**