

# On the move

## Creating a culture of business growth

A report from the Economist Intelligence Unit  
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## **On the move**

Creating a culture of business growth

# Preface

*On the move: creating a culture of business growth* is an Economist Intelligence Unit briefing paper sponsored by Oracle. The Economist Intelligence Unit conducted the desk research and the interviews, and wrote the report. The findings and opinions in the report do not necessarily reflect the views of the sponsor. The paper was written by Ronald Alsop and edited by Debra D'Agostino. Mike Kenny was responsible for the layout.

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# Introduction: strengthening for recovery

**A**s the global economic recovery slowly gathers pace, many companies remain focused on preventing further financial losses rather than ensuring future gains. They simply ducked for cover during the recession, trimming staff, paring research and marketing budgets, and curbing other costs wherever possible. Sensible moves, no doubt, given the gravity of the downturn. But too many companies failed to use this time of uncertainty to prepare fully for the upturn.

The aim of this study is to examine the ways in which firms have made significant changes during the downturn, in order to highlight the types of obstacles they have encountered, and to report on how they have put those changes into effect. Our findings are based on desk research that surveys a broad swathe of global industries and includes in-depth interviews with senior executives at five global companies that have successfully navigated through the downturn. The research suggests that as consumer confidence revives and the economy strengthens, the big winners will be those companies that are more nimble and innovative than their peers. Rather than wait for the recession to end, they have been preparing for an upturn. They are taking cautious gambles that nonetheless appear bold in such uncertain times.

Confident executives started or accelerated the transformation of their companies during the recession and have kept innovation among their highest priorities.

The seven senior executives interviewed for this report each seized opportunities with the aim of emerging from the recession stronger than their rivals. They share in common an ability to make significant change a top priority in the recession and to create an innovative culture at their companies. Furthermore, they are using technology to help accelerate response times to customers, encourage more collaboration among employees and create more efficient supply chains.



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The most important findings from the research for this paper are as follows:

- Companies should take opportunities to gain a competitive edge when rivals may be in disarray and to prepare for a surge during the recovery.
- Firms should consider the downturn a time for making major transformations that could redefine their business and culture.
- Companies should take prudent risks that will lead to innovative products and services, especially ones that reduce customers' costs, and keep the pipeline full.
- Firms should exploit information technology to achieve efficiencies in the supply chain, customer-focused activities and other key business operations.

The companies profiled in this report exemplify these findings in different ways. The actions taken by each firm provide management insights that can be used by a diverse range of businesses to take advantage of the opportunities that are beginning to emerge throughout the global economy.



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# Opportunities to gain a competitive edge

A recession is a terrible thing to waste (to borrow a famous phrase of the Obama administration), because rivals are often too weak to prepare for a business recovery. It is best, therefore, to move fast when competitors are in disarray. One case in point is LG Electronics of Seoul, South Korea. It has tried to seize the initiative by taking the offensive, even down to the use of military metaphors to dramatise its objectives. It created a “crisis war room” in January 2009 with the aim of cutting costs, improving efficiency and prioritising business plans, such as new product development. Evoking images of battle might seem an over-reaction, but it appears to have helped to galvanise the company.

Despite the downturn in consumer spending, LG has continued to launch new television sets, mobile phones, home appliances and other products. “We’re finding that people are cancelling vacations and spending more time in their home, so they’re willing to invest in more expensive home experiences,” says Bradley Gambill, executive vice-president and chief strategy officer. “We launched an ultra-premium, extremely thin 15-inch television using OLED (organic light-emitting diode) technology in Korea in 2009

## The sound of an engine revving

Vigilance and agility can pay off handsomely. A case in point is the detective work of Tom Linton, LG Electronics’ first chief procurement officer, who joined the company in 2008 and transformed buying into a much more strategic, nimble function.

In late January 2009, he visited some foundries in Taiwan that build semiconductors for many of LG’s products. At the time, economic reports were predicting doom and gloom, so Mr Linton started asking questions at the factories to see how bad things looked for the consumer electronics business. He heard that there had been a recent surge in the number of “wafer starts”. Wafers are large silicon disks on which

patterns for semiconductors are imprinted. For Mr Linton, this was a bellwether of better times for the electronics industry.

“I saw that it was like a huge engine starting up again, and I called my buyers to pull in all the cost savings we could,” he recalls. “I said, to the shock of many people, ‘It’s over, so negotiate all the long-term contracts you can. Don’t wait; buy now.’” He estimates that LG’s rapid response to the jump in wafer starts resulted in well over US\$1bn in savings. “Like a good mutual fund manager, you want to buy when the market is down and sell when the market is high,” says Mr Linton. “We buy more than US\$40bn worth of materials and achieved over 20% in cost reductions.” Locking in component prices at the bottom of the market will strengthen LG vis-à-vis its competitors as demand picks up.



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and will introduce it in overseas markets in 2010.”

Recessions are not for the faint-hearted. But they are not for high rollers, either. One approach is to take calculated risks in the way that LG has done, to become more efficient, innovative and competitive, while carefully minding the store. Companies cannot mortgage their future by delaying investments that could provide momentum during the economic recovery. It is all about balance, and this is how some of the bolder firms have approached this historic recession. Boldness is not always the best strategy, of course. In some circumstances, a more cautious approach is merited, especially where markets are very volatile, as in financial services.

While developing a new television, LG strengthened its supply chain and procurement process, netting both cost savings and greater long-term efficiencies. LG managed to wring 20% in cost reductions from its suppliers. But as the economic outlook darkened, it also made interest-free loans to suppliers to keep both them and its own product lines running. The loans of as much as US\$20m helped suppliers to improve efficiency in ways that enhanced their ability to serve LG. Helping out in tough times builds loyalty.

Taking a longer-term view, Tom Linton, chief procurement officer, says LG does not think in terms of cost cutting, but rather in terms of “cost innovation”. He has a team working to standardise more parts, such as using the same screw on a television and DVD player. “The more common things are in colour, shape and length, the more the cost innovation,” he explains. Cost innovation also means using fewer components so television sets and mobile phones weigh less and washing machines make less noise. “Our challenge,” Mr Linton says, “is how to take costs out and increase value to the consumer at the same time.”

LG also faced some organisational challenges in carrying out such innovations. In a decentralised company such as LG, it can be difficult to innovate when every department has separate profit and loss statements. In addition, the company’s consensus-style culture often slows decision-making. Language issues also create hurdles for LG. Unlike companies with a longer history of employee diversity, LG began hiring large numbers of non-Koreans in its home office only two years ago. Although LG has moved towards the use of the English language, Korean is still preferred at the company’s headquarters, which limits the diversity of suppliers and partners.

At almost all firms, including LG, innovations require something of a maverick mentality. “Agility and flexibility go counter to how you run the core business. The core business is all about repeatability and predictability. You have to meet the numbers, have efficiency. The trick is how to combine flexibility with efficiency,” says Vijay Govindarajan, professor of international business and director of the Center for Global Leadership at the Tuck School of Business at Dartmouth College. He is currently on leave from Dartmouth and is professor-in-residence and chief innovation consultant for General Electric.

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# Time for making major transformations

Many firms have made wrenching changes in order to remain competitive. The more successful companies have taken advantage of adversity by altering workers' attitudes and making the firm more entrepreneurial. One such company is Verizon Business, the business-to-business (B2B) arm of Verizon Communications of New York, which has undergone an extensive transformation and has essentially redefined itself. With its traditional voice and data business services in decline, Verizon needed to find new engines of growth. So it is taking a big leap by evolving into a global services provider rather than simply a network provider.

The transformation began before the downturn in January 2006 with the acquisition of MCI, but has accelerated since the economy soured. Verizon Business was formed by combining the former MCI's global enterprise group with Verizon's Northeast-focused enterprise business. After the MCI purchase, the company continued to expand its global reach and its managed network, security and IT services.

"We had already started down the path where we saw companies wanting to buy things as a service and not necessarily use their own capital," says Kerry Bailey, chief marketing officer of Verizon Business. "They wanted to be billed on the amount of usage through cloud computing." Then when the recession hit, even more were looking for easier and quicker ways to put their applications in a secure cloud and avoid hiring more staff and using capital for servers and other equipment.

During the economic slowdown, Verizon continued making capital investments around the world for a more reliable, robust network of Internet protocol services. "If we had stopped the investments because of the recession," Mr Bailey says, "we may not be ahead of the game now." Since 2006, Verizon Business has invested more than US\$3bn in its global network. Even so, Verizon still faces formidable competition from some telecoms rivals. AT&T, for example, planned in 2009 to invest about US\$1bn to keep building its global network and deliver new services and network-based applications to business customers.

Given less competition in the job market during the recession, Verizon hired experts in industries such as healthcare, financial services, utilities, retailing and energy. Some were former chief information or security officers, joining Verizon's team of 2,700 consultants. "We need to understand customers and their industries, and these experts have been there and know the challenges that need solutions," Mr Bailey says.

The key to such a major transformation is creating a flexible and open-minded corporate culture. Verizon's executives recognised that they would have to encourage employees to think differently. "The culture now is customer- and solution-centric, providing a network plus consulting services rather

Verizon aims to create a flexible and open-minded corporate culture



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### New ways to innovate

Vijay Govindarajan, professor of international business and director of the Center for Global Leadership at the Tuck School of Business at Dartmouth College, is an expert on strategy. He is on a two-year leave from Tuck and is a professor-in-residence and chief innovation consultant for General Electric. We interviewed Dr Govindarajan recently about corporate strategy and innovation at different stages of the business cycle.

*Q. How have the recession and globalisation affected innovation strategies?*

“After the financial meltdown, growth has shifted from developed countries to developing countries. Going forward, companies must look more than ever to emerging markets and should innovate in countries like India and China and bring the innovations back home. I call it ‘reverse innovation’. It is really about shifting resources. If companies want to innovate in India and China, they must have strategic marketing, R&D, sourcing, distribution and sales capabilities in those countries. That’s not how multinationals operated historically; they had those resources in the United States or Europe. This is not an outsourcing

argument, but rather an argument for building lower-cost platforms to develop innovation. Talent and resources are cheap in India.”

*Q. What kind of innovation projects do you believe should generally receive the most attention among corporate executives?*

“Companies should focus most on ‘adjacency innovation’ as opposed to big ideas, such as the iPod. They should take current core competencies and push into an adjacent product, customer segment or geographic space. These would be one step removed from the core business—less risky and with a faster payback. For example, a product manufacturer could see if it can get service revenue from its products. That’s adjacency.”

*Q. But should companies not always be seeking those breakthroughs that can be so transformational?*

“At this time, companies can’t focus too much on breakthrough innovation. They simply can’t afford to make big mistakes in this economy. Still, I would say to spend at least 5% of resources on some crazy idea, some very new concept, because what happens after the next five years matters too. Plant at least some seeds. In normal times, I would say spend 20% of your resources on big bets; but today, I would say only 5%.”

Intel tries to remove steps wherever possible from the production and supply chain process

than showing a widget list and asking, ‘What can we sell you?’” Mr Bailey comments. “Everyone has a sense of urgency that I’ve never seen before. We’ve taken a huge company and leveraged it into a more entrepreneurial business.” Not everyone at Verizon coped well with the changes, however. “People had to buy into the vision, understand it and find a role for themselves in it,” Mr Bailey recalls. “Not everyone could make that transition.”

As it has redefined itself, Verizon realises that it faces stiff competition, not just from traditional rivals such as AT&T, but also from companies such as IBM and Accenture. Nevertheless, it believes that it is in a strong position to meet companies’ needs to save money by having someone else manage their IT requirements.

Verizon Business completed a six-year agreement with JetBlue Airways in October 2009 that Mr Bailey considers a kind of milestone. Verizon will manage the airline’s IT data centre and network needs, as well as provide security and IT consulting services. The new Internet-protocol voice and data network will support airport kiosks, wireless Internet access and an advanced reservation system. The goal is to deliver improved customer service and better collaborative tools for crew members. “Who would have ever



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thought of Verizon as an airline reservation system," he says. "But we are now."

For companies making major transformations such as Verizon, it is too soon to measure the long-term results. But according to Mr Bailey, there is already a pay-off. He estimates that by the end of 2009 more than one-third of the company's revenue came from strategic value-added services, with the rest derived from the core business of traditional networking and voice services.

Intel is another company that embarked on a major transformation during the downturn, restructuring its manufacturing operations to cut costs while shortening response times. Its actions exemplify the practice of seizing every opportunity to make efficiencies. The firm, based in Santa Clara, California, says that it has kept on track with its technology goals of regularly making its microchips exponentially faster. It has continued to follow Moore's Law that the number of transistors on an integrated circuit doubles every two years. "The restructuring was a bold move, but we took advantage of the downturn and lower volume of business to consolidate," explains Brian Krzanich, Intel's vice-president and general manager of manufacturing and supply chain.

Intel calls its manufacturing culture "lean technology", meaning that the company tries to remove steps wherever possible from the production and supply chain process. Starting in early 2009, Intel announced plans to close six factories, dispose of older equipment, and move manufacturing to larger, more efficient facilities. Intel has shuttered four of the six factories, but business picked up sooner than expected so the final two will not be closed until the end of the second quarter in 2010. As Intel develops faster, smaller chips, "we will typically spend a couple billion dollars retooling factories," says Mr Krzanich. "If there are fewer factories, we have to retool less and spend less." The company also engineered out differences in tools to make a larger number of items with the same tools, providing more flexibility when demand shifts for certain products.

In addition, Intel upgraded and centralised its order placement system with new software. Salespeople in the field no longer have to funnel orders through as many layers so they reach the factory much faster. "Our mantra during the downturn has been to cut production times and significantly increase delivery of parts on the exact day a customer wants them," says Mr Krzanich. "The restructuring was risky at a time like this, but we believe how customers are treated during the downturn is going to affect how much business we get later." He adds that the factory restructuring during the recession will have a permanent positive effect from the top line to the bottom line. "We will have more flexibility and capability as product demand grows and shifts, along with reduced costs," he says.



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# Prudent risks that lead to innovative products

Companies like Intel and LG realise that they cannot afford to neglect innovation, no matter how dire the economy. Without a healthy research and development (R&D) budget, and a pipeline of promising products and services, companies cannot expect to thrive. Growth is all about new market opportunities. But in a recession, many companies retrench—and in certain circumstances this can be a wise move, especially in a downturn as severe as the one from which the global economy is emerging.

“When we go through downturns, we don’t blink,” says Mr Krzanich. “If anything, we believe new innovative products will lead us out of the recession.” Besides continuing to increase the capacity of its chips, Intel made a reverse move just as the recession was deepening. It introduced a lower-power, lower-priced processor called Atom in the first half of 2008. Atom, which is Intel’s smallest and lowest power processor yet, was designed for mobile phones but also became the basis for a new type of Internet-centric computer called a “netbook”.

Atom’s birth was anything but easy. It followed a long gestation period that began in the late 1990s with a technology obtained in a legal settlement with Digital Equipment. Intel took that technology and developed an “X-Scale” architecture but quickly realised that it was not going to be competitive in small devices, particularly phones. Eventually, Intel engineers designed an entirely new architecture from scratch, specifically for low power, performance per watt efficiency, and small devices. The company recognised that not only did Atom provide a foundation for a competitive smart phone architecture, but that it also promised other new opportunities in the consumer electronics market, including mobile Internet devices and the expanding netbook market.

Intel’s leaders emphasise innovation in good times and bad. So does Xerox, says Sophie Vandebroek, the company’s chief technology officer and president of the Xerox Innovation Group. “No matter how difficult today is, you will get through it,” she says. “You just have to be sure you continue to create a strong portfolio of products and services that customers want to buy.”

Especially valuable now are innovations that save customers money and reduce environmental costs as well. So the company, which is based in Norwalk, Connecticut, refocused its innovation on products that would increase productivity and boost the bottom line. Its new ColorQube promises to cut the cost of colour pages by as much as 62% compared with traditional laser printers without compromising quality. At the same time, Xerox’s litigation services business is piloting “smarter document” technologies such as automatically categorising relevant documents, automatically redacting private information and automatically retrieving specific information. On the horizon at Xerox is erasable paper that can be reused

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### A future by erasing the past

It helps to listen carefully—and respond creatively—to your clientele. Xerox has been conducting “dreaming sessions” at its technology showrooms with customers from around the world since 2006. Customers share their technology wish lists with Xerox researchers and often generate promising ideas that deserve further exploration. After detecting a common theme at some of these sessions, Xerox dreamed up one particularly intriguing idea: creating erasable paper by making ink disappear from a printed page and then reusing the paper as if it were brand new.

“In our dreaming sessions with our customers, we hear over and over that they prefer the look and feel of paper,” says Sophie Vandebroek, chief technology officer at Xerox. “But for environmental and cost reasons, they would like to use less.” In response, scientists at Xerox’s Canadian and California research centres have invented a reusable paper printing technology. The customer prints today, and in a day or two the paper is blank again and ready for reuse.

The big breakthrough came as researchers developed compounds that changed colour when they absorb a certain wavelength of light and then gradually disappear. While Ontario scientists work on the chemistry of the technology, researchers in Palo Alto are investigating ways to build a device that would write the image onto the special paper. They have developed a prototype “printer” that creates the image on the paper using a light bar that provides a specific wavelength of light as a writing source. The written image fades naturally over time or can be erased immediately by exposing it to heat.

The technology could have a significant impact. Xerox “anthropologists” observed that office workers throw away nearly one-half of all the material they print within 24 to 48 hours—everything from drafts of documents to e-mail attachments to driving directions.

In its commitment to keep innovating during the economic downturn, the company is continuing to develop the reusable paper technology. It has filed for patents on the technology, but stresses that more research and invention are required. “Of course,” Dr Vandebroek says, “we at Xerox also still need to figure out how to make money with such a device.”

(see sidebar). “We are focusing on technologies to both overcome information overload in the workplace and save costs,” Dr Vandebroek says.

Xerox is working more closely with its customers to develop innovative products and to manage their print services. The company announced in April 2009 that it would manage Procter & Gamble’s worldwide print operation, helping it to reduce the consumer-product giant’s operational costs by 20%, to 25%.

Xerox continues to conduct “dreaming sessions” at its technology showrooms with P&G and other major customers during which they brainstorm about the future. Xerox also sends teams of scientists and researchers to client sites, where they act as anthropologists by observing the ways in which people work with documents.

Like Xerox, LG is focusing more on learning what its consumers want and translating that into new products. During the recession, it opened a customer insights research centre in Seoul to help it to develop products that fit consumers’ needs. LG’s traditional strategy was to be a “fast follower”, cranking out products similar to those of competitors, but with lower prices or extra features. Now, it aims to be a leader by investing more in consumer research.

LG also recently opened a new R&D centre that includes a circular room with multiple projectors that beam computer-generated images onto the walls, immersing the audience in a particular environment, such as the interior of a consumer electronics store. Employees use a computer to change wall colours,



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product placements or signage. In another room set up like a retail mobile-phone department, an individual can wear a helmet with an eyepiece that tracks the pupil to detect what a customer sees first and where his eyes linger. Such research helps to determine where LG phones are displayed in stores.

LG's research is creating new business niches as the economy starts to improve. The company is planning to launch a solar energy cell business in 2010, developing commercial air conditioners and digital signage for business customers, and designing appliances that it says are "healthier" for consumers. For example, it created Terminator in South-east Asia, an anti-dengue air conditioner to kill mosquitoes with ultrasonic waves, as well as washing machines that use steam technology to remove allergens and germs that cause allergy-related illnesses, and a light wave oven technology that according to LG minimises nutrient damage and reduces cholesterol and fat.

LG believes that it has strongly benefited from these changes. It says its revamped supply-chain management system saved about US\$400m in 2009 and increased cash flow by more than US\$800m. As for the procurement process, the company not only realised cost savings of about 21%, but a Gallup survey of supplier satisfaction has also risen to 75%, from 68% two years ago.



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# Information technology to achieve efficiencies

Customer insights can be gained in many different ways, but the prerequisite is to break down the barriers between the company and the market, and to reduce the hurdles that prevent teams from working together well within companies. One firm that exemplifies these trends is Subaru of America, a rare success story in the beleaguered automotive industry. Unlike most of its competitors, Subaru, a unit of Fuji Heavy Industries of Japan, has managed to keep sales humming and market share growing during the recession. Like some of the other companies in this report, it has stuck with its long-range strategy while remaining agile. Most significantly, it focused heavily on the customer and has reaped the benefits. Subaru says it sold more than 216,600 vehicles in the US in 2009, a 15% increase from the previous year and a new sales record.

“As the automotive industry started to turn down, we realised that we needed to be very targeted in marketing and very integrated in the ways we promote to customers,” notes Brian Simmermon, vice-president and chief information officer for Subaru of America. “While a lot of companies were cutting costs, we continued to spend and be very focused on customer relationship management. In this economy, you can’t operate the same; you must become more agile and creative.”

Using new technologies, Subaru moved closer to its existing customers and prospective buyers. Subaru is able to track customers from lead status to purchase of a vehicle to customer support, and finally, the company hopes, to repurchase. Among other things, Subaru is mining its customer data so that managers can review customers’ purchase and service histories and respond more quickly to their needs. The company is also buying leads from Internet sites visited by car shoppers and is training its dealers to respond within minutes to requests for information about a specific Subaru model.

In addition, Subaru is improving its transport management system to shorten lead times from manufacturing to delivery to buyers. Dealers can go online and see where certain vehicles are in the transit process and flag one for a specific buyer. “If dealers know which cars are coming to them,” Mr Simmermon says, “they can pre-sell them.” To reinforce its long-term strategy, Subaru recently held town hall meetings to explain that strategy to employees and answer their questions. “We communicated how focused we are on the marketplace and dealer relations,” Mr Simmermon says. “If everyone rallies around the cause, it’s much easier to accomplish.”

Some companies have begun using new information technologies for improved internal collaboration. Intel is adopting “social computing” technology that combines professional networking tools with

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Intel's goal is to encourage more employee interaction and break down corporate silos, thus making information and expertise more readily accessible globally

social media such as wikis and blogs and is integrated with existing enterprise software. The goal is to encourage more employee interaction and break down corporate silos, thus making information and expertise more readily accessible globally. "We are combining the best parts of networks such as LinkedIn and Facebook," says Steve Backers, senior human resources manager at Intel. "It's great for an engineer who is struggling with something and wants fast feedback. Or if someone sees something weird while experimenting in the lab, he can ask if anyone else has observed this."

Intel believes that its social network will encourage older employees to share knowledge with new recruits and help it to attract members of the millennial generation who spend much of their time communicating online. Social computing may also reinforce a sense of community by giving employees a voice, putting a name with a face, and making Intel feel smaller and more welcoming. Much research and testing went into Intel's social computing technology. High-level backing from both the chief information officer and the head of human resources was critical. Intel also increased employee training to reinforce the fact that social computing fits into the same code of conduct governing communication via the Internet, phone services and e-mail.

Intel feared that social computing could introduce new security risks, such as public exposure of the company's intellectual property or employees' personal information. The risk assessment performed by the information security team concluded that social computing did not introduce new risks, but could increase existing risks because of the "one-to-many" nature of the medium. The risk of identity theft, for instance, is greater with a social computing tool than with an e-mail sent to a single individual. But overall, Intel decided that the risk of using internal social computing tools was much less than the hazards of external social networks.



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# Conclusion: change is the only constant

The companies in this report played a proactive role during the recession and are expecting to continue surging ahead as the economic recovery takes hold. What distinguishes them from competitors is their culture of change and innovation. They were comfortable with disruptive change during the prolonged downturn and knew how to take advantage of it. This is not to say they did not struggle with lower sales and profits or did not make painful lay-offs and other cutbacks. Some of them certainly did. But the recession did not slow down their overall momentum.

To emulate the forward-focused companies in this report and push back against the recessionary tides, companies should consider a number of possible actions, among them:

- Keep innovating, especially when new products and services bring added value to customers looking to save money.
- Transform business models to adapt to changing technologies and business globalisation.
- Get closer to the customer and expand into new markets to meet their changing needs.
- Exploit information technology to enhance the management of customer relationships, the supply chain and the sharing of knowledge among employees.

The challenge now will be to build on the strong foundation these fleet firms have established. There will be plenty of other companies re-energised by the economic recovery and ready to try to catch up with their more nimble competitors. It is not a time for companies to be complacent, no matter how far they are in the lead.

Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsors of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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