

Positioning Your Business for the Future

March 2011



Trends

- Defined as the direction in which the economy and society are moving
- Occur in small steps, not revolutionary
- However, rate of change is accelerating
- Over time, dramatic impacts
- Every business owner must understand and adapt to the changes



The Major Trends

- Less affluence, less disposable income
- Significant demographic shifts
- Domestic energy and transportation changes
- Digital/electronic revolution continues



National Debt Outlook

■ Debt to GDP ratio

- Last 65 years ~40% average, proven to be manageable
- FY 2010 ~ 65%, probably tolerable for a short term
- Next 20 years , will go above 100%, unquestionably unsustainable



Probable Impact of Budget Deficits

- Higher taxes
- Weaker dollar
- Higher commodity, energy and transportation costs

Impact of Higher Taxes

- Lower disposal income
- Lower growth for firms serving consumers
- Intercity and interstate migration to low tax areas
- Non taxed “perks” become important to employees
- Underground and barter economies thrive
- Importance of tax attorneys, accountants and financial planners

Weak Dollar/ Higher Commodity Costs

- Foreign tourism increases
- Outbound tourism decreases
- Export businesses thrive
- Imports cost more, especially commodities like oil and copper
- Foreigners buy US real estate and businesses
- Manufacturing with high imported material content will suffer
- Domestic goods are favored



Higher Energy/ Transportation Costs

- Eventually expect \$7-9/gallon gas cost similar to Europe and Japan
- Higher cost hybrid and electric vehicles will be effectively mandated
- Higher cost of electricity
- Reversal of urban sprawl

Winners and Losers

- Last 50 years the economy driven by the consumer via low interest rates
 - Real estate, communications and electronics prime beneficiaries
- In 2007, 72% of GDP was driven by consumers
- Currently at 67%
 - Removes \$750B/yr from consumer market
- Industrial sector benefits at the expense of consumer and government sectors

SOCIETAL TRENDS

Less Affluence

- Vehicles will be used longer
 - Good for auto repair and used car dealers
- Home care for the elderly and sick increases
- Retirement and marriage delayed
- Couples have fewer children and divorce less
- Less costly vacations
- Outward sprawl reversed
 - Retirees sell off suburban property to finance future
- Non profits suffer from lack of funds but more volunteers available

Interstate and InterRegion Migration

- Population and businesses move to low cost, low tax, pro business areas
 - NJ, NY, Conn., Philly, NYC are already impacted
 - So far Chester County is “benefiting”
 - Diversified economy: financials, pharma, tourism, universities, agriculture, professional services
 - Retaining good schools, pleasant environment and skilled workers is a prerequisite
- Some low cost areas will be resurrected
 - e.g. NE PA will grow with Marcellus shale, east coast warehousing and retiree low cost of living

Working at Home

- Higher transportation costs and better communication capabilities will accelerate trend to work at home
 - High bandwidth fiber optics and cable make videoconference and group internet use practical and inexpensive
 - Many at home workers will be independent contractors “free agents”
 - Home office products will be growing market

Learning at Home

- On line education is fastest growing segment of educational market
 - K-12, college, graduate school and specialized training impacted
 - Kindle, IPAD and interactive internet assist trend
 - On line college was 11% in 2008 up from 1% in 1998



Changes in College Education

- Three year degrees becoming available
 - Already common in Europe
 - Lower cost for student
 - Student can get a paying job earlier
- Two year community colleges growing over 10% per year
 - Now 11M enrolled vs. 8.7M in 4 year colleges

e-Care or e-Health

- Control medical costs via technology
- Fastest growing segment of health care
- Monitor and treat patients at home
 - Wirelessly measure heart rate, blood pressure, oxygen in blood, glucose, EKG, falls, panics etc.
 - Implantable and “in clothes” sensors
 - Drs, nurses and EMS will be “on call” via internet
 - Many hospital treatments replaced by home medication

Multigenerational Homes

- Lower growth economy, higher educational costs and delayed marriages will lead to children staying with parents longer
- Aging less affluent population will lead to elders staying with their children
- 30% increase in extended family homes in last decade
- Bigger, older homes in an urban environment will be favored (good for home offices too)



Demographic Changes

- An aging population
 - 20% of PA residents now over 65
 - 77 million baby boomers retire in next 15 years
- Rise of the “Millenials”
- Increase in Hispanic and Asian segments

Digital Life Style

- Ubiquitous communications
 - All time attachment to internet, phone and entertainment device
 - Smart phones and tablets will dominate
- e books make reading and learning easier and less costly
- Cell phones replace credit cards

Energy and Technology Trends



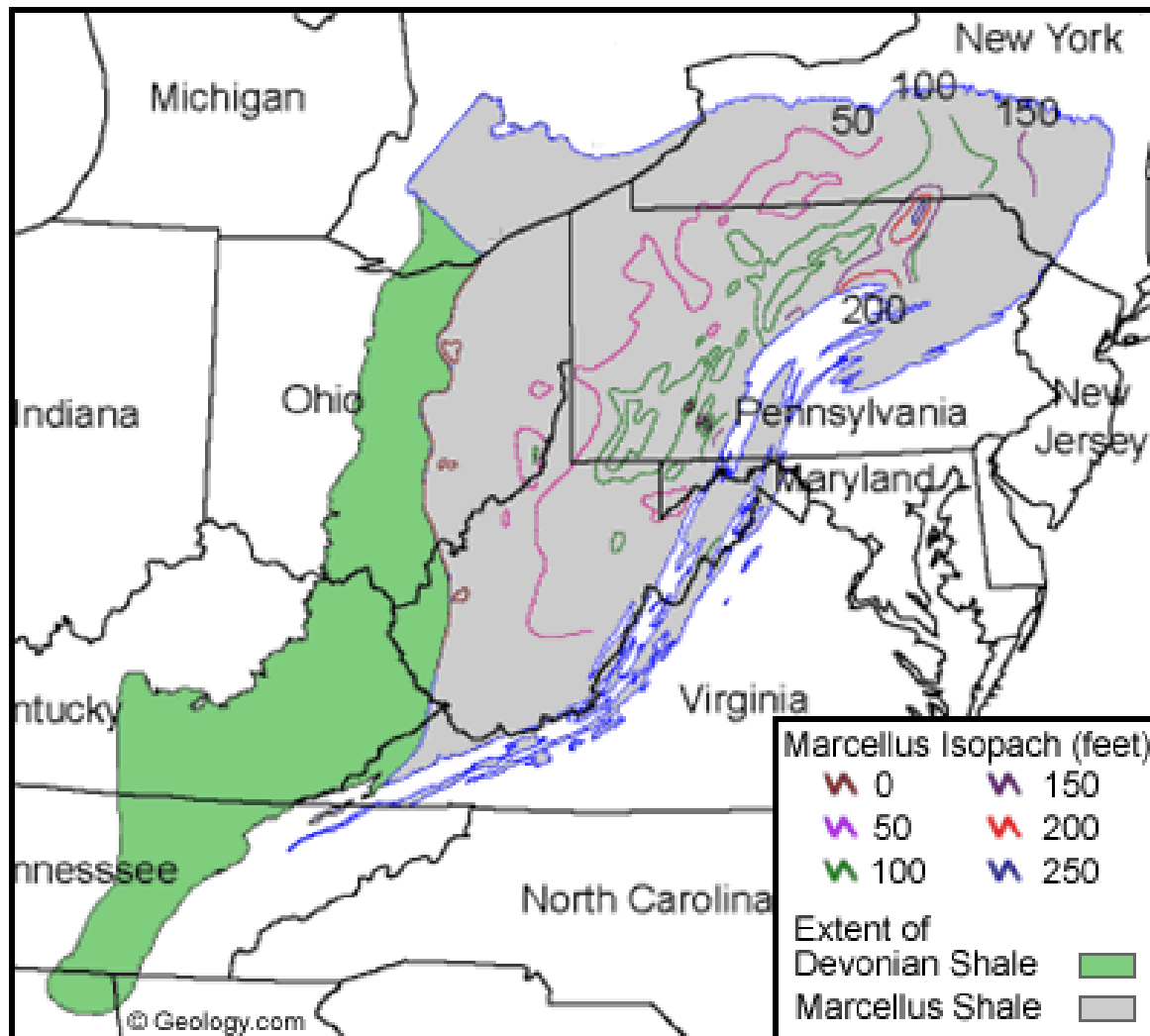
Energy/ Technology Trends

- Revitalized domestic energy industry
- Hybrid/Electric vehicles take the stage
- Electronic revolution continues
 - On line computing accelerates mobility, lowers costs and enhances productivity

Natural Gas

- Plentiful and low cost
 - Technology breakthrough in horizontal drilling
- PA will benefit enormously
 - Exploitation of its Marcellus shale deposit
- PA 2020 impact per PSU
 - \$25B added to state GDP
 - \$1.4B added in state and local taxes
 - 176,000 new jobs
 - Rise of the “shalionaires”
- Tighter environmental controls required
- Gas reserves sufficient for 100 years
 - Oil from shale is also possible

Marcellus Shale



Thickness map of the Marcellus Shale. Modified after: United States Geological Survey, Open-File Report 2006-1237, Assessment of Appalachian Basin oil and gas resources: Devonian Shale-Middle and Upper Paleozoic Total Petroleum System, by Robert Milici and Christopher Swezey. [3]

Natural Gas

- Many coal fired power plants will be converted to NG
 - 43% lower CO₂ emitted
 - Technology is well established
 - 90% of all new electric generation
 - Several states now prohibit new coal units
- Use of NG for large vehicles will increase
- Export of LNG is being planned

Hybrid and Electric Vehicles

- By 2020, up to 25% of new vehicles sold
- Forced by CAFE standards, higher gasoline prices and govt. subsidies
- 3 types being commercialized
 - Current hybrids where a small battery assists a gas engine- Prius
 - A “plug in “ hybrid where a large battery will power the vehicle with assistance from a small gas engine
 - An all battery “plug in” vehicle



“Plug In” Hybrids

- The real game changer
- Require home, office or service station charging
- Practical range, much higher fuel economy
- Cost and performance of unproven lithium ion batteries are the key to success

Local Impact

- Need for skilled technicians and repair shops
- Need for recharging, replacement and recycling stations
 - Battery will be valuable
- Used car and repair shops will thrive as many consumers resist the trend
- Auto parts suppliers severely impacted
- Insurance policies revised due to uncertainties and safety issues

Cloud Computing

- Common business applications accessed on line via web browser
 - requires only a low cost netbook computer
- Software and data stored on remote servers
- Billed similarly to your utilities, pay only for what you use
- Avoid up front costs
- Lower overhead from fewer needed IT resources
- Immediate access to upgrades and wide range of software
- Vendors include IBM, Microsoft, Amazon and Yahoo
- Users sacrifice their privacy and personal data to 3rd parties
- Targeted at very small businesses



Summary

- Despite generally sluggish growth, many opportunities exist for those who understand the changing environment
- Contact SCORE to fine tune your strategy
- Embrace the changes and thrive!

SCORE

- Free unlimited small business consulting
- Business education workshops and seminars
- Roundtables for business owners
- E mail us at scorechesco@aol.com or call 610-344-6910
- Visit our web site at www.scorechesco.org