



Following our theme of 'a compelling case' in the last issue, Graham Holland, British Waterways in the UK, sent me a presentation he recently made to a Sydney Conference. In it, he argues

- asset management was developed over the past 20 years, a time of stability and growth, when the answer to a problem was to devote more of our increasing wealth to it.
- we are now facing a period of instability and low, even negative, growth.
- if asset management was important in a time of stability, it is absolutely critical now we are facing instability
- the techniques, approaches, and attitudes we adopted in a time of growth have now to be rethought

This presents asset managers with a great opportunity but, I would add, an even greater responsibility. Graham suggests what we need to do to grasp this opportunity and illustrates it with examples from the UK. Here is part one of this thought provoking paper.

Please consider - and interpret in the light of your own situation!

And, of course, as always, enjoy! (and send comments!)

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Graham Holland, British Waterways, on



A Compelling Case for Vision

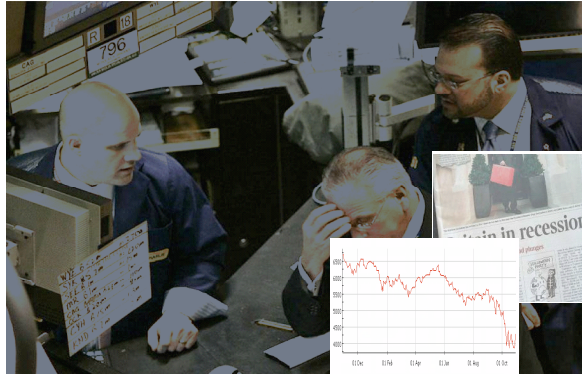
For the 20 years Asset Management has been part of the language of business. Organisations have asset managers in senior positions, and use asset management to run their businesses. We've conferences, professional organisations, journals, and techniques, that prove that asset management is a science, and what brilliant people we are at predicting the future.

But Asset Management evolved in a period of stability, in growing economies, spending levels predictable and high, stable financial markets. We set our strategies in this period. Even challenges we had to face, like resources, ageing population, recruitment, water shortages, they all seemed manageable in the long term. Just a matter of throwing some of our ever increasing wealth into dealing with them. But we were living in a fantasy world fuelled by record debt levels

Now, suddenly it's clear that predicting the future simply by projecting a line upwards from the last few years no longer works. We're in uncertain times and we need to consider a wider range of possible futures in our plans

Over Christmas, I was reflected on what a difference a year makes. This time last year, the outlook was rosy, demand was high, big bonuses being paid to city financiers, unemployment low, stock market at its highest ever level, house prices high, people were positive, banks were falling over themselves to lend to us.

What a difference a year makes



It all looks a different now doesn't it?

A rapidly changing world, implosion of the banking industry, big fluctuations in oil prices, lower demand, reluctance to spend, high street names and industries going to the wall, industries clamouring for Government support.. And it's worldwide – the recent D&B report on the Australian economy painted a gloomy picture of zero growth, reduction in exports and so on. You've had to do the same as everyone else, lower interest rates, provide fiscal stimulus and support for industries.

Asset Management has been around for years, but never has it had to deal with challenges like now. The next few years will be a real test for us all.

One thing is to our advantage – we are not getting mixed messages.

Everyone agrees things will be tough, the only debate is how tough and for how long. Well, my crystal ball says it will be very tough. Nor do I believe we'll come out of it in a couple of years as some suggest. I can't see where they get such optimistic predictions. I expect at least 5 years of tough times. Recession will be deep, recovery slow, and will affect industries in different ways. Those essential to life, like agriculture, water and energy, may ride out the storm. But I worry about industries that satisfy discretionary spend. Retail, electronic and luxury goods, cars, house building, tourism. These will be seriously affected. Those left will be clamouring for our business. Good for the consumer, but only if we feel confident enough to spend our money.

So we've been warned.

We need to look at our strategies again, and ask, are they fit for purpose in this new environment. My Government's announced plans to borrow at such levels that it will be at least a generation before it can be all paid back. France, Germany, Japan too. The USA talks about \$trillions. The mind boggles. And future generations will be paying for it. Government and people will be short of cash for years to service this debt. There'll be reappraisal of investment plans. There'll be a scramble to support economies by new infrastructure work, but we all know these should take years in planning, otherwise we'll get them wrong, and they'll be costly to maintain in the future. In the medium term, projects will be deferred as savings are sought. Repair will become more important than replacement. Prudence is the word. So we need to prepare for this.

If this seems very depressing, let's inject a little optimism.

I sense a growing respect for self reliance, saving for a rainy day, stronger financial regulation, growing realism of affordable service levels, more accountability. There'll be a strong reaction against the culture of gambling with our money that brought banks to their knees. There'll be renewed faith in scientists, engineers, manufacturers, even asset managers – the genuine wealth creators and stewards of the products of that wealth.

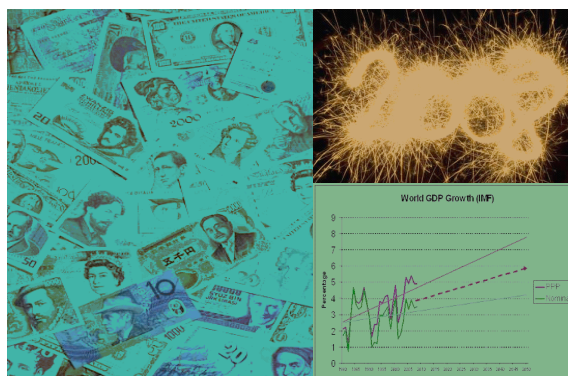
***Our voices have never had
a better chance of being heard.***

Strategic asset management is our greatest weapon.

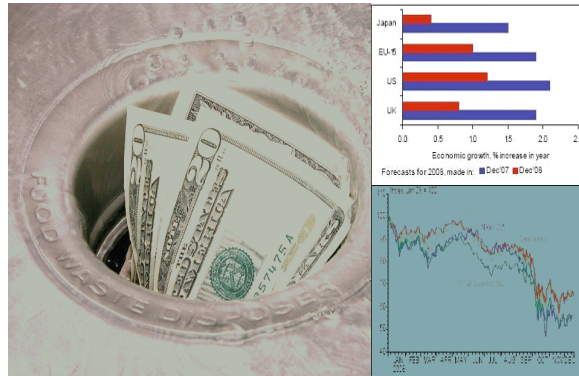
- It reduces surprise, knee jerk reaction and chaos around crisis management.
- It helps us to look for better ways to provide the right level of service. But what service? We've been paying lip service to service levels for too long.
- We must think about future customer and community needs, and provide it at lower cost.
- Above all we must convince regulators, stakeholders, and Boards that safety, environmental, community, and commercial requirements will only be met if we're involved.
- If asset management was needed in times of stability, it becomes essential in times of crisis.
- If we get it right, and communicate the benefits, it protects organisational image, and is the essence of a well run business.
- **Get it right, and we'll be trusted by the public, Ministers and partners. And that trust can last a long time.**

Let's look at some of the issues we certainly have to plan for:

2008 Global Predictions for Growth



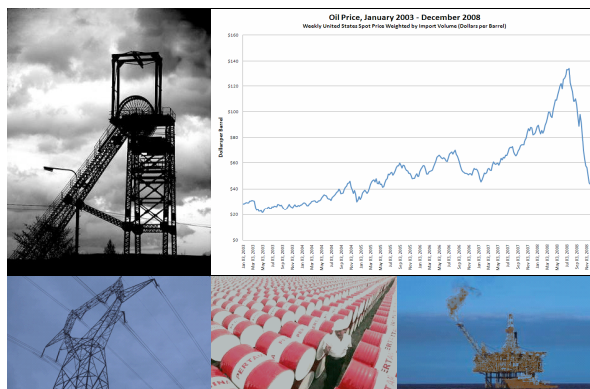
2009 Global Reality



Predictions of Growth

Only last year, forecasts for the global economy were in the 4% to 5% range with India and China leading the way. Things looked bright. What happened – The bubble of debt funded growth finally burst. The Eurozone went into recession in November 2008. The UK, after years of growth has a shrinking economy, a devaluing pound, unemployment rising to 3m, high street names going bust, banks failing. Ready cash is going to be in short supply.

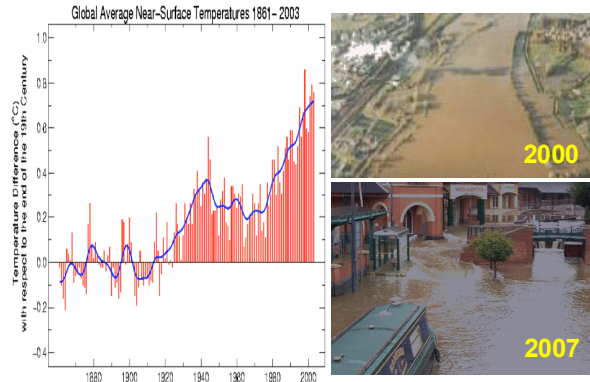
Oil Price/Energy Fluctuations



Energy

Depletion of resources, large fluctuations in oil and gas prices, a spat between Russia and the Ukraine, profiteering has hurt consumers. Trust in energy companies has fallen, we feel ripped off. Countries are questioning their energy strategies and reliance on foreign gas and oil. Look at the USA with Obama indicating huge investment in green energy infrastructure. Investment in energy and public transport will grow, and as asset managers we must prepare for this. At the same time there's pressure in many countries to go for the obvious option of exploiting their coal reserves. Even with potential CO2 effects, coal is still the most exploitable energy reserve in the world – expect more investment in clean coal technologies

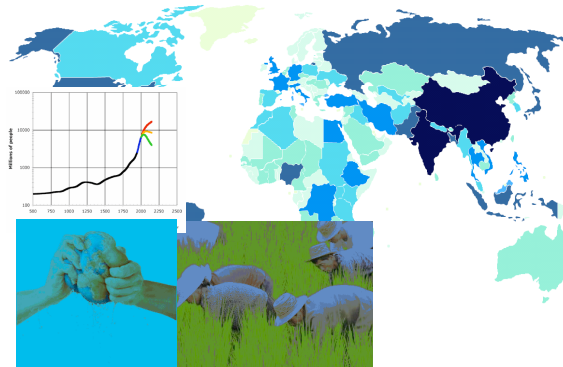
Climate Change



Climate Change

Even the most resistant Governments like the US have woken up to climate change. With increasing international pressure to cut greenhouse gas emissions, introduction of carbon tax schemes has started. Carbon sequestration schemes are being planned and will require long term maintenance. Some countries are rushing to nuclear. Others have set CO₂ targets that may or may not be met. We're seeing more renewable energies coming on stream but with a high grid connection cost that will inevitably drive up energy prices. This will focus minds on energy usage, building insulation. Rising temperatures will lead to increased summer energy demand for cooling. As asset managers we are in it for the long term and we must plan for this.

Population Changes



Population Change

World population is rising too rapidly to be matched by resources. There'll be shortages and conflict in parts of the world, and perhaps restrictive trade policies. At the same time there will be increasing recycling of materials, and a focus on new technologies. GM foods may become the norm as public resistance evaporates with time. And we'll have to deal with health issues around ageing populations, growing obesity rates, less interaction in sport and so on. Think how this might affect our future infrastructure needs.

Technology Changes



Technology Change

Communications infrastructure improvements should lead to reduced journeys. We already have an ability to work almost anywhere, and once cultural issues have been overcome, working from home will become more common. Use of video-conferencing will increase. Some companies already monitor business mileage and have set targets for carbon reduction. Governments will adjust their taxation systems to drive this. Biofuels, fuel cell technology, electric cars – think of the infrastructure changes needed just to provide charging points for these. Small scale local wind power, or solar power schemes will become much more common. As asset managers, we need to start thinking about this now. What will the mix of assets look like in 10 years time? In 20? Will it be the same, probably not. Will it be very different – I think so

Cultural Changes



Cultural Changes

The public are becoming much more interested in social and environmental factors in decision making. They also increasingly distrust what Government experts tell them, and are prepared to challenge. For example in the UK, a recent government energy review supported new nuclear generation. This was challenged by Greenpeace, and a judicial review found the consultation to be misleading, seriously flawed and unfair. Real concerns were ignored and we had to have a new consultation. We've already seen political response to this type of cultural pressure with a swing towards the political

centre, away from the extremes we saw in the 1970's and 1980's. Up to the current credit crunch, people were starting to buy local produce to reduce environmental impact. There's growing distrust in supermarkets and concern about the effect on farmers. Whether this continues is debatable. It may, but at a slower pace.



What must we do?

I am reminded of an observation a water utility colleague once made.

If you want to make a big change in an organisation you need to have a bold and clear vision, or a huge disaster.

Let's look at the difference a strong vision can make.

Individuals, companies, Governments need a clear vision to drive towards. If people believe it is achievable, they are prepared to put in considerable effort. But look for Vision statements for some of the worlds biggest companies and you'll find that often they are just around providing good day to day services, or quality products. Many are meaningless. I've seen numerous visions like 'we aspire to be the best company in the world in delivering high quality widgets'

Look at this one from a UK Water Utility. "Our overall vision is to be a world class operator of utility infrastructure". A success for the marketing consultancy who thought it up, but meaningless, not time bound, unable to be monitored and unlikely to inspire.

Here's another, from a European energy company "Our vision is to be recognised as the best electricity distribution business. But what does 'best' mean. You can see how difficult it would be for asset managers to ensure their strategy matches the vision

If we want a vision relevant to asset management we must get involved.

There has to be real excitement embodied in the Vision about the benefits for our business and customers from improving asset management. Start with a view of where we want to be in 10 or 20 years, and what outcomes we want to deliver, and then work back to where we are now. Our asset management strategy is about how we get there and what things might affect the journey.

(Journey continues in SAM 265)