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In past issues, we spoke of “pessimism porn,” a term which is used to describe people who get off on being negative, especially about America's economy and future. In looking at the latest headlines, it appears that these pornographers are still at it and trying to get the rest of us to buy into their need to predict failure and the end of American economic success. These Debbie Downers would like us to believe that America has lost its edge and that it is being eclipsed by other nations. In this issue, we expose that false thinking and give you great reasons to feel good about the future of the American economy.

We also tell you about an emerging new type of economy, the circular economy. As usual, the North Bay is already embracing it. We are excited to see how much more benefit will accrue from going circular.

Don't miss two great Business Edge Breakfast Briefings that will give you essential business knowledge to improve your organization. Hope to see you there!

Best,



Cynthia

America's Future: Pick the Brightest One

Are you worried about America's future? Do you think that America's economy is no longer firing on all cylinders? Fear not! America and its economy are in good shape. In fact, Joel Kurtzman in [Four Reasons to Believe in a Second American Century](#) (HBR Blog Network, February 14, 2014) says, “I've been watching the global economy for decades, and it seems to me that growth in the United States is about to speed up, while growth in the emerging markets is slowing down.” Zachary Goldfarb writes in [Why the economy isn't doomed](#) (The Washington Post, February 15, 2015) that America has seen many challenges in its past, where it rose to the occasion and grow stronger. Goldfarb says, “From looming demographic changes to the economic threats posed by advanced technology, we should be realistic about the challenges we face. But there are also reasons to believe that the next generation will prosper.”

Some of those reasons for encouragement are:

American Creativity: Kurtzman points out that America owns the crown for research. He describes how we are blessed with research centers throughout the U.S. that attract companies and talent from around the world. He gives the example of Novartis, “the giant Swiss pharmaceutical company, moved nearly its entire research center to the U.S. from Switzerland.” Kurtzman notes that the Bay Area is home to such a cluster of research institutions, probably one of the reasons it is leading in new job generation.



Goldfarb stresses that the underpinning of American creativity is education. He says that while new technology will displace jobs, if we continue to increase skill levels of our students, they will be ready to fill the new jobs resulting from the tech boom. Given that high school graduation rates have jumped up 10 per cent in the last decade, and college graduation rates are up 6 per cent, and that online courses are widely available, Goldfarb says, “the skills of America’s future workers should continue to advance.” And as you will see below, the deficit is shrinking and America’s energy bonanza will lower it even more, freeing up money to be direct into education, and research and development, thereby creating even more improvements.

Manufacturing Renaissance: Debunking the idea that America is no longer manufacturing here, Kurtzman says, “It might surprise you to learn that the U.S. remains the world’s preeminent producing nation, responsible for 20 percent of the world’s goods – a little more than China produces.” But the big difference is in what kinds of goods are produce in the U.S. vs. China. Says Kurtzman, “China leads the world in low-margin electronics assembly, textiles, and some types of machinery; the U.S., on the other hand, is a high-end producer... it makes jet turbines, helicopters, sophisticated airliners, electric generators, radar, chemicals and plastics, satellites, and all kinds of weapons.” And despite cuts in government funding, the U.S. retains its lead in space, with an assist from Space X and other private companies.



Kurtzman states, “Evidence abounds that even more manufacturing is coming to the U.S. because of two other American assets: an energy bonanza and abundant capital.

Energy Bonanza: Kurtzman claims that America’s energy bonanza has “changed the equation. This makes the U.S., for many chemical companies, the preferred place to manufacture. He gives the example that Germany’s BASF, the world’s largest chemical company, has been investing \$1 billion/year in the U.S. to expand its facilities and take advantage of America’s cheap natural gas to use as feedstock. How cheap is America’s natural gas? Over the past year, it has on average cost around \$4 to buy a million BTUs worth of natural gas here. The same amount of natural gas cost about \$14 in Europe, \$15 in China, and about \$16 in Japan. America’s energy bonanza is not a short-lived phenomenon. It could be with us

for a century, perhaps even longer. As it develops, the U.S. will shift from energy importer to energy independent, then to net energy exporter. As that happens the trade deficit will fall. Indeed, it could even turn positive.”



Abundant Capital: Kurtzman explains that the Great Recession “did what recessions tend to do. It shifted debt from the private side of the country’s balance sheet to the public side. The result is that the government has a lot of debt, while households are in better shape than in decades. Today, households use a smaller share of their incomes to pay off their credit cards, mortgages, and other debts than at any time in the last 35 years.” And companies are flush with cash, too.

Kurtzman says, “American companies have between \$4 and \$5 trillion in liquid assets, a sum greater than the size of the German economy.” This abundant capital is a driver for increased economic competitiveness by the U.S.

Income Inequality Corrections: Concerns about the growing income inequality and stagnant wages have overlooked an important lever. Goldfarb points out two trends that will help increase wages. The first is the retirement of the baby boomers, creating a worker shortage, which will drive up wages. The other is that while wages have not risen, companies have been paying a higher share of employees’ compensation health-care premiums. Goldfarb says, “Firms think about compensation in terms of salaries plus benefits – and they’ve been paying higher health-care costs, instead of higher wages, as the price of insurance has skyrocketed. The good news is that over the past several years, health-care costs have been growing at the slowest pace in half a century. The slowdown, combined with a declining unemployment rate that makes companies compete more for workers, could lead to a nice bump in wages.”

Goldfarb concludes, “There’s probably nothing that forces middle-class wages to rise faster than competition among companies for better-educated workers who are able to use more sophisticated technology. And while we have recently suffered through an age of growing apart, the forthcoming era could well be one of growing together.”

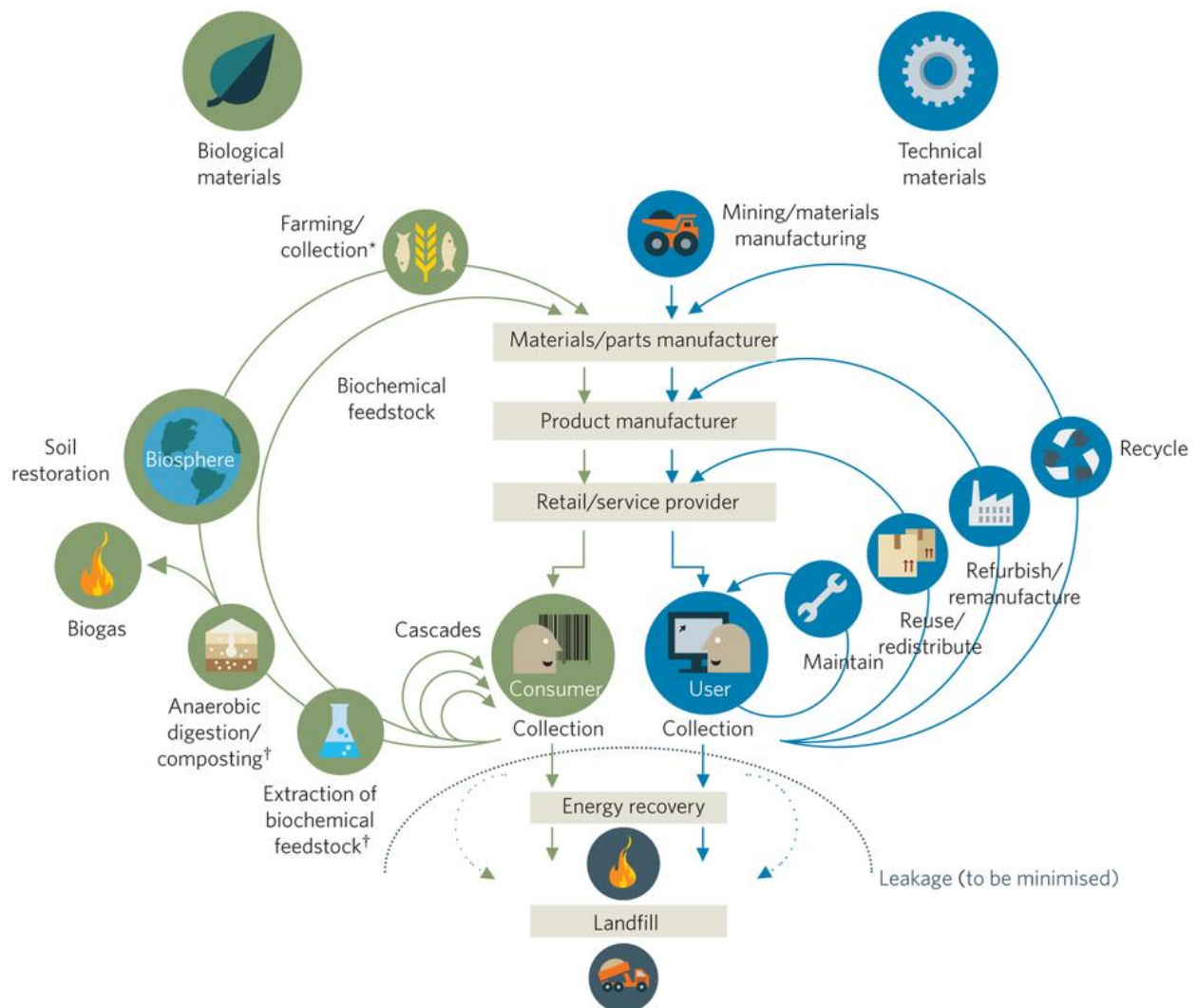


And Kurtzman predicts, “America’s continued progress will be driven by creativity, manufacturing excellence, abundant energy, and large capital reserves. Whereas some countries might enjoy the effects of one or two of these forces, no country but the U.S. has all four going for them. For the first time since the Great Recession, the economic winds are at our backs.” Here’s to a strong wind and clear skies for the American economic ship of fortune.

The Circular Economy

Have you heard of the circular economy? If not, you will. It is an emerging type of economy that addresses resource scarcity and develops products where the entire life cycle is considered so that all of the possible resources that can be reused at the end of the product's lifecycle are reused. In [Navigating the circular economy: A conversation with Dame Ellen MacArthur](#) (McKinsey Quarterly, February 2014) Dame Ellen MacArthur explains it better:

“The best way to illustrate a circular economy is to look at our current linear economy. Our economy today is predominantly driven through taking in material at the ground, making something out of it, and ultimately that material, that product, gets thrown away. Within a circular economy, from the outset, you design the economy to be regenerative. So you design a car for remanufacture, you design a car for disassembly, for de-componentization. So that the materials that sit within the global economy that currently flow off the end of the conveyor belt can go back in. Which involves everything from different financing of those products and materials to different business models: Do we sell? Do people pay per use for those materials? If you can understand what a circular economy is, if you set that as the goal, then you know that every decision that you make within your business can take you one stage closer to that point.”



MacArthur says, “I think there’s a massive opportunity for emerging markets in this space. And to think that you have the opportunity to lock into a circular model rather than a linear model, that’s a huge economic opportunity. To think that the users of those products can have a better product for less money; that product can ultimately return, creating employment in the remanufacturing or the de-componentization of the product. And then ultimately the manufacturer makes more money because they know they get that component back. That, for an emerging market, is incredible. It allows them to leapfrog our system and gain even more advantage.”



In the same issue of the McKinsey Quarterly, in an article titled, [Toward a Circular Economy: Philips CEO Frans van Houten](#), we see the circular economy in action. Philips’ CEO, Frans van Houten says “Two years ago, we decided to embed circular-economy thinking in our strategic vision and mission, both as a competitive necessity and with the conviction that companies solving the problem of resource constraints will have an advantage. We believe that customers will increasingly consider natural resources in their buying decisions and will give preference to

companies that show responsible behavior—something we are already seeing. Designing products and services for a circular economy can also bring savings to a company. The first impression people always have is that it adds costs, but that’s not true. We find that it drives breakthrough thinking and can generate superior margins.”

Van Houten says, “In our lighting business, for example, rapidly changing technology and the economic crisis made business and municipal customers reluctant to make big investments, because they felt uncertain. This led us to consider lighting as a service. After all, why do these customers buy light fixtures and luminaires? It’s not for the fixture but for the light itself. For business customers, we therefore now sell lighting as a service: customers only pay us for the light, and we take care of the technology risk and the investment. In many cases, we also take the equipment back when it’s the right moment to recycle the materials or upgrade them for reuse. Similarly, for municipal customers we now have streetlight installations in Singapore and, more recently, a contract in Buenos Aires to replace the majority of the 125,000 existing streetlights there with LED luminaires over the next three years. We install the equipment, maintain it, and make sure that it runs for a very long time.”

It is an exciting way of re-envisioning their value proposition – from a manufacturer of lighting products to a provider of lighting services. Van Houten says, “The benefits are substantial: the energy savings are anywhere from 50 to 70 percent, depending on the installation, so customers can pay us out of the savings for the light output. The LEDs have five times the lifetime of normal lights—which, in turn, means much lower maintenance and operating costs for us. We are putting networking capabilities in these lights, as well; essentially making them part of an IT network. This lets the community adjust the lights depending on the circumstances. For example, if there is low traffic density at night, then the lights can be turned further down. But if there is a soccer match one night, the lights can go up. And, of course, we can apply all sorts of algorithms as well to give customers even more control. These kinds of innovations help us move away from selling products and toward selling higher-value solutions.”



As a large corporation, Philips is able to apply circular economic thinking to other divisions. Van Houten says, “A second place we are using circular-economy principles is Philips Healthcare, where we establish leasing relationships with customers to take back equipment and upgrade it, then refurbish it and send it on to another customer. In the process, we might upgrade the first customer to a more state-of-the-art technology and in doing so we make both customers happy. This is already a €200 million business for us.”

Not discounting the challenges in changing how they do business, van Houten says, “Above all, operating with circular-economy principles requires the people of Philips to challenge ourselves and to change. We can’t think in terms of designing products that we throw over the wall to customers, but instead we need to design products that are upgradable and maintainable and that can be mined for



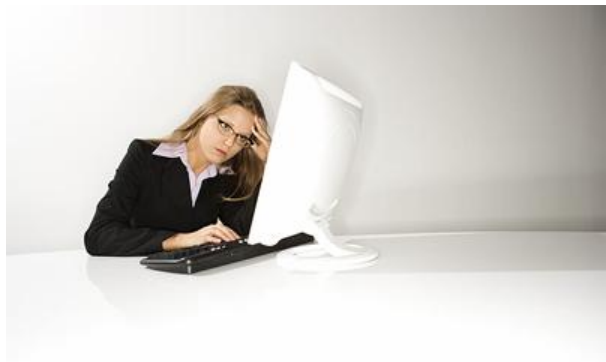
materials and components that can be reused. Our mind-set needs to be 15 years out—not just “now”—and it requires us to think in an end-to-end way, involving our suppliers and sales force.”

This acknowledgement of resource scarcity combined with an environmental commitment has driven van Houten who says, “I’ll admit this was challenging at first. Even though we have a long-standing focus on sustainability—a natural stepping stone toward a circular economy—people still tested us when we initially stepped up our circular-economy work. They wanted to make sure this wasn’t “just words.” But after seeing the KPIs on the Philips “dashboard” and learning that if you were in the red you could expect a call from the CEO, people said OK. People become resourceful and inventive when you challenge them.”

The North Bay is prime to embrace the circular economy, in fact, many of our local companies already have. Looking at the benefits of going circular, you can see that the necessity of having finite resources has been a great mother to the invention of the promising circular economy.

What’s Worth Worrying About?

We are a nation of worriers. But do we worry about the wrong things? In the February 16, 2014, Brain Pickings blog ([Article Here](#)), they tell of F. Scott Fitzgerald instructing his daughter to not worry about “popular opinion, the past, the future, triumph and failure.” Fitzgerald told his daughter that this list is worry-worthy: courage, cleanliness and efficiency - what Brain Pickings describes as “the quintessential anxiety of the human condition, which drives us to worry about things big and small, mundane and monumental, often confusing the two classes.”



John Brockman in [What Should We Be Worried About?](#) advises that we “put in perspective the things we worry about but shouldn’t, whether by our own volition or thanks to the ample media manipulation, and contrast them with the issues of actual concern, at which we ought to aim our collective attention and efforts in order to ensure humanity’s progress and survival.”

Brian Eno, music pioneer, urges us to be worried that more people are not engaged politically. To Eno, whether we avoid politics or hope someone else deals with political issues, we pay the price. He says, "We expect other people to do it for us, and grumble when they get it wrong. We feel that our responsibility stops at the ballot box, if we even get that far. After that, we're as laissez-faire as we can get away with. What worries me is that while we're laissez-ing, someone else is faire-ing."

What are you worried about? Are you letting small worries divert you from dealing with the big things? Are you wasting time worrying instead of taking action? Perhaps Mark Twain said it best, "I am an old man and have known a great many troubles, but most of them never happened."

Business Edge Briefing

"Creating a New Company Culture after a Merger or Acquisition"

Thursday, March 6, 2014
7:00 - 9:00 a.m.
Creekside Room, Dominican University

Panel Speakers

Michael Kadel, Bank of Marin
Richard Stone, Private Ocean
Sandra Lee, Hospice by the Bay
Rod Bacon, Stanton Chase

"How to Supercharge Your Employees' Engagement (Don't settle for having 60% Checked Out at Your Workplace!)"

Thursday, April 10, 2014
7:00 - 9:00 a.m.
Creekside Room, Dominican University

Panel Speakers

Brett Martinez, Redwood Credit Union
Pat Kendall, Kaiser Permanente
Steve Page, Sonoma Raceway

For more information please click [here](#)

Members in the News

Canine Companions for Independence to Hold Panel on Autism

On March 6th, we will welcome three experts to the Jean and Charles Schulz campus in Santa Rosa to discuss autism and social communication in a panel discussion: Dr. Grace Gengoux of Stanford University, Judi Campbell of the Morgan Autism Center, and Laurel Whyte of the Contra Costa County School District.

Medtronic's Santa Rosa Group Third-Quarter Sales Rise

Medtronic, Inc. (NYSE: MDT) on Tuesday reported global fiscal third-quarter sales for its Santa Rosa-based Cardiac and Vascular group of \$2.119 billion, up 1 percent from a year before.

Sonoma State University Driving \$3 Million Grant for Innovations in STEM Education in Mendocino High Schools

Two SSU education groups have teamed up to win a \$3 million grant from the U.S. Department of Education to implement an innovative curriculum that will bring hands-on science and engineering to Mendocino County high schools.

Dominican's Penguins Win a Academic Achievement Award

For the fourth straight year, Dominican University of California has captured the Pacific West Conference Academic Achievement Award.

Comcast Deal Seeks to Unite 2 Cable Giants

Comcast announced on Thursday an agreement to acquire Time Warner Cable for more than \$45 billion in stock, a deal that would combine the biggest and second-biggest cable television operators in the country.

PG&E Hydroelectric Exhibit Debuts at Children's Museum in Sonoma County

For years, Collette Michaud had a vision to build a children's museum in Sonoma County's largest city. And now her dream is nearly complete.

Redwood Credit Union Marks Another Record Year

Redwood Credit Union on Wednesday announced a second consecutive year of record results in 2013.

Autodesk is a Key Player in Obama's Announcement to Pledge \$750 Million for Student Technology

Business leaders have pledged more than \$750 million as part of a White House initiative to strengthen access to technology for 99 percent of students within five years, President Obama announced on Tuesday.

PG&E Bright Minds Scholarship Program

PG&E believes in education and the power that it has in strengthening our communities. Education is one of our main community priorities—in addition to economic and community vitality, environmental stewardship, and volunteerism. That's why we're again awarding 100 scholarships this spring through the PG&E Bright Minds Scholarship program. Winners will receive full-ride college scholarships of up to \$20,000 per year (for up to five years) and finalists will receive one-time awards of \$2,000.

AT&T and Other Tech, Telecom Giants Donate \$750 Million in iPads, Wireless Service to Schools

Several tech and telecom firms on Tuesday will announce \$750 million in donations of free iPads, software and wireless service to U.S. schools, part of President Obama's push to bolster the education system with better technology and faster Internet speeds.

"Lucas Cultural Arts Museum To Explore Alternative Sites"

In light of today's announcement by the Presidio Trust, the Lucas Cultural Arts Museum's executive team is considering alternative sites.

AT&T Invites You to SAVE THE DATE

RSA: Where the world talks security

AT&T Applauds the FCC on IP

Ken Mcneely, AT&T President of California, applauds the Obama administration for their forward-thinking.

Sunny Hills Services Kathie Jacobson Joins as COO

Kathie Jacobson recently joined Sunny Hills Services in the newly created position of Chief Operating Officer (COO). Sunny Hills Services offers an array of programs throughout the Bay Area for children and youth who struggle with mental illness and support for their families and caregivers.

PG&E DELIVERS RECORD ELECTRIC RELIABILITY FOR CUSTOMERS IN 2013

Investment in Infrastructure Projects and Smart Grid Technology Resulted in PG&E Safely Delivering Record Electric Reliability for Customers

Kaiser Invests in Big Data Company Health Catalyst

Kaiser Permanente Ventures, the venture arm of the Oakland-based health care giant, is one of the big investors in a \$41 million Series C round at big data company Health Catalyst.

Read more online at www.northbayleadership.org/news



Who We Are

Over twenty years ago, business leaders founded the North Bay Leadership Council on a simple premise: We can accomplish more by working together. Today, the Council includes 44 leading employers in the North Bay. Our members represent a wide variety of businesses, non-profits and educational institutions, with a workforce in excess of 25,000. As business and civic leaders, our goal is to promote sound public policy, innovation and sustainability to make our region a better place to live and work. For more information: Call

707.283.0028 / E-mail info@northbayleadership.org

www.northbayleadership.org