

# FOUR SIDES

Modesty—Morals—Artistry—Confidentiality

## BE STRAIT FORWARD!

When Margaret Thatcher had her first meeting with the Board of the Conservative party after she was elected party chief, the board unanimously said: “Margaret you must understand that the socialists will win in the end. Our only job is to delay that process. Therefore we must be fairly close in our opinions to Labour otherwise we will have no impact.”

Thatcher did the reverse. She spelled out her beliefs and took a tough debate with Labour. She was the first party leader ever to become Prime Minister in the United Kingdom three times in a row.

In many countries we have seen the same. If you dare to spell out your beliefs, not being too tactical, you will win more often than you lose.

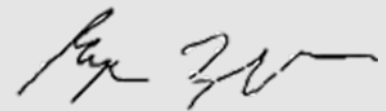
The same goes for businesses. I use to say that if you start a company and the purpose is to become rich, you normally fail. If you start a company because you want to change the world, to make the world a better place, even if it will be a small contribution, you will much more likely succeed.

This is even more obvious in the service businesses like in our own business. 1999 I met most of the leaders of the Nordic fine paper companies telling them that uncoated fine paper

will deteriorate (i.e. copy paper). Only one company believed me and we did a large assignment for them which resulted in that they sold their whole fine paper division for a very, very good price. The rest of the forest industry has been making and makes severe losses since then in their fine paper operations.

The pattern repeated itself in 2006. I met most of the news print operators and said that news print was a dying breed. Only one believed me. We did a mayor assignment for them which confirmed that and they pulled out. The rest has been sitting and sits with severe loss making newsprint operations.

In our business we have to be straightforward telling the potential customer what we believe in. To put it another way: not always give the customers what they want. Otherwise we will not, that is my firm belief, give our clients return on their investment in us.



Magnus Lagerkvist  
Founder & CEO  
Lagerkvist & Partners

” ” Don’t say “carpe diem” - catch the day – say: create your day!

*Petra Regim*

” ” Whenever you find yourself on the side of the majority, it is time to pause and reflect.

*Mark Twain*

FOUR SIDES is published in English. Regarding the general professional confidentiality applicable within the Lagerkvist group, everything published is approved for publishing by the partners involved.

### Our Four Sides:

#### MODESTY

- in the Company’s approach to an assignment and with respect to the client’s own expertise.

#### MORALS

- in the form of loyalty to the client and strict focus on the client’s long-term development and profitability.

#### ARTISTRY

- through efforts to provide innovative solutions, that give the client a position of leadership.

#### CONFIDENTIALITY

- all assignments are carried out in strictest confidence and remain confidential.

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# THE ELECTRIC CAR IS BACK

In 2013, Tesla Motors reached sales of 2 billion USD and the market capitalization has now soared to 26 billion USD. It is easy to dismiss this as a bubble or fad, but if the fundamentals of the market are scrutinized it becomes obvious that a paradigm shift is happening.

In 1881, Charles Jeantaud and Camille Faure designed and constructed the first battery powered carriage as an alternative to the horse. The future of the electric car was bright during the years around 1900 since they were cleaner, more reliable and required less maintenance. (Figure 1)

The weakness was the capacity limits of the battery pack. The electric car was expensive and in 1908 when the T-Ford was launched as the first affordable car, the electric car faded into obscurity. (Figure 2)

Since then, there have been several projects to construct new electric cars in order to improve air quality and diminish the dependence on imported oil. All projects have failed.

Today, the situation is different. Tesla Motors was co-founded in 2003 by Elon Musk who made his fortune from the sale of PayPal. In ten years they have gone from just having a home-made prototype to two billion USD in sales (Figure 3). The company has a market capitalization of 26 billion USD and has reached a positive EBITDA (2013). Tesla Motors has commercialized the product top-down and solved the limited range using a combination of powerful batteries and a network of fast charging stations with free electricity.

Tesla Motors' success would not have been possible without the emergence of portable consumer electronics and the demand for powerful

“ I couldn't find the sports car of my dreams, so I built it myself.

Ferdinand Porsche

American Car Production 1900

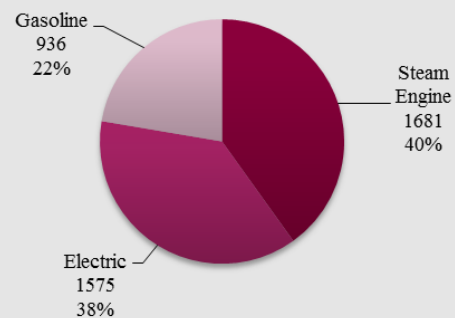


Figure 1 (Source: Gejs Mom, "The Electric Car")

Electric Car Production in America

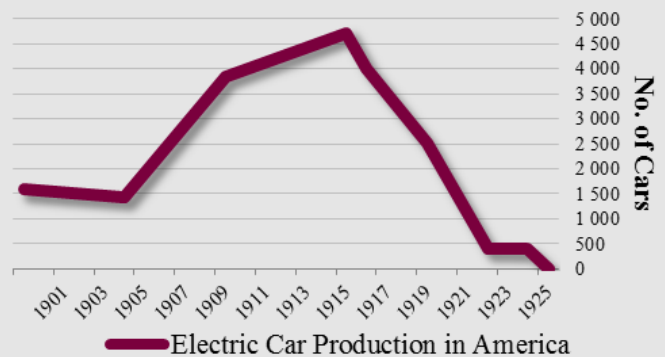


Figure 2 (Source: Gejs Mom, "The Electric Car")

Tesla Motors - Sales Development

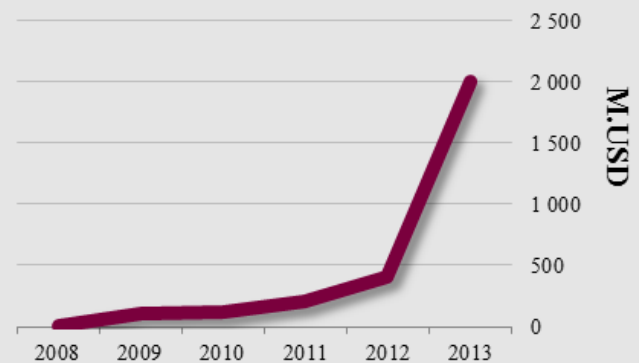


Figure 3 (Source: Tesla Motors)

Tesla Motors - Market Cap

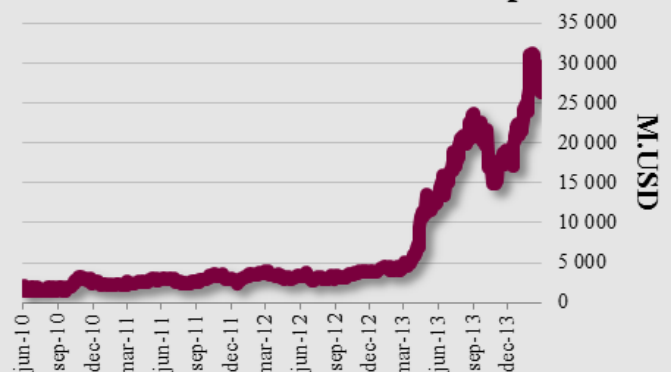


Figure 4 (Source: Nasdaq)

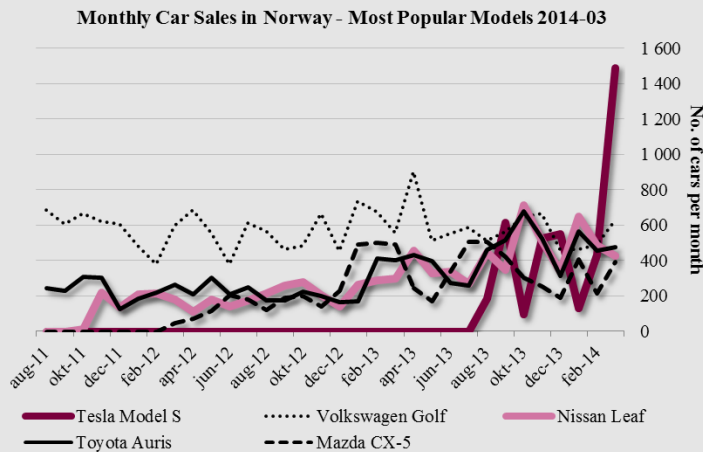


Figure 5 (Source: Opplysningsrådet for Veitrafikken)

and lightweight gadgets. New battery technology has yielded a rapid development in capacity and a sharp decrease in price. The development of hybrid cars has also been important.

Other external factors that have helped the electric car are the generous subsidies etc. in i.e. Norway and the US. Tesla Model S was the most sold car in Norway in September 2013 and in March 2014 Tesla Model S was again the most sold car with 1 493 sold units compared to 624 Volkswagen Golf (Figure 5).

The emergence of electric cars will also have an

## NEW OPPORTUNITIES IN MEXICO

**Stable democracy, open economy, reform minded Government, young population, lower wages than China and proximity to end customers. In Mexico you get it all!**

In 2001, Jim O'Neil of Goldman Sachs coined the acronym BRIC in a paper hailing the emergence of new economic powers that would shift the center of gravity away from the rich G7 countries. However, the current situation in these countries implies that it might be time to look for other promising markets since the BRICs are now in a growing need to reform and reinvent themselves.

” The competitor to be feared is one who never bothers about you at all, but goes on making his own business better all the time.

*Henry Ford*

” Study the past, if you would divine the future.

*Confucius*

impact on energy markets. In case 50% of the car and light truck fleet in Sweden is electric in 10 years from now, electricity consumption will increase by 5,4 TWh which represents an increase of 3,9% from current levels. Total crude oil demand in Sweden can then be expected to drop by 13,7% compared with 2011.

Tesla Motors entry to the automotive industry has been disruptive. The problem with limited range is fading and electric cars are being more accepted by the general public. Most large car manufacturers are now introducing their own electric car models. The electric car is back and it is here to stay.

Mexico was left out from this group and has indeed performed poorly during the last ten years in economic terms. The country has however continued to open itself to ever more free trade and has become more democratic. Furthermore, the new president, Enrique Peña Nieto has embarked a bold package of reforms to improve the country's competitive edge including improvements in competition legislation, anti-corruption legislation and constitutional amendments that will facilitate foreign direct investments in telecommunication and energy.

Mexico has promising natural resources and a demographic advantage. While China is leaving its demographic bonus period (figure 1), Mexico is just entering. China's one child policy has led to an increasing shortage of labor pushing up wages.

” To improve is to change; to be perfect is to change often.

*Winston Churchill*

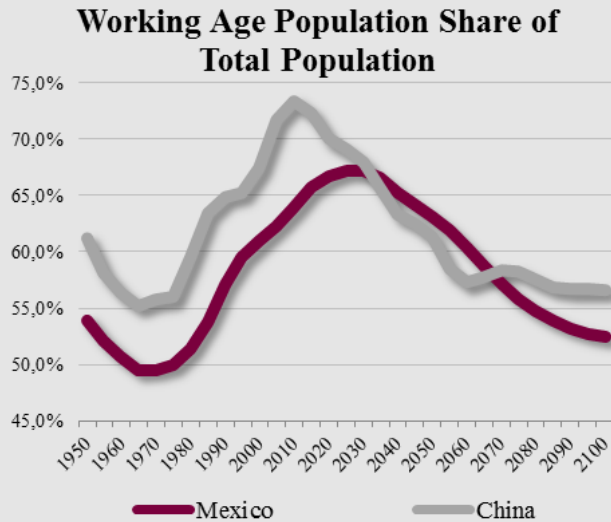


Figure 1 (Source: UN)

Mexico, in contrast has experienced stagnant real wages that are now lower than in China. Brazil is even less competitive. (Figure 2 )

Mexico's geographic location and its free trade agreements with 45 countries adds to the advantage. Goods from Mexico can reach the US duty free within days rather than in weeks or months. Mexican producers are already integrated in international supply chains. Bombardier includes Mexican factories in its supply chain to produce trains and airplanes.

The future prospects of Mexico look bright. Investors have to catch the train before it goes.



Figure 2 (Source: ILO)

” **Poor Mexico! So far from God and so close to the U.S.**

*Porfirio Díaz, Mexican President*

” **Some changes look negative on the surface but you will soon realize that space is being created in your life for something new to emerge.**

*Eckhart Tolle*

## INTERVIEW WITH GUNNAR STRÖMBLAD

**T**he Swedish media industry has experienced dramatic changes during the last decades. During these years, Mr Gunnar Strömblad has been one of the most influential and successful leaders in the industry turning around declining newspapers and pioneering new products. He has been the CEO of both Aftonbladet and Svenska Dagbladet, two Swedish newspapers which he put into the right track again. In the 1990ties he took the initiative to launch aftonbladet.se as the first Swedish newspaper online and currently the most successful. While working for the Norwegian firm Schibsted, he had a pivotal role in the launch of the

successful web portals blocket.se and hitta.se. Since 2013, Mr Strömblad has also been member of Lagerkvist & Partner's Advisory Board.

**Four Sides: Recent surveys about media consumption show that people globally, use their smartphones 34 minutes more per day than they watch TV. Is this surprising and is traditional media doomed?**

**Gunnar Strömblad:** These figures are interesting but the trend they show is not surprising. However, traditional media I hope will survive since they have a function in society that is hard to substitute with the new internet based services. Printed newspapers are doomed but you will still be able to make money during the 5-6 years to come if you treat it as a “sunset industry”. That is probably Warren Buffet's purpose when he has bought newspapers. Today, it

is easy for people to get information, but in a decentralized media landscape there is always greater risk that incorrect information proliferates. In that way, traditional media can offer a more qualified product.

**FS: Aftonbladet.se has been successful as an Internet version of the newspaper. How come you succeeded to start so early?**

**GS:** It was launched in the autumn of 1994 so this year they are celebrating their 20<sup>th</sup> anniversary. Back in 1994 we thought aftonbladet.se was a fun project since it was so new. In other newspapers, there was considerable resistance against the Internet, but in Aftonbladet there was not so much resistance. We had a different culture. Even the culture editor was enthusiastic since the online newspaper made it possible for them to publish more material. Generally, I think the resistance against Internet is stronger in continental Europe.

**FS: How did aftonbladet.se achieve its strong position?**

**GS:** Aftonbladet.se was the first big Swedish newspaper to go online. Later, after the dot-com crisis, many Internet projects were stopped at the same time Schibsted (the owner of Aftonbladet) continued to invest and develop aftonbladet.se. Later, when the money came back to the market, aftonbladet.se had a considerable advantage over the competitors. Today they are 3 times bigger than Expressen online and 4 times bigger on mobile devices.

**FS: When we started to look at the declining newspaper market we thought that local newspapers would be the last to fall. Is that still correct?**

**GS:** Local newspapers have a delicate situation with high distribution costs and lagging technical edge. They have often a local monopoly of news and ads,

but they have not found a new business model yet that works. Making money online is only possible for larger newspapers like Aftonbladet.se. And then you have the issue with the high average age of the readers. The local newspapers must find a new business model, otherwise it seems very hard to make the transition from print to digital.

**FS: Generally, what do you think about the development of the media landscape?**

**GS:** Overall the development is positive. Thanks to the Internet, people can, if they want, easily keep updated about what is happening in the World. However, one worrying thing is the distrust against the “old media”; many people prefer to trust their “friends”, sources of information that offers the view they like and that many times is tainted by prejudice and false information. It is positive that people are critical towards media, but an exaggerated critical view towards generally accepted sources can in the long run be dangerous if the criticism is based on dubious facts.

**FS: Is there still a role for public service?**

**GS:** I think so even if Swedish Television has become more of a me-too product.

**FS: So, is the Media World becoming better or worse?**

**GS:** The development must be embraced and I am convinced that things are getting better. The challenge is to stop the degradation of the journalistic profession, but otherwise, the current development is probably good for democracy.

”” **Destiny is not a matter of chance; it is a matter of choice. It is not a thing to be waited for, it is a thing to be achieved.**

*William Jennings Bryan*

”” **The snake which cannot cast its skin has to die. As well the minds which are prevented from changing their opinions; they cease to be mind.**

*Friedrich Nietzsche*