



Scenario Planning and Trust Amidst a Time of War

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Economic Impacts of the Russia Ukraine War

1

Surge in commodities and raw material prices

Commodities prices could jump owing to three factors:

- Supply constraints
- Destruction of physical infrastructure
- Sanctions

Price is disproportionately impacted globally since Russia is a major producer of metals and energy.⁴

2

Supply chain disruptions

Disruption to upstream suppliers in Russia and Ukraine will further weaken global supply chains, exasperating backlogs that were already persistent due to COVID. Visibility into this extended network thus becomes key to tackle potential risks.³

3

Sanctions on Russia

The United States, Canada, the U.K. and the European Union have imposed several rounds of sanctions targeting Russian banks, oligarchs and energy. These penalties will have a severe impact on the Russian economy, which estimated that the country's GDP will fall by 8.5% this year.^{1,2}

4

Companies boycotting Russia

Sony and Microsoft are following in the footsteps of iconic brands McDonald's, Coca-Cola, PepsiCo and Starbucks, which have suspended operations in Russia amid outcry over the country's invasion of Ukraine.²

5

Heightened global inflation

Higher prices for commodities like food and energy will push up inflation further. The risk is rising that inflation expectations drift away from central bank inflation targets, prompting a more aggressive tightening response from policymakers.¹

6

Global growth slowed down

Global economic prospects have been severely set back, largely because of Russia's invasion of Ukraine. IMF is now projecting a 3.6% GDP rate for the global economy this year and for 2023 representing a 0.8 percentage point drop from its forecasts published in January.¹



Scenarios For the Future

Scenarios for the Future

Factors Impacting the Future

Impact on Ability to do Business

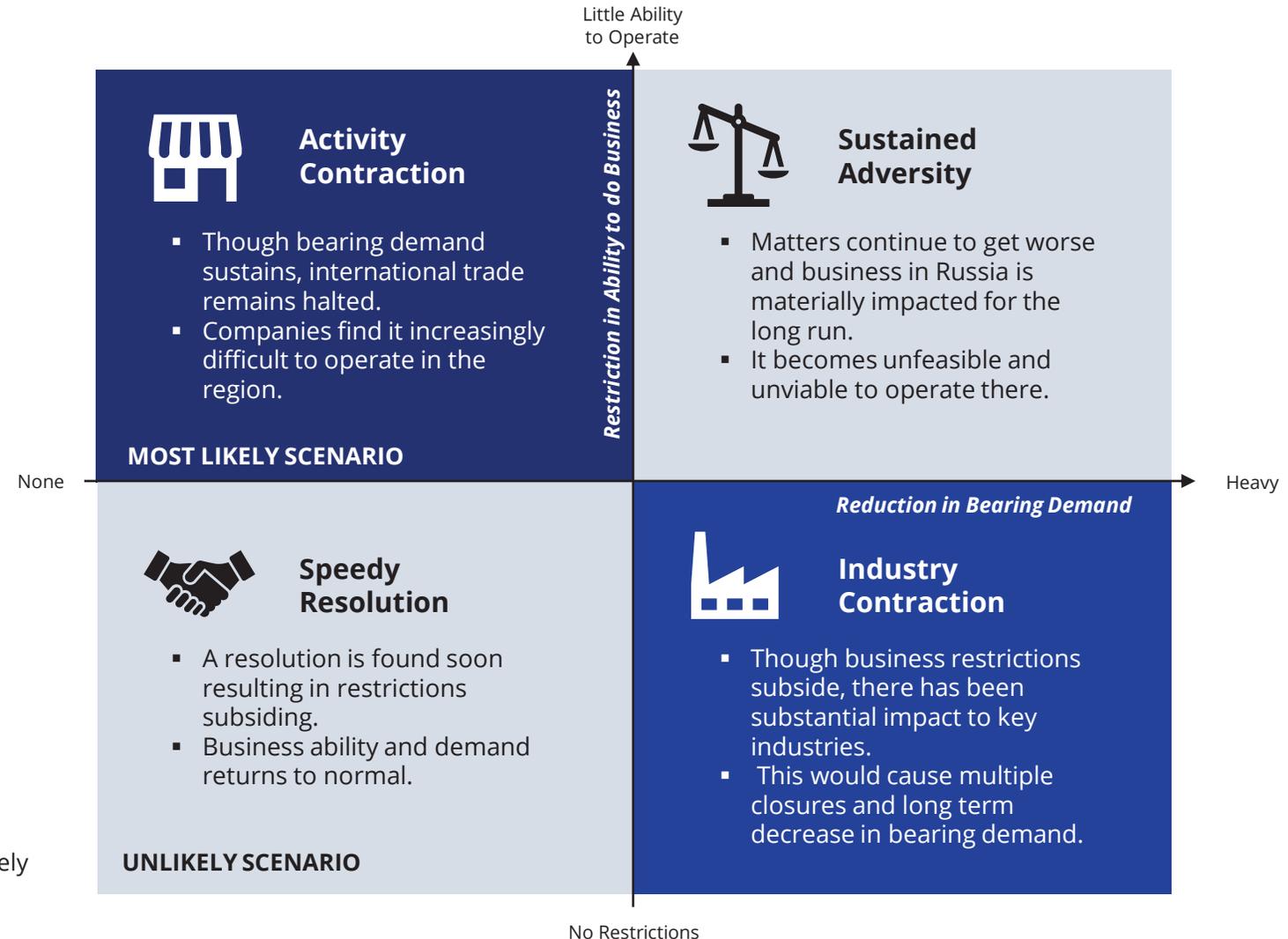
How will the war impact the ability to do business in Russia and Ukraine? How severe is the supply chain impact? How long do the economic sanctions last? How much is the currency devalued?

Impact on Bearing Demand

How many industries are directly impacted? How many factories are forced to close down? How heavily does the war impact customer and business cash flow?

KG's Perspective on the Likelihood of the Four Scenarios:

Based on our current market knowledge and perspectives of various industry leaders, we have assigned the following probabilities to each of the scenarios. We will present all four scenarios so that our customers can apply their own judgement and respond accordingly.



Key Characteristics and Responses to Each Scenario

Increasing net impact and scenario likelihood

Characteristics



Sustained Adversity

- Matters continue to get worse and business in Russia is materially impacted for the long run.
- It becomes unfeasible and unviable to operate there.



Speedy Resolution

- A resolution is found soon resulting in restrictions subsiding.
- Business ability and demand returns to normal.



Industry Contraction

- Though business restrictions subside, there has been substantial impact to key industries.
- This would cause multiple closures and long term decrease in bearing demand.



Activity Contraction

- Though bearing demand sustains, international trade remains halted.
- Companies find it increasingly difficult to operate in the region.

Impacts

- Many businesses drastically decrease their business footprint in Russia
- Global supply to be reprioritized across industries easing current constraints and congestions
- Businesses with disproportionately large exposure in Russia start to close down
- Impact on bearing price due to overstocked goods intended for Russia and unused supply

- Businesses quickly recover from short term impacts and resume stocking
- Global supply remains to be constrained
- No material impacts to price in the short term or long term

- Global demand forced to be reallocated resulting in short term overstocking and cash flow concerns
- Businesses forced to make decisions on feasibility of maintaining business exposure in Russia
- Global bearing supply can be reallocated resulting in possibility to ease current delivery constraints
- Increased credit risk

- Business forced to find new ways to cater to Russian demand
- Short-term easing of global supply as companies reallocate supply in the short term while stakeholders find clarity on how to operate in Russia
- Price increases required due to increased time, effort, and cost of operating in Russia
- Increased credit risk

No Regret Actions

Improve Business Planning

Spend more time accurately predicting demand and helping your customers with more accurate order planning.

Manage Customer and End User Expectations

Improve quality and frequency of customer communications to ensure that they are always aware of the market situation and what to expect regarding prices and delivery.

Increased Transparency and Trust

COVID has taught us that trust and honesty are the cornerstone of business amidst uncertainty. Improving trust and transparency between customer and suppliers can result in stronger relationships and more fruitful business.

Bring a Problem-Solving Attitude to Relationships

Bring a positive attitude to meetings to solve problems together and look for win-wins vs. spending time on blame/complaints which tends to be unproductive and diminish relationships.

Reduction of Credit Risk in Russia & Ukraine

Be extremely selective when increasing credit exposure in Russia & Ukraine due to significantly higher likelihood of defaults.

Redo business sales and purchase planning

Effectively account for loss of business and implement risk mitigation steps quickly to avoid business risk or cash flow issues.



The Trust Economy

How Trust Drives Business Value

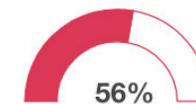
According to a PwC survey of 503 business leaders, building trust can have significant impact to company performance across a variety of indicators:



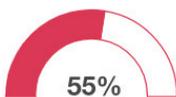
Positive Reputation



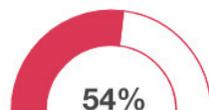
Expanding into new areas/ markets



Revenue Growth



Growing customer base



Brand equity/
brand protection



Employee recruiting/
retention



Access to capital/
financing

How to build Trust

Providing authentic leadership and strategic governance

Employ effective and active compliance, safety, security, and protection programs

Developing technology and scope for innovation

Accountability and consistent adherence to ethical standards

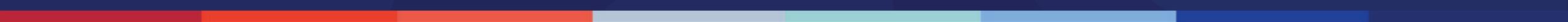
Collaboration, transparency and accountability with workers at all levels

Prioritize customer relationship and product quality

Proactive and transparent in financial reporting

Promoting employee mental and physical health

Proactively manage third-party relationships and value chain risk



Team & Acknowledgements

Author & Acknowledgements



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Karan leads KG International's growth strategy in terms of partnerships, market/product expansion and penetration, operating efficiencies, and customer experience. Karan is a seasoned strategist having worked with Deloitte Consulting in the US for a variety of Fortune 500 clients in many industries. He worked across a range of strategic issues such as corporate / business unit strategy, M&A, operating model transformation, offering innovation, new product launches, etc. around the world.

Karan obtained degrees in Mechanical Engineering and Applied Mathematics from the University of California, Riverside where he focused his research on Fault Modeling of Bearings and Induction Motors.

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ABOUT KG INTERNATIONAL

KG International is a leading global private Bearing brand and is a key distributor for many leading automotive and industrial brands spanning many products such as:

Bearings & Housings

Filters

Industrial Spare Parts

Material Handling

Lubrication

Auto Spare Parts

KG started its journey 53+ years ago and is the pioneer for transforming Dubai into the Global Bearing Hub it is today. Through our journey, we have developed markets for a variety of brands and have learned a myriad of lessons along the way to better serve our customers and suppliers. Today, we have 80+ team members around the world, we operate out of a 250,000+ sqft facility in Dubai which holds 24m+ items, and we serve customers across 14+ industries.

Please find more information on our various customer channels, or email us directly for any further questions – links below:

