10Minutes
on Competitive Advantage

pwc

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Eight imperatives to build your next competitive advantage

Highlights

Companies remain committed to doing more with less, raising the stakes—and their games—on operational efficiency.

Stakeholders are demanding increased transparency in complex areas that have not yet come under regulatory scrutiny.

Companies are looking to improve compliance and credibility by staying one step ahead of regulation.

Many companies are considering how technology can better enable business goals and create strategic advantage.

Industries and companies are reshaping themselves to capitalize on the changing landscape, challenging their people to meet—or set—a new bar for performance.

As companies look toward growth, eight business imperatives emerge as drivers of market leadership and business transformation.

According to PwC's *13th Annual Global CEO Survey,* a measured level of optimism is returning as companies around the world chart new courses for growth, transforming their strategies, organizations and operating models.

Of nearly 1,200 respondents to the survey, 31% said they were very confident about their companies' prospects for revenue growth over the next 12 months, up from 21% last year.[1]

As businesses pursue new sources of efficiency, growth and competitive advantage, they are keenly aware that discerning stakeholders are now demanding unprecedented levels of transparency, accountability and distinction, choosing carefully where to place their cash and their confidence.

Based on the results of the *Global CEO Survey* and insights from our clients into their most pressing business challenges, we have identified eight strategic imperatives that represent key levers of competitive advantage today.

1 *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

Businesses face the demands of a more competitive environment.

1. With many businesses planning second or third round cost-reduction initiatives, rigorous cost management has become a permanent—and prominent—feature of doing business today.

2. As consumers spend less and save more, purchasing behaviors are changing. While US personal spending saw modest increases in 2009, personal savings—which had dipped to 1% of disposable income before the crisis—increased to 4.6%.[2] Corporate responsibility practices, social media and mobile computing, for example, are increasingly influencing purchasing decisions and habits.

3. With competition for capital equally fierce, playing globally has become a growth imperative. According to the CEO survey, 38% of CEOs said better penetration of existing markets represented their main growth opportunity, and 15% said the same of entering new geographic markets.[3]

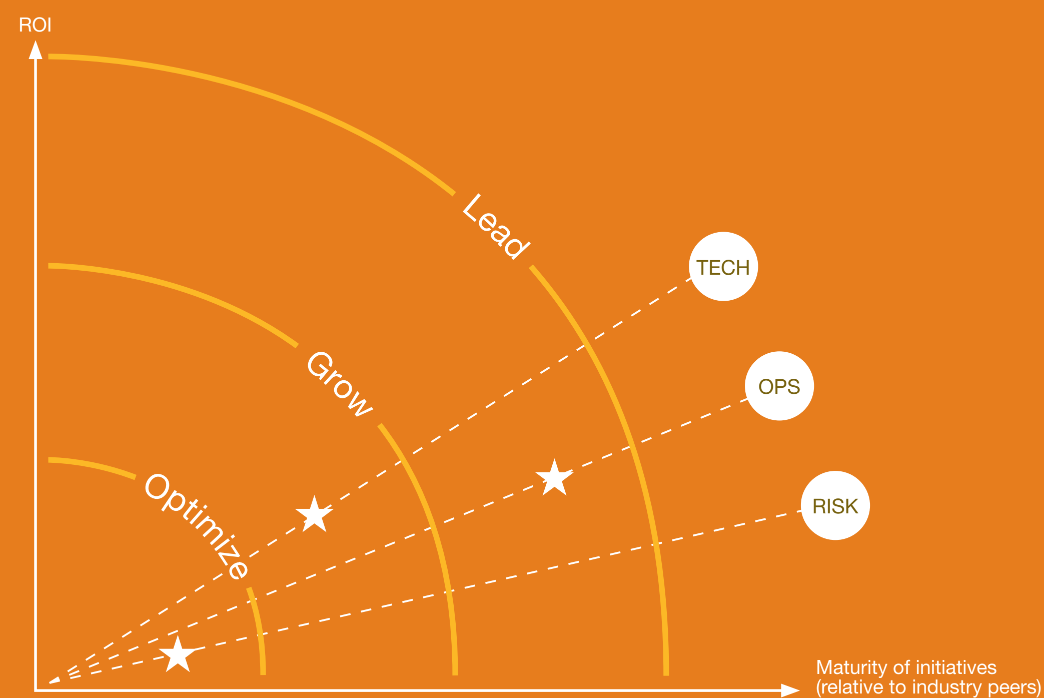
2 "Personal income and its disposition," Bureau of Economic Analysis, US Department of Commerce, February 1, 2010.

3 *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

At a glance

The Competitive Leadership Model℠: How do the imperatives apply to your business?

Understanding how advanced your business is with respect to the strategic imperatives is important to achieving competitive advantage. Comparing the progress of your business in key areas to that of your industry peers and leading companies is one way to develop this actionable, and potentially transformational, view of how to preserve and expand marketshare.



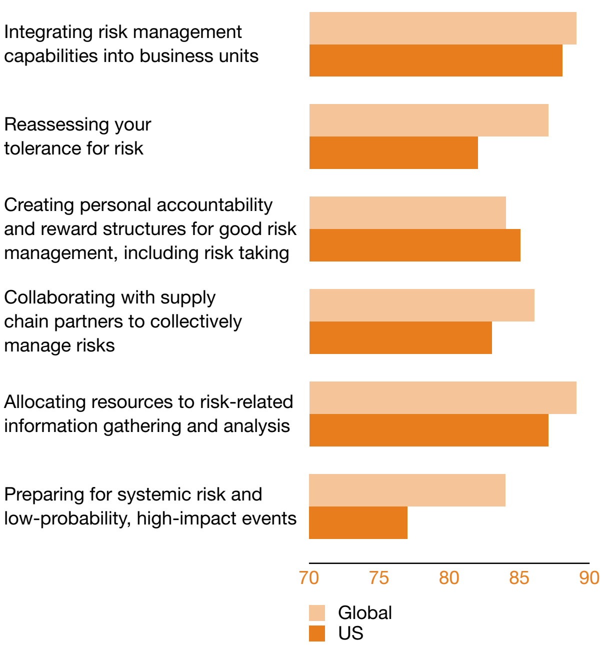
TECH	Optimize your current IT spend	Reinvest in IT systems and processes	Use IT to strategic, competitive advantage
OPS	Make cost reductions stick	Make operational excellence sustainable	Pursue process innovation
RISK	Comply with regulatory and reporting requirements	Implement tools and processes to identify risks and measures to control and mitigate them	Make risk-informed decisions to capitalize on opportunities as they arise

01

Doing more—and doing better—with less

With respect to your approach to risk management, to what extent are you increasing your focus in the following areas as a result of the economic crisis?

Percentage of CEOs who stated "somewhat," "to a large extent" or "significantly"



Base: All respondents (1,198 Global, 100 US only)
Source: *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

Imperative 1: Make cost reductions stick and make operational excellence sustainable

Of 100 US CEOs surveyed, 98% implemented a cost-reduction initiative in 2009 and 65% expect to do so again in 2010. Further, 69% of US CEOs said their companies experienced a decrease in head count, a trend 28% expect to continue this year.

Cost cutting in tough times is nothing new, but this time companies aren't rushing to restore spending; they are keen to sustain their efforts and improve their margins with smaller but more productive workforces.

"If you're not looking at your cost structure in this environment, you're asleep at the switch. If the revenue isn't there, in order to protect margins, you have to take a look at your cost profile," says Michael I. Roth, chairman and CEO of US-based advertiser Interpublic Group. "IPG, like all other companies, has been doing that since the end of 2008, and we will continue to look at our ratio of cost-to-revenue as this goes forward," he adds.[4]

4 *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

Imperative 2: Link risk and performance throughout the organization and create accountability for it

The financial crisis exposed critical gaps in the linkages between risk and performance management that inform business strategy.

Just 37% of senior executives at US-based multinationals said their companies link key risk indicators with key performance indicators; of those, only half said they employ risk-adjusted performance metrics.[5]

Executives and stakeholders alike are spurring change (see figure at left). According to the *Global CEO Survey,* 80% of US CEOs expect to change the way they manage risk; 88% plan to integrate risk management at the business unit level and 85% plan to create personal accountability and reward structures for risk management.

Boards are also becoming more actively engaged in risk, performance management and strategic decision making. Seventy-one percent of US CEOs said their boards are becoming more engaged with strategic risks, and 58% said they are more focused on long-term key performance indicators.[6]

5 *2008: Q2 Management Barometer,* PricewaterhouseCoopers, 2008.
6 *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

02

Building trust, building value

In which of the following ways do you believe government could best improve the policy-setting process with regard to smarter business regulation?

Percentage of CEOs

Base: All respondents (1,198 Global, 100 US only)
Source: *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

Imperative 3: Prepare your business for major regulatory changes

Almost three-quarters of US CEOs responding to the *Global CEO Survey* said they were concerned about the potential for overregulation coming out of the financial crisis. An equal share said they expected compliance and reporting to meet capital markets' requirements to become more difficult in the days ahead.[7]

Still, executives across industries and around the world are calling for greater clarity, potentially through coordinated reform, in areas key to their competitiveness, such as international tax frameworks, infrastructure development, health care costs and environmental policies.

Though the extent of new regulation is uncertain, one thing is clear: greater convergence of global standards—on tax, accounting, technology, climate change and corporate reporting frameworks—is on the horizon. And business leaders are looking toward increased collaboration across the public and private sectors to facilitate it (see figure at left).

Imperative 4: Enhance trust in your business and eliminate the information gaps that breed distrust

The financial crisis took a toll on trust in business, bringing the need for greater clarity and transparency to the fore.

Increasingly, stakeholders are seeking transparent disclosures on operational, strategic and environmental issues. Of 1,000 board members recently polled, 25% expressed concern that financial statements don't give investors enough information about future operations or issues.[8] Companies are starting to see the strategic value in providing the markets with more expansive reporting, applying the rigorous standards of financial reporting to other types of information and disclosures.

Of course, the credibility of such information, which can be difficult to measure, can be called into question. With respect to climate change reporting, for instance, 132 S&P500 companies sought some level of independent verification of their reported carbon emissions data in 2009 to encourage greater confidence.[9]

7 *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

8 *What Directors Think: Annual Board of Directors Survey,* PricewaterhouseCoopers and *Corporate Board Member,* 2009.

9 Carbon Disclosure Project: *S&P500 Report 2009*, Carbon Disclosure Project and PricewaterhouseCoopers, 2009.

03

Raising the bar on technology and innovation

How do you plan to change your long-term investment decisions in the following areas over the next three years as a result of the economic crisis?

Percentage of CEOs who stated "moderate" or "significant increase"

Base: All respondents (1,198 Global, 100 US only)
Source: *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

Imperative 5: Reinvest in technology and make the most of your IT spend

Across industries, companies still spend the lion's share of their IT operating budgets—by some estimates, upwards of two-thirds—on ongoing maintenance and relatively little on innovation. But the tide seems to be shifting, as executives recognize that technology can be a strategic asset and a competitive differentiator.

The hot-button IT issues vary across industries. For example, entertainment, media and retail companies are focused on analyzing consumer information to strategic advantage, while financial services companies are looking to data management and information security as competitive differentiators. Still, a common thread remains: the same areas in which efficiency and operational excellence had traditionally been paramount now offer opportunities for true market leadership.

As a result, CIOs are assuming more strategic roles in many businesses and the IT conversation is gaining traction. In fact, 65% of US CEOs said they plan to increase their investment in strategic technology infrastructure or applications over the next three years (see figure at left).[10]

10 *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

Imperative 6: Drive competitive advantage through innovation, adapt to changes in customer behavior and create agile business models

Innovation—in products, processes and business practices—is a cornerstone of business transformation and future market leadership. Indeed, opportunities abound, from embracing cloud computing technologies to investing in smart infrastructures. Sustainability and climate change have emerged as areas particularly ripe for innovation and adaptation.

"Employees ask me all the time about what we are doing around sustainability. The younger generation especially wants to work for companies that make a difference," says Dean A. Scarborough, president and CEO of consumer products company Avery Dennison Corporation. "The Milton Friedman school of thought, that our job is just to go make money, well, pardon the pun, but that thinking's not sustainable anymore."[11]

As companies adapt their businesses to shifting market demands, they will be challenged to take greater risks on innovation and to place their bets wisely, with the understanding that innovation cannot occur without tension.[12]

11 Ibid.

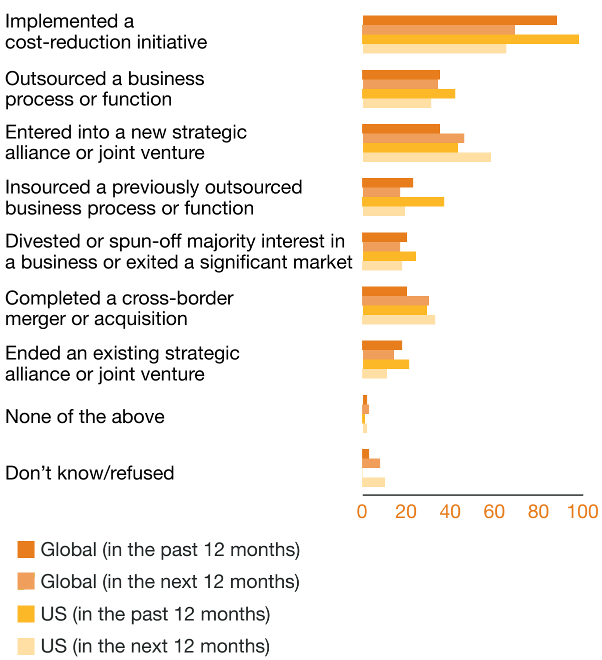
12 Christopher Wasden, "Getting beyond novelty: How discipline and failure foster innovation," *View*, PricewaterhouseCoopers, Fall 2009.

04

Investing in the people and strategies that will transform your business

Which, if any, of the following restructuring activities have you either initiated in the past 12 months, or do you plan to initiate in the coming 12 months?

Percentage of CEOs



Base: All respondents (1,198 Global, 100 US only)
Source: *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

Imperative 7: Execute deferred transactions to grow, diversify or protect value

Having taken an aggressive stance on managing costs, many companies with strong balance sheets are looking toward strategic deals, in particular, "mergers of productivity" that capture benefits of scale, productivity and cost savings.[13]

Despite a sluggish global M&A environment, says Bruno Lafont, chairman and chief executive director of French building materials company LAFARGE Group, "Transactions that can represent the first step towards strong future development are not out of the question. Crucially, we have a clear strategy and know how to draw out and develop added value."[14]

Other types of transactions, beyond traditional M&A, are also taking on new importance. In the US, for example, 58% of CEOs expect to enter into a new strategic alliance or joint venture in 2010 (see figure at left).[15]

13 *Strategic deals and "mergers of productivity" to drive M&A in 2010,* press release, PricewaterhouseCoopers, December 16, 2009.

14 *13th Annual Global CEO Survey,* PricewaterhouseCoopers, January 2010.

15 Ibid.

Imperative 8: Raise the game of your people, starting with the C-suite

Though the global workforce shrunk dramatically over the past year, demographic trends that once fueled headlines about the global war for talent are still in play. Companies are again planning for that inevitable future.

"Recruiting people is much more important than before," says Mikael Mäkinen, president and CEO of Finnish cargo handling solutions provider Cargotec. "The business is really globalizing, we need to recruit for top positions in areas outside our home base.... As a result, we really have to think about our values and how we communicate them."[16]

Business leaders traditionally tasked with technical or operational responsibilities—such as HR, IT and internal audit—are increasingly being asked to play more strategic roles in their organization's future. Companies, in turn, are investing in their development; 71% of US CEOs said they plan to increase their investment in leadership and talent development over the next three years.[17]

16 Ibid.

17 Ibid.

Upcoming 10Minutes topics

From crisis mode to sustainable efficiency

Companies have yet to ease up on cost-reduction measures and many are now rethinking their operating models to deliver more value at lower cost. 10Minutes looks at how companies are embedding lessons from the crisis into more disciplined management of corporate performance.

Creating value through transparency

10Minutes explores how companies are giving their stakeholders the insight and comfort they need, in areas beyond traditional financial reporting, such as operations, risk management and corporate responsibility practices to encourage investment and enhance trust in business.

The changing face of financial reporting

Standard setters have proposed fundamentally changing the way public companies gather and display financial data for investors and the general public. 10Minutes discusses the pros and cons of the proposed changes.

Enlisting the CIO as business partner

In daily life, business leaders experience faster access to information, simpler interfaces and rapid innovation. But their companies are often challenged to realize these same efficiencies because of complex IT. 10Minutes explores how CEOs can enlist CIOs more strategically, to drive IT simplification efforts that yield short-term cost reductions while transforming the way their companies operate and serve their customers.

How PwC can help

To have a deeper discussion about the eight business imperatives, please contact:

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