Dealing with disruption
16th Annual Global CEO Survey
Key findings in the forest, paper & packaging industry

February 2013
Welcome

Far-reaching changes are taking place, and they’re taking place faster than ever. In this new era of ‘stable instability’, risks that once seemed improbable and even remote have become the norm and for CEOs across the world, ‘expect the unexpected’ has become the mantra. The only solution is to build organisations that can thrive amidst disorder: organisations that are agile and adaptable, able to cope with disruption, and emerge stronger than before.

We polled 1,330 CEOs in 68 countries, and talked face-to-face with another 33 CEOs, in our 16th Annual Global CEO Survey, to find out how they’re creating resilient organisations that can flourish under stress. Dealing with disruption shows that CEOs are:

• focusing on a few carefully selected initiatives to stimulate organic growth,
• exploring new ways to attract and keep customers and
• balancing efficiency with agility.

And to succeed in these three goals, CEOs are recognising the role that trust plays, and that they’ll have to work hard to repair the bridges between business and society.

This report is a summary of our key findings in the forest, paper & packaging sector, based on interviews with 38 CEOs in 15 countries.

To see the full results of the 16th Annual Global Survey, please visit www.pwc.com/ceosurvey.
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Introduction
Introduction

Profound changes are happening in the forest, paper & packaging industry. CEOs are dealing with significant shifts in demand patterns, increasing scarcity of supply, and overcapacity in some regions and grades. Our sector results for this year’s 16th Annual Global CEO Survey reflect these concerns. Forest, paper & packaging CEOs say they are:

• Dealing with overcapacity through cost reduction
• Exiting unprofitable businesses
• Addressing natural resource issues

With the economic situation uncertain and so many changes happening, it’s no wonder that forest, paper & packaging CEOs are less confident of growth over the next 12 months than are their peers in other sectors.

But there’s hope for the future too. We see signs of significant changes happening in sector business models, with a strong emphasis on R&D and deals. Forest, paper & packaging CEOs tell us they are focusing on developing the strong leaders they’ll need to drive change and continuing the sector’s emphasis on environmental responsibility.

The result? Looking out over three years, far more forest, paper & packaging CEOs are optimistic about their company’s prospects for revenue growth.
only 21% of forest, paper & packaging CEOs are very confident they can raise the revenues their companies generate over the next 12 months
Forest, paper & packaging CEOs outlook for the next 12 months is subdued

The forest, paper & packaging sector is dealing not only with external shocks, like the earthquake which disrupted Chilean pulp production in 2010, but also with profound structural changes in demand. So it’s not surprising that while the majority of forest, paper, & packaging CEOs expect to grow over the next 12 months, their outlook is more cautious than peers across the total sample.

Q: How confident are you about your company’s prospects for revenue growth over the next 12 months?
Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)
Source: PwC 16th Annual Global CEO Survey 2013
But there’s hope for the future too

Forest, paper & packaging CEOs seem confident that they’ll be able to address the sector’s challenges. Looking out over three years, they’re actually **more** confident than their peers across the total sample.

![Bar chart showing confidence levels](image)

**Q: How confident are you about your company’s prospects for revenue growth over the next 3 years?**

Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)

Source: PwC 16th Annual Global CEO Survey 2013
What worries CEOs?
Threats to growth are looming for forest, paper & packaging CEOs

87% of sector CEOs say uncertain or volatile economic growth could threaten their prospects.

76% of forest, paper & packaging CEOs think over-regulation could hurt growth.

76% see them as a concern, compared to just 52% of the overall sample.
Macroeconomic concerns are keeping forest, paper & packaging CEOs awake at night

Economic worries dominate their ‘top 6’, but energy and raw materials costs also tie for second place. Forest, paper & packaging CEOs are far more concerned than peers in other sectors about both energy and raw material costs and exchange rate volatility.

Q: How concerned are you, if at all, about each of the following threats to your growth prospects?

Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)

Note: Respondents who stated ‘extremely’ or ‘somewhat’ concerned. Only the top t threats for forest, paper & packaging CEOs are noted. List combines ‘economic and policy threats’ and ‘business threats’.

Source: PwC 16th Annual Global CEO Survey 2013
Facing natural resource threats

Forest, paper & packaging CEOs are far more worried about the pending ‘resource crunch’ than CEOs across the overall sample, with 76% seeing energy and raw material costs as a concern.

When it comes to securing natural resources, half of forest, paper & packaging CEOs say they’ll increase their investments in this area over the next 3 years, more than double the overall average. And 39% think it should be a top priority for the government too.

Q. How concerned are you about the following potential business threats to your growth prospects? How much does your company plan to increase its investment over the next three years to achieve the following outcomes in the country in which you are based? Which three areas should be the Government’s priority today?

Note: “CEOs who say they’ll increase investments in natural resources” includes respondents who stated their companies will increase investments ‘somewhat’ and ‘significantly’

Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)

Source: PwC 16th Annual Global CEO Survey 2013

16th Annual Global CEO Survey – Key findings in the forest, paper & packaging industry

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January 2013
So what are CEOs doing?

• Targeting pockets of opportunity
• Concentrating on the customer
• Improving operational effectiveness
Targeting pockets of opportunity

50% of forest, paper & packaging CEOs entered into a new strategic alliance or joint venture in the past 12 months
Reshaping the business through restructuring

Forest, paper & packaging CEOs reported a much greater emphasis on deals over the past 12 months. Despite the difficulties involved, 29% got out of an unprofitable business or market.

They also completed more mergers & acquisitions, both domestic and cross-border, which should help get a handle on capacity.

And half entered into a new strategic alliance or joint venture. In our experience, many of these involve entering new business areas.

Q: Which, if any, of the following restructuring activities have you initiated in the past 12 months?

Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)
Note: Don’t know/refused excluded. Not all restructuring choices are listed.
Forest, paper & packaging CEOs report plans to do even more deals in the coming 12 months. As with the past 12 months, new strategic alliances or joint ventures top the list.

Q: Which, if any, of the following restructuring activities are you planning to initiate in the coming 12 months?

Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)
Note: Don’t know/refused excluded. Not all restructuring choices are listed.
R&D and innovation becoming a top priority

42% of forest, paper & packaging CEOs say R&D and innovation is a top investment priority over the next 12 months. That’s 10 points higher than the overall average.

And 71% of forest, paper & packaging CEOs say they’ll make changes to increase R&D and innovation capacity.

We believe that innovation will play a critical role in transforming business models within the sector.

Forest, paper & packaging CEOs agree. R&D and innovation are high on their priority list.

Q: What are your top 3 investment priorities in the next 12 months? To what extent do you anticipate changes at your company over the next 12 months with regards to an increase in R&D and innovation capacity?

Don't name R&D and innovation capacity as one of their top 3 investment priorities.

No change

Some change

A major change

42% 71%
Concentrating on the customer

100%

of forest, paper & packaging CEOs say that customers have a ‘significant’ influence on their strategy.
Customers are shaping strategy

In our sector-specific CEO Perspectives reports in 2008 and 2010, we heard a strong message that CEOs viewed top-notch customer service as a truly differentiating factor. That’s validated by this year’s cross-industry results. Forest, paper & packaging is the only sector where every single CEO said customers were a significant influence on their business strategy.

And most forest, paper & packaging CEOs said they’ll increase their efforts to strengthen engagement with customers too.

87%
**But are forest, paper & packaging CEOs investing enough in customers?**

With so much investment needed to reshape the business, something has to move down the priority list. This year it seems to be customers. Compared to the overall sample, far fewer CEOs say that growing the customer base is a Top 3 investment priority.

More worrying, though, is the relatively low emphasis placed on enhancing customer service. Only 16% rate it one of their top investment priorities for the coming 12 months.

*Q: What are your top 3 investment priorities over the next 12 months?*

Note: not all choices listed.

Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)

Source: PwC 16th Annual Global CEO Survey 2013
Improving operational effectiveness

55% of forest, paper & packaging CEOs say it's one of their top investment priorities.
Forest, paper & packaging CEOs are strongly focused on cost-cutting

A full 92% of forest, paper & packaging CEOs say they cut costs last year; that’s more than any other sector. And 89% say they’ll implement a cost-reduction initiative in the coming 12 months; again, more than any other sector and far more than the overall average of 70%.

Q: Which, if any, of the following restructuring activities have you initiated in the past 12 months?
Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)
Note: Not all restructuring choices are listed.

- Implement a cost-reduction initiative
- Outsource a business process or function
- “Insourced” a previously outsourced business process or function

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<th>Forest, paper &amp; packaging</th>
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<td>Implemented a cost-reduction initiative</td>
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<td>Outsourced a business process or function</td>
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<td>“Insourced” a previously outsourced function</td>
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For some companies, that meant reducing headcount

Compared to the overall sample, the FPP industry has reduced headcount more heavily that other sectors. Where headcount has been increased, this has been at a more modest level than the overall sample.

Q: What happened to headcount in your company globally over the past 12 months?

Note: ‘stay the same’ and ‘don’t know/refused’ not pictured.
Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)
Source: PwC 16th Annual Global CEO Survey 2013
And staffing reductions look set to continue

CEOs expect the trend shown in the previous slide to continue over the coming 12 months. That suggests that the search for low-cost efficiency and capacity reduction will go on.

Q: What do you expect to happen to headcount in your company globally over the next 12 months? Do you expect it to...

Note: 'stay the same' and 'don’t know/refused' not pictured.
Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)
Source: PwC 16th Annual Global CEO Survey 2013

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24
It’s a question of trust

89%

Say employees, the government and industry peers influence their business strategies
Forest, paper & packaging CEOs are listening to a wide range of stakeholders

Customers and clients stand out, but supply chain partners, employees and governments and regulators are influencing company strategy too. Compared to the overall sample FPP CEOs stand out as being particularly focused on these stakeholders, except in the case of social media users.

Q: How much influence do the following groups have on your strategy?

Base: All respondents (Forest, paper & packaging, 38)
Note: Respondents answering that stakeholder groups have ‘some’ or ‘significant’ influence
Source: PwC 16th Annual Global CEO Survey 2013
And they’re reaching out

Those forest, paper & packaging CEOs who report that various stakeholders are influential are generally working to strengthen their engagement with these groups too.

Q: For those stakeholders with some or significant influence, to what extent are you strengthening your engagement program?

Base: All respondents (Total sample, 420-1285; Forest, paper & packaging, 21-28)

Note: Base includes respondents who answered ‘some’ or ‘significant’ influence to Q14a. Please note some categories reflect a small sample size. Respondents who stated they are making ‘some change’ or a ‘major change’ are shown. Source: PwC 16th Annual Global CEO Survey 2013
Most sector CEOs are committed to reducing their company’s environmental footprint too

71% of forest, paper & packaging CEOs report plans for an increased focus on reducing their environmental footprint.

Another 18% will continue their current efforts.

Just 5% plan to decrease their focus.

Q: Please indicate to what extent your organisation plans to focus on reducing environmental footprint over the next 12 months.

Base: All respondents (Total sample, 1330; Forest, paper & packaging, 38)
Source: PwC 16th Annual Global CEO Survey 2013
**For more information, please contact:**

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Or visit [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey)

To continue the discussion on the outlook for the global forest, paper & packaging industry, don't miss PwC's 26th Annual Global Forest Industry Conference. [Click here](http://www.pwc.com/ceosurvey) to find out more or register for our conference.

Download the main report, access the results and explore the CEO interviews from our 16th Annual Global CEO Survey online at [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey).