

Fit for the future *17th Annual Global CEO Survey*

Key findings in the industrial
manufacturing industry

February 2014



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Sector snapshot

Sector snapshot

Industrial manufacturing CEOs are more optimistic this year, but energy costs are still on their minds. They're worried about a slowdown in new growth markets and rising labour costs. And they'll need to ramp up risk management to cope with transformational trends, like technology, shifts in economic power, and resource scarcity and climate change.

Sector snapshot

Confidence is stabilising as economic worries lessen

Industrial manufacturing CEOs are more confident than last year. Like their peers across the sample, they're much less worried about the global economy than last year, although exchange rate volatility is still a big concern. They're still slightly less confident than the overall sample, with just 34% very confident of growth, compared to 39% overall. And they're keeping the pressure on costs, with more planning a cost reduction initiative over the coming 12 months.

Energy still a big question mark

Far more industrial manufacturing CEOs are concerned about high and volatile energy costs (70% vs. 56% overall) – and a third of CEOs say they are extremely concerned. This continues a trend we've seen in previous years and reflects the energy-intensive nature of manufacturing.

Global shifts in economic power are already having a big impact

Like their peers in other sectors, most industrial manufacturing CEOs believe technological advances (81%) and global shifts in economic power (60%) will transform their businesses in the next five years. Indeed, more industrial manufacturing CEOs are already relying on new markets – 26% see them as the main opportunity to grow their business over the next 12 months vs. just 14% of CEOs overall. So it's not surprising that a possible slowdown in high-growth markets is also a much bigger concern for sector executives.

34% of industrial manufacturing CEOs are very confident of growth



Sector snapshot

More industrial manufacturing CEOs are concerned about rising labor costs in high-growth markets (68% vs 58% overall). They're right to worry. Greater competition for labour and social pressure to raise salaries in line with productivity growth will cause greater wage convergence over the next 15 years.

And resource scarcity and climate change is higher on the sector's agenda too

Industrial manufacturing CEOs are far more conscious than other CEOs of the huge role resource scarcity and climate change will play – 60% see it as a transformative trend, compared to just 46% of CEOs across the sample.

But the risk function will need to up it's game

The large majority of industrial manufacturing CEOs are convinced they'll need to make changes in a whole range of areas, with customer growth and retention, technology investments, and the use and management of data and data analytics at the top of their list. More than three-quarters see a need to change their approach to managing risk too, but only 31% have a change programme underway or completed. And just 29% believe their risk management function is well-prepared to execute their future plans – fewer than across the overall sample (40%).

See resource
scarcity and
climate change as
a transformative
trend
60%

Confidence in growth

“Naturally, the development of our markets is, to a certain extent, related to the rate of economic growth. But, we are in a – let’s say – positive situation in our industry, in that we have several major megatrends that are driving our market growth.”

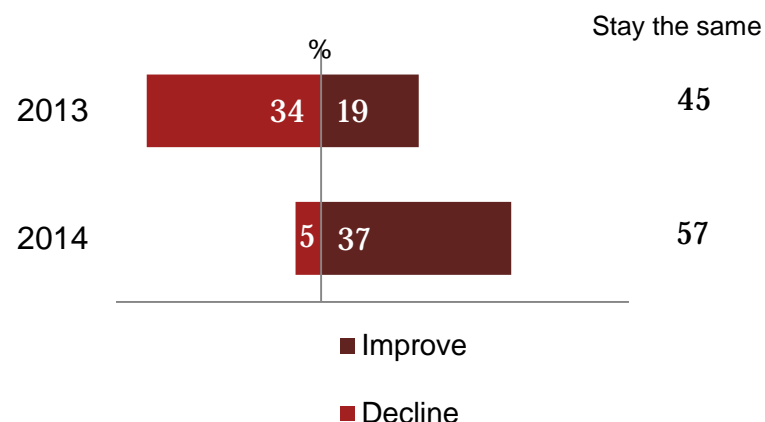
Matti Alahuhta, President & CEO, Kone

Views on the economy are looking up

Industrial manufacturing CEOs are more confident than last year. 37% of industrial manufacturing CEOs believe that the global economy will improve in the next 12 months, compared to just 19% last year. And while a third expected to see the economic situation worsen last year, this year only 5% are anticipating a global decline.

Still, sector CEOs don't think the economy is completely out of the woods yet. More than three-quarters of industrial manufacturing CEOs are worried about a slowdown in high-growth markets (76%), and almost as many (72%) are concerned that continued slow or negative growth in developed markets could put a damper on future prospects.

Q: Do you believe the global economy will improve, stay the same, or decline over the next 12 months?

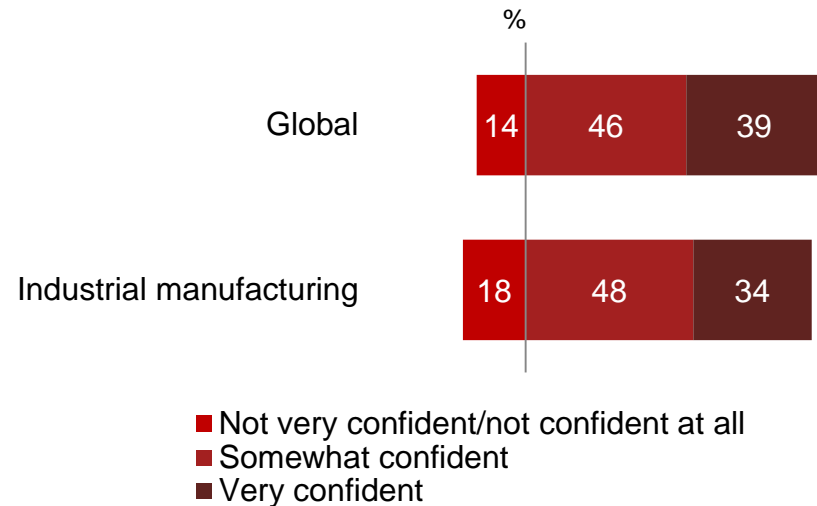


Base: All respondents 2014 (Industrial manufacturing, 188)
2013 (Industrial manufacturing, 90)
Source: PwC 16th Annual Global CEO Survey 2013
PwC 17th Annual Global CEO Survey 2014

But industrial manufacturing CEOs are still less confident than their peers

Last year, just 28% of industrial manufacturing CEOs were very confident of growth over the next 12 months.

This year, with views on the economy improving, that's gone up to 34%. But the sector is still lagging the sample overall when it comes to confidence.



Q: How confident are you about your company's prospects for revenue growth over the next 12 months?

Base: All respondents (Total sample, 1344; Industrial manufacturing, 188)

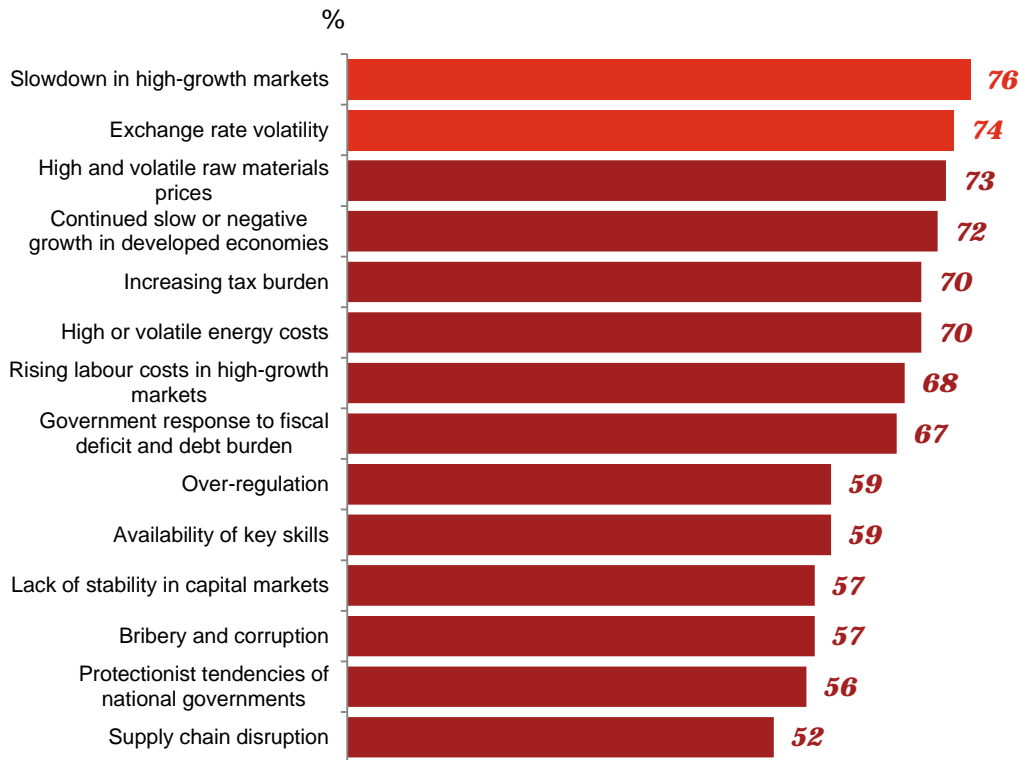
Source: PwC 17th Annual Global CEO Survey 2014

And economic growth is more nuanced this year

“Economic developments are very different at the moment in different continents, and this has actually been the case over the last five to six years. The development of the economy in Asia continues to look promising. The development in China looks pretty solid at the moment, and this is the case in Asia overall. In the United States we have seen a gradual recovery of the economy going on for some time. I believe that will continue.”

Matti Alahuhta, President & CEO, Kone

But more than half of IM CEOs are still concerned about a wide range of issues



- **76% of industrial manufacturing CEOs** worry about a slowdown in high-growth markets. Across the sample, **just 65%** are concerned.
- Last year just 64% of industrial manufacturing CEOs were concerned about exchange rate volatility. That's increased dramatically this year. With 74% of CEOs concerned, it ranks second on executive's worry list.
- Supply chain disruption continues to be a concern too. More than half of IM CEOs believe it could slow down growth.

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

Base: All respondents (Industrial manufacturing, 188)

Note: Respondents who stated 'extremely' or 'somewhat' concerned.

Slowdown in high-growth markets, exchange rate volatility, raw materials prices are top threats

High-growth markets

Industrial manufacturing CEOs are much more concerned about a slowdown in high-growth markets than their peers. (76% vs 65%).

Percentage who are concerned about slowdown in high-growth markets

76%

Exchange rate volatility

Exchange rate volatility is a big concern for industrial manufacturing CEOs with 74% concerned compared to only 60% of CEOs overall.

Percentage who are concerned about exchange rate volatility

74%

Raw materials prices

Raw materials are a major cost component for many manufacturing companies, so it's not surprising that they're more concerned than our sample as a whole.

Percentage who are concerned about high and volatile raw materials prices

73%

Concerns around energy costs also stand out

- A lot more industrial manufacturing CEOs are concerned about high and volatile energy costs (70% vs. 56% overall) – and a third of CEOs say they are extremely concerned. That is consistent with a trend seen in previous years and reflects the energy-intensive nature of manufacturing.
- With a global population of 8.3 billion, demand for energy is forecasted to increase by as much as 50% over the next 15 years. So there will be a focus on innovation around alternative energy.
- The abundance of shale gas in the US as an inexpensive energy source and feedstock is leading manufacturers to reevaluate their global strategies and supply chains.

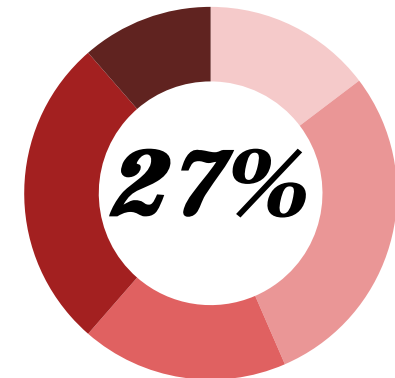
**Industrial
manufacturing CEOs
who worry about high
or volatile energy costs**

70%

What about cyber threats?

- Only 39% of industrial manufacturing CEOs say they're concerned that cyber threats including data security could threaten growth prospects.
- But major technological advances in the “Internet of Things” and the advent of the connected factory mean that a lot more industrial processes are connected and controlled in the cloud – and the trend is on the upswing.
- The majority of industrial manufacturing CEOs already see a need to make changes to their use and management of data and data analytics – but just 27% have a change programme underway or completed.
- As more industrial manufacturing companies begin to implement plans and strategies for data analytics, we may see CEOs taking cyber threats more seriously.

Q: In order to capitalise on the global trends which you believe will most transform your business over the five years, to what extent are you currently making changes, if any, in the following areas? (Use and management of data and data analytics)



- Recognise need to change
- Developing strategy to change
- Concrete plans to implement change programmes
- Change programme underway or completed
- No need to change

Base: All respondents (Industrial manufacturing, 188)
Source: PwC 17th Annual Global CEO Survey 2014

Industrial manufacturing CEOs are expanding in growth markets and mature markets alike

Western Europe still holding on

Around a third of industrial manufacturing CEOs planning transactions have their eyes on Western Europe. That's more than across the overall sample (25%).

Industrial manufacturing CEOs planning a deal who are looking to Western Europe

29%

Latin America and South-East Asia stand out

More industrial manufacturing CEOs are planning deals in these regions. Around a fifth expect transactions in Latin America and Southeast Asia.

Industrial manufacturing CEOs expecting a transaction who are targeting Latin America or SE Asia

20%

China is the sector's #1 growth market

But the US and Germany rank high on the list of countries that CEOs expect to drive growth over the next 12 months too. When looking beyond the BRICs, other countries like Indonesia and Mexico are also stirring interest.

Industrial manufacturing CEOs who rate China as their top growth market

36%

Growth is happening, but not every country is growing at the same pace

What CEOs are telling us

“The economy continues to be in different phases in different continents. The development of the economy in Asia looks solid. The economy in the United States is in gradual recovery and improving, and I believe that will continue. But there are also definitely uncertainties in the US.

The difficulty is Europe. In Europe I think we are pretty close to a situation where the risks in the banking system are close to being solved. However, I see very little progress in how European competitiveness is developing.”

Matti Alahuhta, President & CEO, Kone

What PwC is saying

Our research shows that across industries, CEOs are coming out of survival mode, but the search for growth is getting increasingly complicated as the global economy gradually rebalances itself.

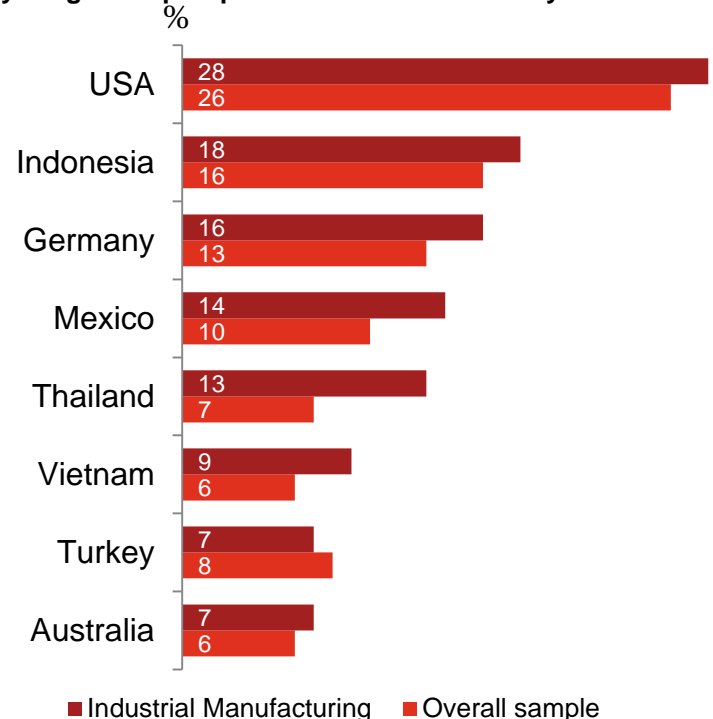
In 2012, the advanced economies were struggling, while the emerging economies sizzled. This year, the picture is more nuanced. The advanced economies are mending, while some emerging economies are slowing down. The BRICS aren't a single brick anymore, and other economies are gaining ground.

Looking beyond the BRICs, Indonesia & Mexico also make the top 4

When we asked industrial manufacturing CEOs to consider high-growth markets outside the BRICS over the next three to five years, the US and Indonesia headed the list.

But Germany, Mexico, Thailand and Vietnam all had at least 9% too.

Q: Thinking specifically about high growth markets beyond the BRICs, which three markets excluding Brazil, Russia, India, China and South Africa do you consider most important for your growth prospects over the next 3 to 5 years?



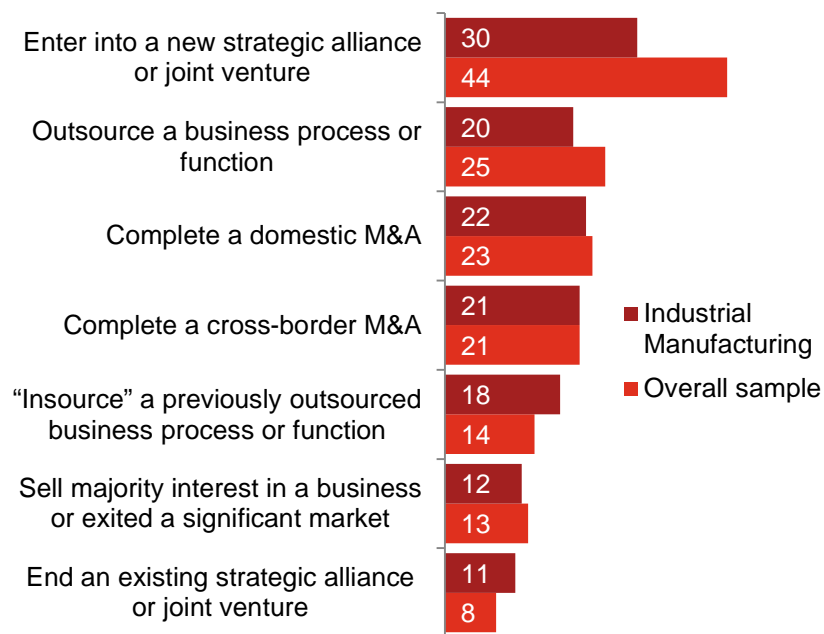
Base: All respondents (Overall sample, 1344; Industrial manufacturing, 188)

Source: PwC 17th Annual Global CEO Survey 2014

Restructuring for growth

Industrial manufacturing CEOs are less likely than their peers across the sample to be planning a new strategic alliance or joint venture in the coming year. But partnerships still look to be more popular than either domestic or cross-border M&A.

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months? (cost reduction not listed)

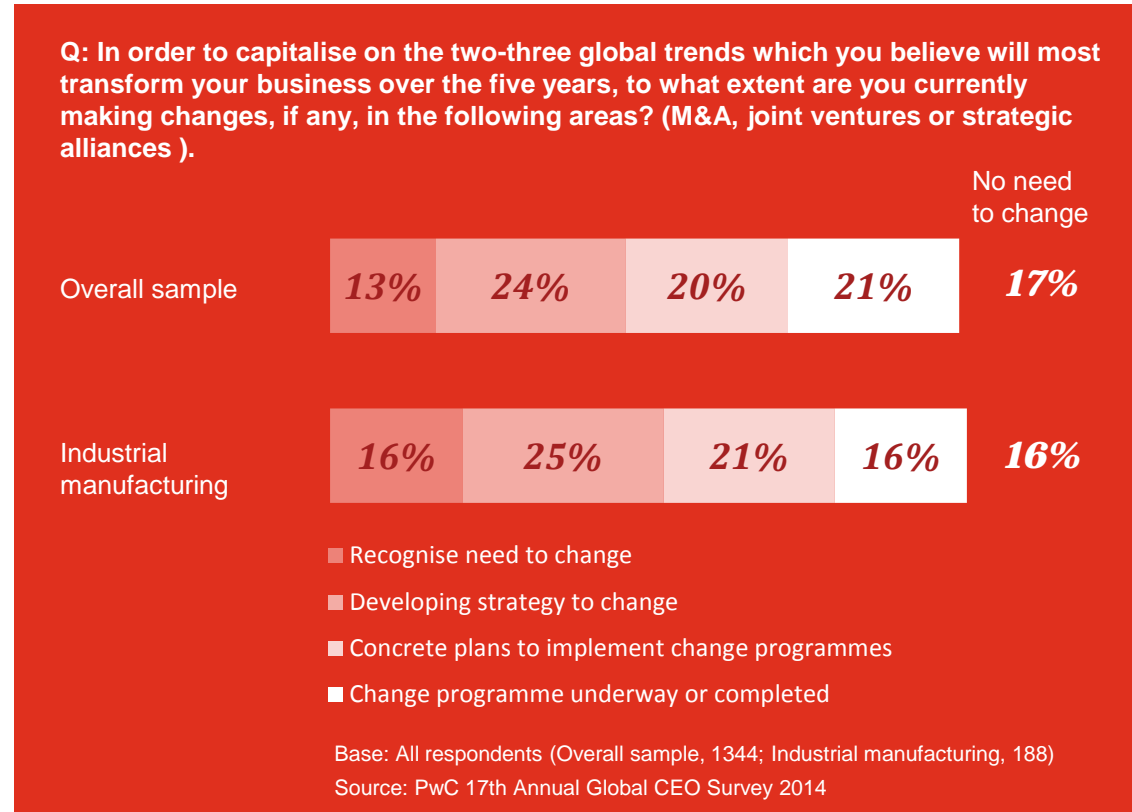


Base: All respondents (Overall sample, 1344; Industrial manufacturing, 188)

Source: PwC 17th Annual Global CEO Survey 2014

But are there strategies good enough?

Most industrial manufacturing CEOs plan to change their M&A strategies in response to global trends. But only **16%** have actually gotten started.

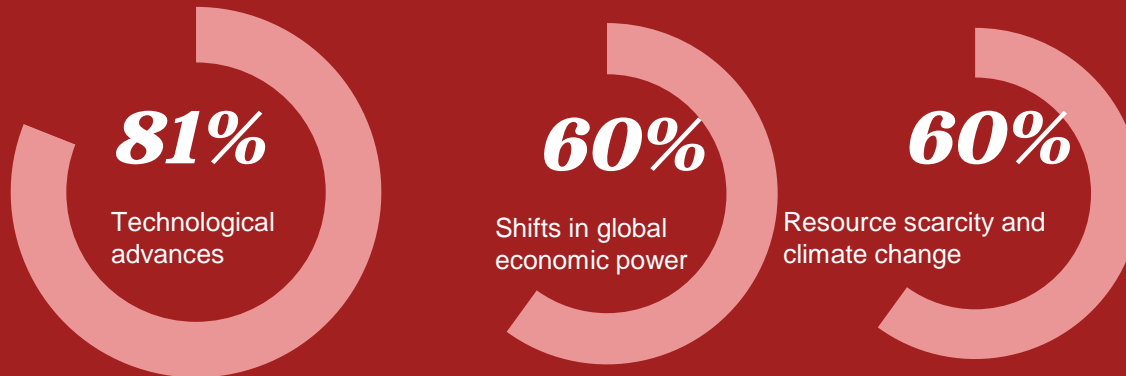


Transforming business

CEOs identified transformative global trends

Headed up by technological advances

Q: Which of the following global trends do you believe will transform your business the most over the next five years? (Top three trends industrial manufacturing CEOs named.)

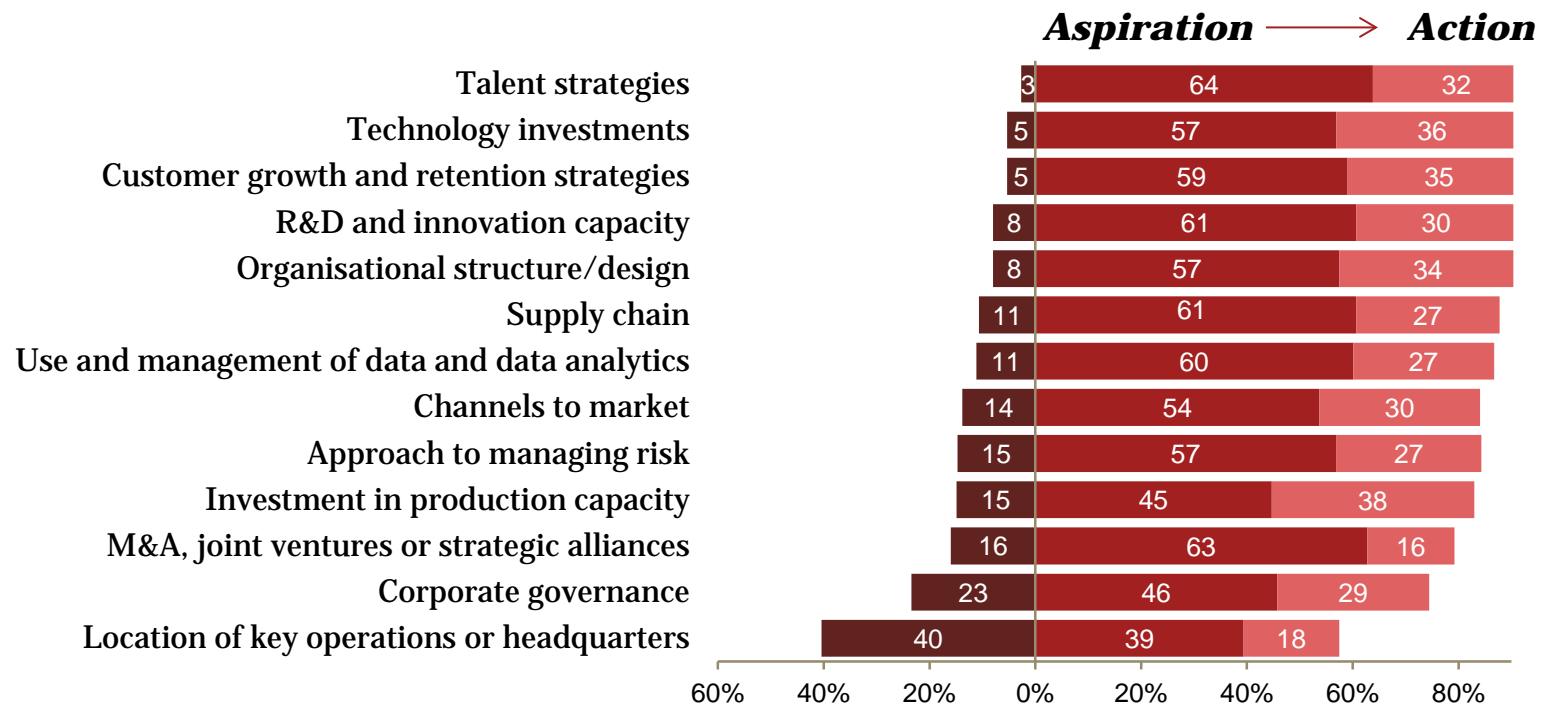


Base: All respondents (Industrial manufacturing, 188).
Source: PwC 17th Annual Global CEO Survey

Four-fifths of industrial manufacturing identified technological advances such as the digital economy, social media, mobile devices and big data as key trends transforming their business.

Three-fifths also pointed to resource scarcity and climate change and global shifts in economic power.

Industrial manufacturing CEOs see changes ahead in most areas – but relatively few have begun



■ No need to change ■ Recognise need/developing strategy/concrete plans to change ■ Change programme underway or completed

Q: In order to capitalise on the global trends which you believe will most transform your business over the next five years, to what extent are you making changes, if any, to the following areas?

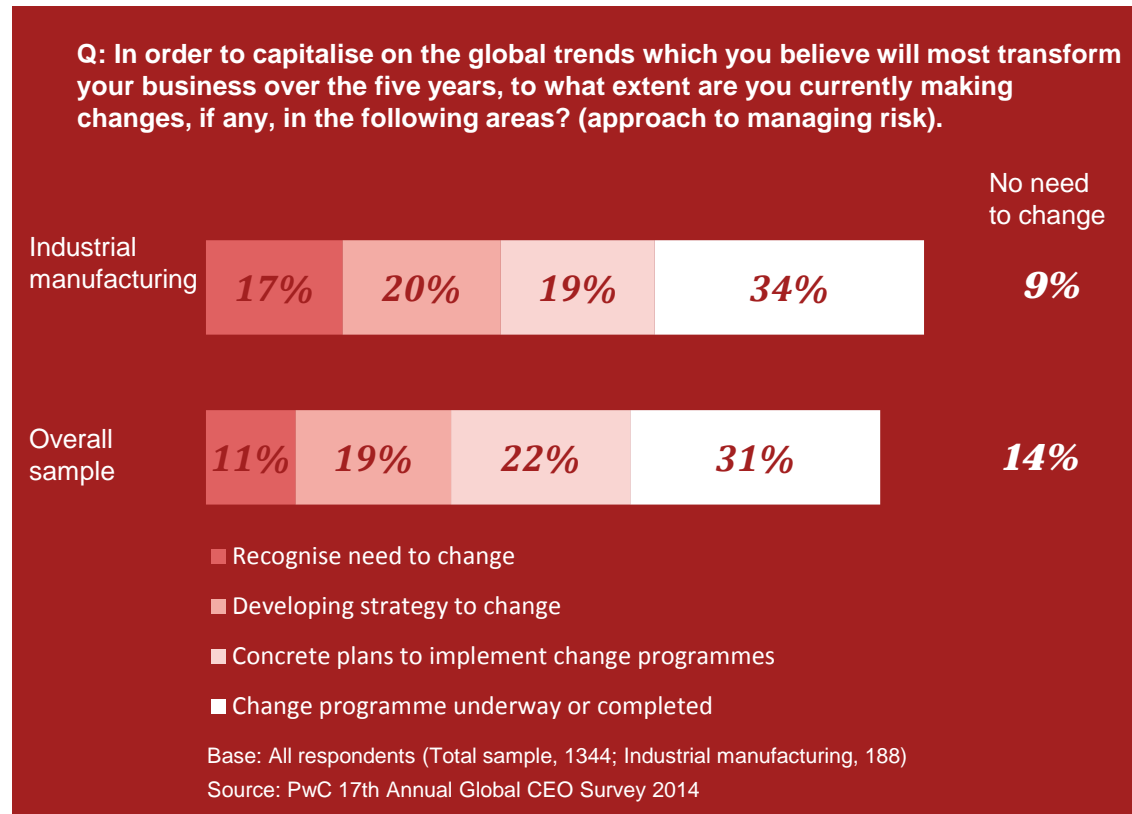
Base: All respondents (Industrial manufacturing, 188) Note: Don't know/refused not shown; percentages are rounded and may not add up to 100.

Source: PwC 17th Annual Global CEO Survey 2014

Risk management is one example – many sector CEOs want to change their approach

As we've noted, many industrial manufacturing CEOs are concerned than about a wide range of threats to their business.

With both the sector and the world transforming rapidly, there will be major demands on risk management departments to keep up. Most industrial manufacturing CEOs also see a need to change their approach to managing risk. But only a minority (34%) say changes are already underway or completed.

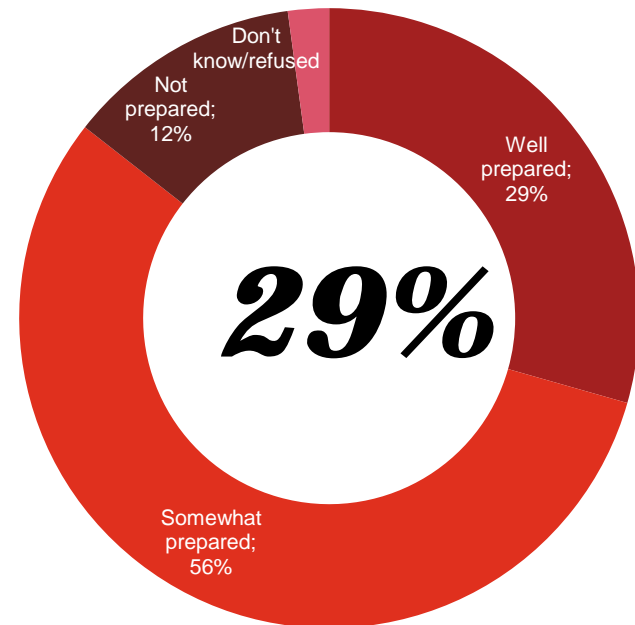


But relatively few industrial manufacturing CEOs believe their team is ready

One reason why change is slow: risk management teams aren't yet prepared enough.

Industrial manufacturing CEOs are only partially confident in their team's readiness to cope with the far-reaching changes the future will bring. Just 29% rate risk management as well-prepared. That's significantly less than the overall sample at 40%.

Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organisation prepared to make these changes? - Risk Management



Base: All respondents (Industrial manufacturing, 187)
Source: PwC 17th Annual Global CEO Survey 2014

To cope with technological advances, industrial manufacturing CEOs are looking to innovation

- One third of industrial manufacturing CEOs **see product and service innovation** as their main route to growth.
- Many think they can cope – just 43% of industrial manufacturing CEOs are concerned about the **speed of technological change** – slightly fewer than across the overall sample.

In other research we found that most successful CEOs are doing three things to ‘industrialise’ innovation – i.e., to make it repeatable, dependable and scalable.

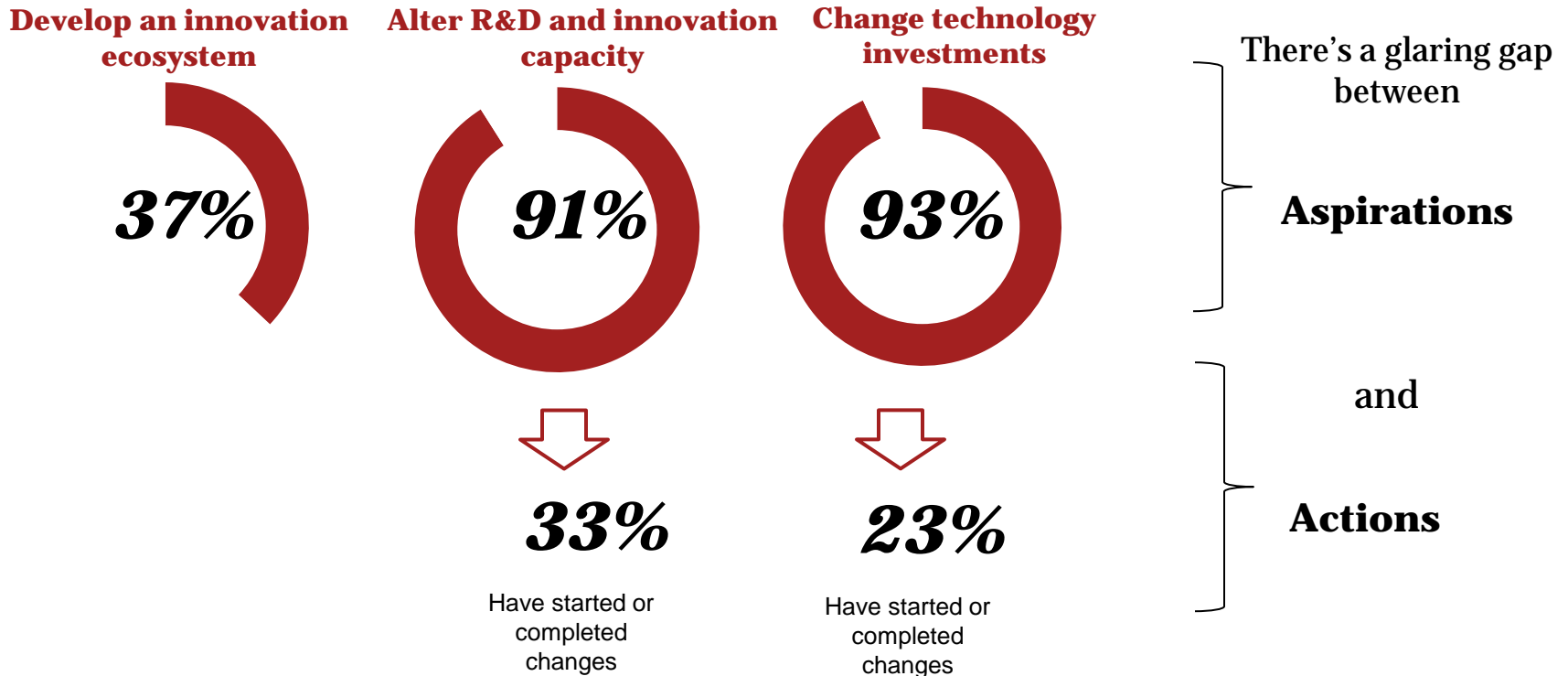
They’re:

1. focusing on breakthrough innovation in all its forms;
2. putting disciplined innovation techniques in place; and
3. collaborating much more actively.

We think it’s important to recognise that innovation means more than new product development. It can also help improve processes, or create new services or business models.

Many have plans, fewer have acted

Most industrial manufacturing CEOs want to improve their company's ability to innovate. But only a minority are already taking action.



Q: Which, of these national outcomes is your organisation focusing on as a priority over the next three years? In order to capitalise on the global trends which you believe will most transform your business over the next five years, to what extent are you currently making changes, if any, in the following areas? (two listed)

Base: All respondents (Industrial manufacturing, 188). Aspiration answers include: recognise need to change, developing a strategy to change, have concrete plans to implement change programmes, and have started or completed change programmes. 'No need to change' not shown.

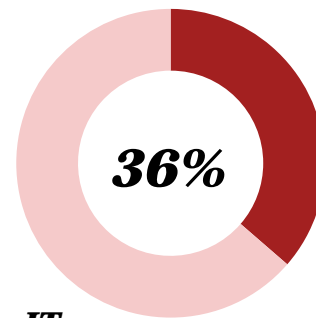
Source: PwC 17th Annual Global CEO Survey 2014

IT and R&D are starting to get ready but there's still a ways to go

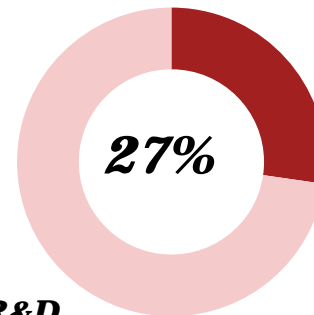
Increasingly technology investments and innovation capacity will put significant demands on IT and R&D.

But only a minority of industrial manufacturing CEOs feel that their IT and R&D departments are well-prepared for change.

Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organization prepared to make these changes?



IT



R&D

- Well prepared
- Somewhat prepared, not prepared, don't know or refused

Base: All respondents (Industrial manufacturing, 188)

Source: PwC 17th Annual Global CEO Survey 2014

Innovations help build strong brands too

Matti Alahuhta,
President & CEO, Kone

“For every company that is targeting global leadership and is active in equipment and services, it is very important for several reasons to be able to develop something revolutionary every now and then. One good example is the UltraRope hoisting technology that we introduced in June 2013. This technology enables elevator rides up to one kilometre, and brings a lot of benefits in buildings higher than 150 metres. The point is that it not only brings a lot of competitive strength, but it is also something exciting. It is an exciting story. Revolutionary innovations often are important also in brand development.”

Industrial manufacturing CEOs are concerned about developing their workforce

- 59% of industrial manufacturing CEOs are worried about the availability of key skills.
- 44% of industrial manufacturing CEOs believe that **creating a skilled workforce** should be a government priority, but only 18% believe that the government has been effective to date.
- So many are taking actions themselves – 66% say creating a skilled workforce is a priority for their companies.
- In our experience, employees want to be recognised as somebody who makes a difference—to their profession, to the company, and sometimes to the world. So companies with a strong culture on training, collaboration and innovation, have an advantage when it comes to attracting, keeping and motivating key talent. With an increasingly aging workforce, these three factors are important to attract and retain talent.

Talent is one of the main engines of business growth. So one of the biggest issues CEOs face, as these huge demographic changes occur, is finding and securing the workforce of tomorrow – particularly the *skilled labour* they need to take their organisations forward.

Manufacturing companies will need to make sure they're well positioned to compete when it comes to attracting and retaining workers with the right skills.

Nearly half of industrial manufacturing CEOs plan to add staff this year

45%

say headcount
will increase
(50% overall)

35%

say headcount
will stay the
same
(29% overall)

18%

say headcount
will decrease
(20% overall)

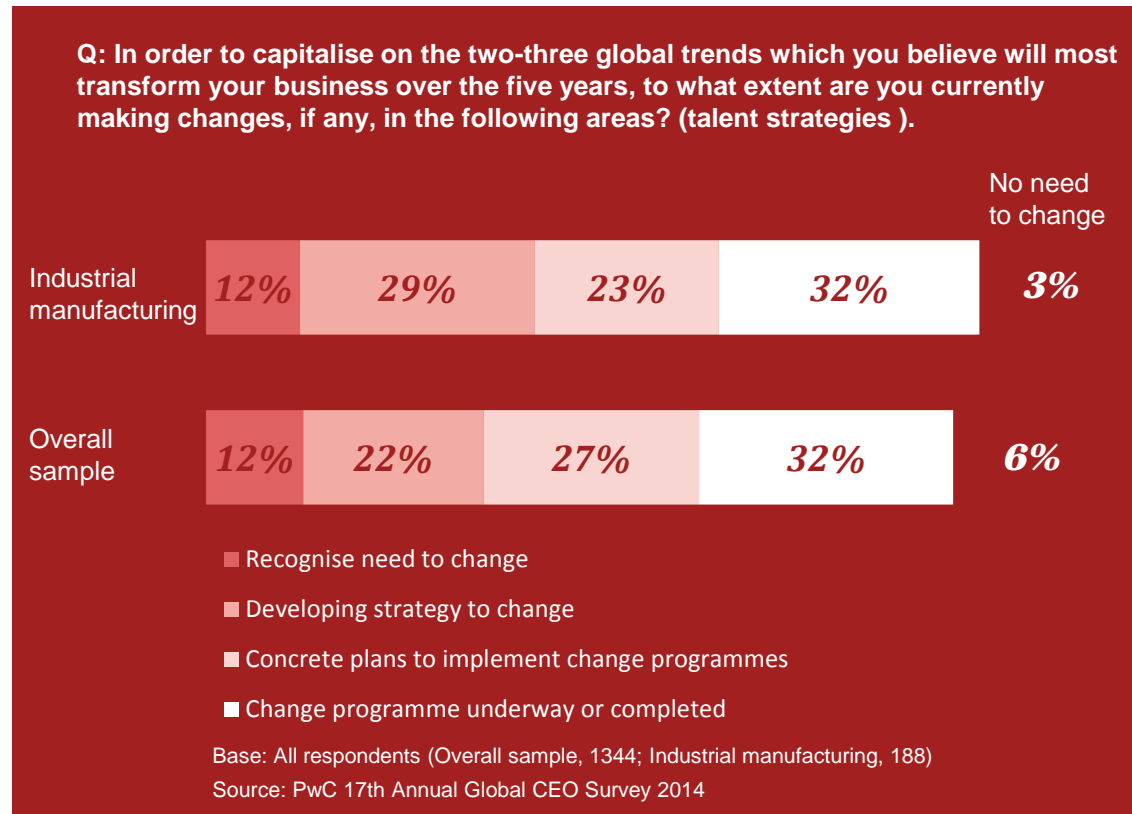
The urgency of tackling the talent challenge is increasing. 45% of industrial manufacturing CEOs say headcount will increase in the coming 12 months. Last year, just 36% said they would add headcount.

And the number of industrial manufacturing CEOs saying they'll decrease headcounts is also down to 18% this year, from 28% last year.

Yet only a minority are changing talent strategies to capitalise on global trends

Industrial manufacturing CEOs overwhelmingly agree they'll need to change their talent strategies to cope with future trends like demographic changes. But just 32% are already doing so.

That may be because only 32% believe their HR departments are well-prepared.



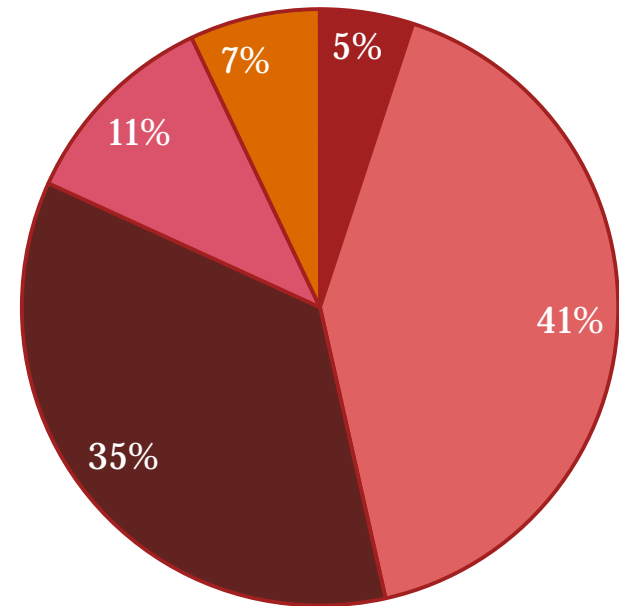
Hybrid leadership

87%

Industrial manufacturing CEOs who say it's important for their company to measure and try to reduce their environmental footprint.

Half of industrial manufacturing executives believe the ideal planning horizon is 5 years or more

- Preparing to be fit for the future requires a new set of hybrid leadership skills.
- One of these is the ability to plan simultaneously for the short-, mid- and long-term. In our overall research, we found that many CEOs are dissatisfied with their current planning horizons.
- In industrial manufacturing, many projects are capital intensive, so long-term planning is already a must – and nearly half believe the ideal planning cycle is 5 years or more than 5 years.
- Half of industrial manufacturing CEOs see the ideal planning horizon as five years or more, while just 5% view 1 year as the ideal.



■ 1 year ■ 3 years ■ 5 years ■ More than 5 years ■ Other

Q: Ideally where would you like your planning time horizon to be? Is it 1,3,5, or more years?

Base: All respondents (Industrial manufacturing, 188)

Source: PwC 17th Annual Global CEO Survey 2014

Some companies are already balancing long and short-term perspectives

**Matti Alahuhta,
President & CEO, Kone**

“Another very exciting topic to think about is what the relevant time horizons are nowadays in this global, interconnected, uncertain world. I am thinking more and more that the two essential time horizons are ‘now’ and ‘the longer-term future’. ‘Now’ is naturally dependent on the industry. In our case, we have defined that ‘now’ is two years. What we are developing now very often has an impact within this two-year timeframe. Simultaneously we are thinking about 10 years forward – and thinking actively all the time about whether our current vision and hence our current business direction is the right approach from this 10-year perspective. It’s about understanding the longer-term developments and the kind of speed with which we have to add additional competitive elements to our business approach.”

The large majority of industrial manufacturing CEOs say their companies emphasise good corporate citizenship

Q: To what extent do you agree or disagree with the following statements? Respondents who say 'agree' or 'agree strongly'

It's important for us to promote a culture of ethical behaviour

93%

It's important to us to ensure the integrity of our supply chain

90%

It's important for us to measure and try to reduce our environmental footprint

87%

Base: All respondents (Industrial manufacturing, 188)

Source: PwC 17th Annual Global CEO Survey 2014

About PwC's 17th Annual Global CEO Survey



Industrial manufacturing
respondents

188

In countries around the world

44

We surveyed 1,344 business leaders across 68 countries around the world, in the last quarter of 2013, and conducted further in-depth interviews with 34 CEOs.

Our overall survey sees a leap in CEOs' confidence in the global economy – but caution as to whether this will translate into better prospects for their own companies. The search for growth is getting more and more complicated as opportunities in both developed and emerging economies becomes more nuanced, leading CEOs to revise the portfolio of overseas markets they will focus on.

In 'Fit for the future: Capitalising on global trends', we also explore three forces that business leaders think will transform their business in the next five years: technological advances, demographic changes and global economic shifts. We show how these trends, and more importantly the interplay between them, are creating many new – but challenging - opportunities for growth through: creating value in totally new ways; developing tomorrow's workforce; and serving the new consumers.

We also show how, in responding to these trends, CEOs have the opportunity to help solve important social problems.

In short, the demands being placed on business leaders to adapt to the changing environment are increasing exponentially; CEOs are having to become hybrid leaders who can successfully run the business of today while creating the business of tomorrow.

This sector key findings report takes a closer look at responses from industrial manufacturing CEOs. It is based on 188 interviews, conducted in 44 countries around the world. We also cite an in-depth conversation with Matti Alahuhta, President & CEO, Kone.

For more information, please contact:



Barry Misthal

Global Industrial Manufacturing
Leader

T: +1 267.330.2146

E: barry.misthal@ch.pwc.com

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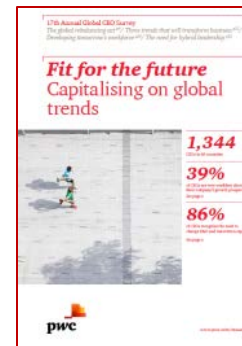
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Acknowledgements

Our thanks to

Matti Alahuhta, President & CEO, Kone

who is quoted in this document.



Download the main report, access the results and explore the CEO interviews from our 17th Annual Global CEO Survey online at **www.pwc.com/ceosurvey**

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