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17th Annual Global CEO Survey

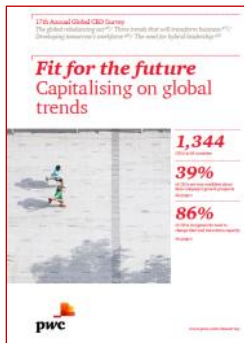
Key findings in the transportation
& logistics industry

February 2014



pwc

About PwC's 17th Annual Global CEO Survey



T&L respondents

101

In countries across the world

43

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 become 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.

This sector key findings report takes a closer look at responses from transportation & logistics CEOs. It is based on 101 interviews, conducted in 43 countries around the world.

We also cite more in-depth conversations with two sector CEOs:

Brian Molefe, Group Chief Executive of Transnet, a South African transport business company providing ports, rail and pipeline services.

Angeliki Frangou, Chairman and CEO of Navios Group of companies, a seaborne shipping company specialized in worldwide carriage and other related logistics of international bulk cargoes.

Contents

	<i>Page</i>
Sector snapshot	4
Confidence in growth	8
Growth prospects in mature and emerging markets	12
Concerns around energy costs and infrastructure	15
Transforming business	19
Ramping up innovation	22
Developing tomorrow's workforce	24
Corporate citizenship	28

Sector snapshot

Sector snapshot

Transportation & logistics CEOs have some big worries, like infrastructure readiness, but they're more optimistic this year. They're focusing on developing a strong workforce, where they need it, but talent strategies still need to keep up. And they're improving their environmental footprint.

Sector snapshot

Transportation & logistics CEOs are still cautious

- T&L CEOs have been consistently **less optimistic** about future revenue growth than their peers over the past several years.
- That's true this year too.
- But they see the **economy coming back on track.**

***45% of T&L
CEOs believe
the economy
will improve***

They're looking where growth will be

- They are much more worried about sluggish growth in the advanced economies than about a slowdown in emerging markets.
- But sector executives are already looking at making the most of growth markets.
- They're **targeting CEE, Latin America and Africa** for next year's M&A activities, joint ventures and strategic alliances.



Sector snapshot

Concerns around energy costs and infrastructure stand out

- T&L CEOs continue to worry about **high or volatile energy costs:**
 - Last year: 61% of T&L CEOs were somewhat or extremely concerned about energy costs
 - This year: that figure has jumped to 76%.
- 56% of T&L CEOs worry that **basic infrastructure isn't adequate.**

Workforce issues are looming large

- T&L CEOs overwhelmingly agree they'll **need to change** their talent strategies to cope with future trends.
- But **just 19%** are already doing so.
- Only 30% believe their **HR departments are well-prepared.**

And so are environmental concerns

- Nearly all T&L CEOs agree that it's important for their company to try and reduce their environmental footprint.

Reduce their
environmental
footprint
88%

Confidence in growth

“In the second half of 2013, we have seen signs of recovery in the global economy and respectively recovery in shipping, especially in the dry bulk sector.

We are optimistic that this positive trend will continue in 2014.”

Angeliki Frangou, Chairman and CEO, Navios Group of companies

T&L CEOs are more optimistic about the global economy this year, but some worries remain

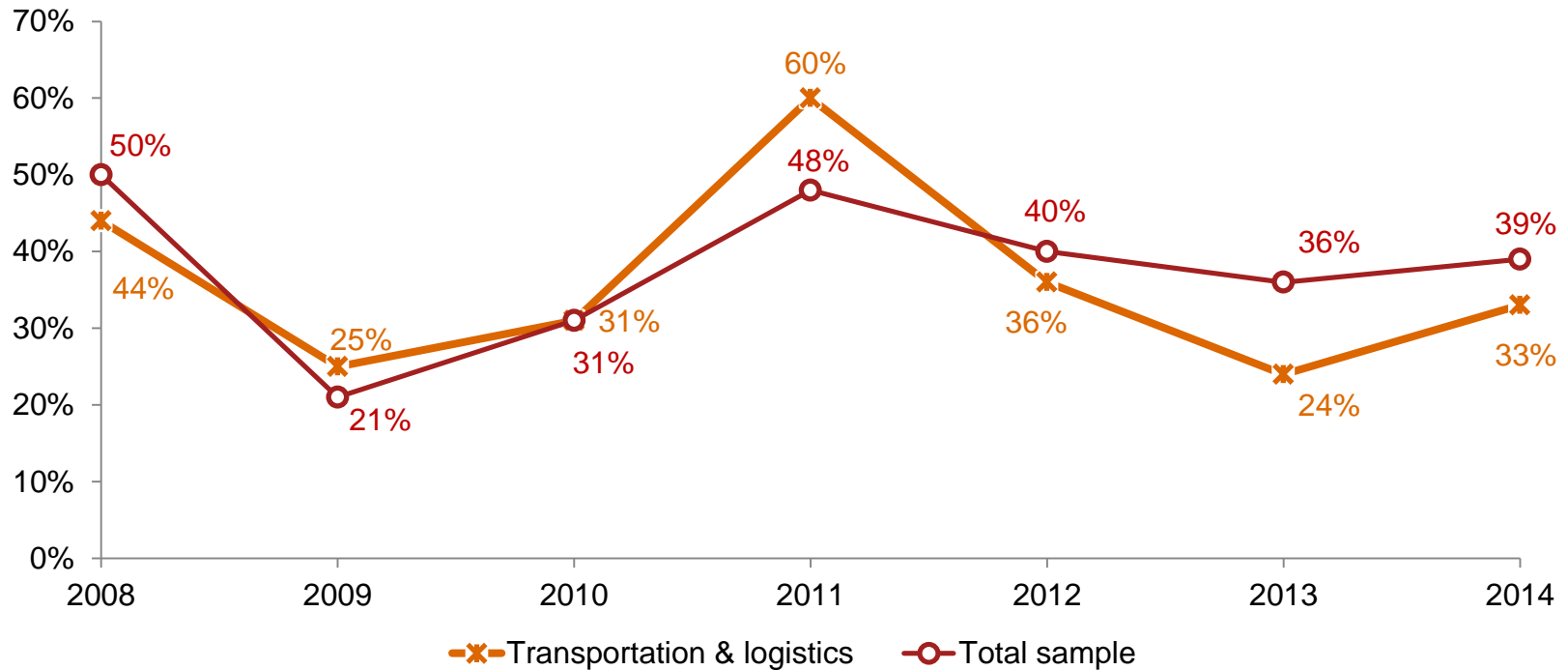
- 45% of T&L CEOs believe the global economy will improve, while just 8% think it will decline. In 2013 this figure was at 38%.
- Some clouds are looming, despite stabilising confidence. Energy costs, over-regulation and increasing tax burden are high on the list for T&L executives.
- T&L CEOs are also very worried about continued slow or negative growth in developed markets (81%). That reflects the continued importance of mature markets.

“Shipping is a global business interconnected with commercial activity which is relevant to the developments of the global economy. In essence, shipping is an early indicator of economic activity. If there is a recovery in shipping, you can expect a recovery of the economic activity and vice versa.”

Angeliki Frangou, Chairman and CEO, Navios Group of companies

T&L CEOs are less optimistic than their peers

But confidence levels seem to have rebound.

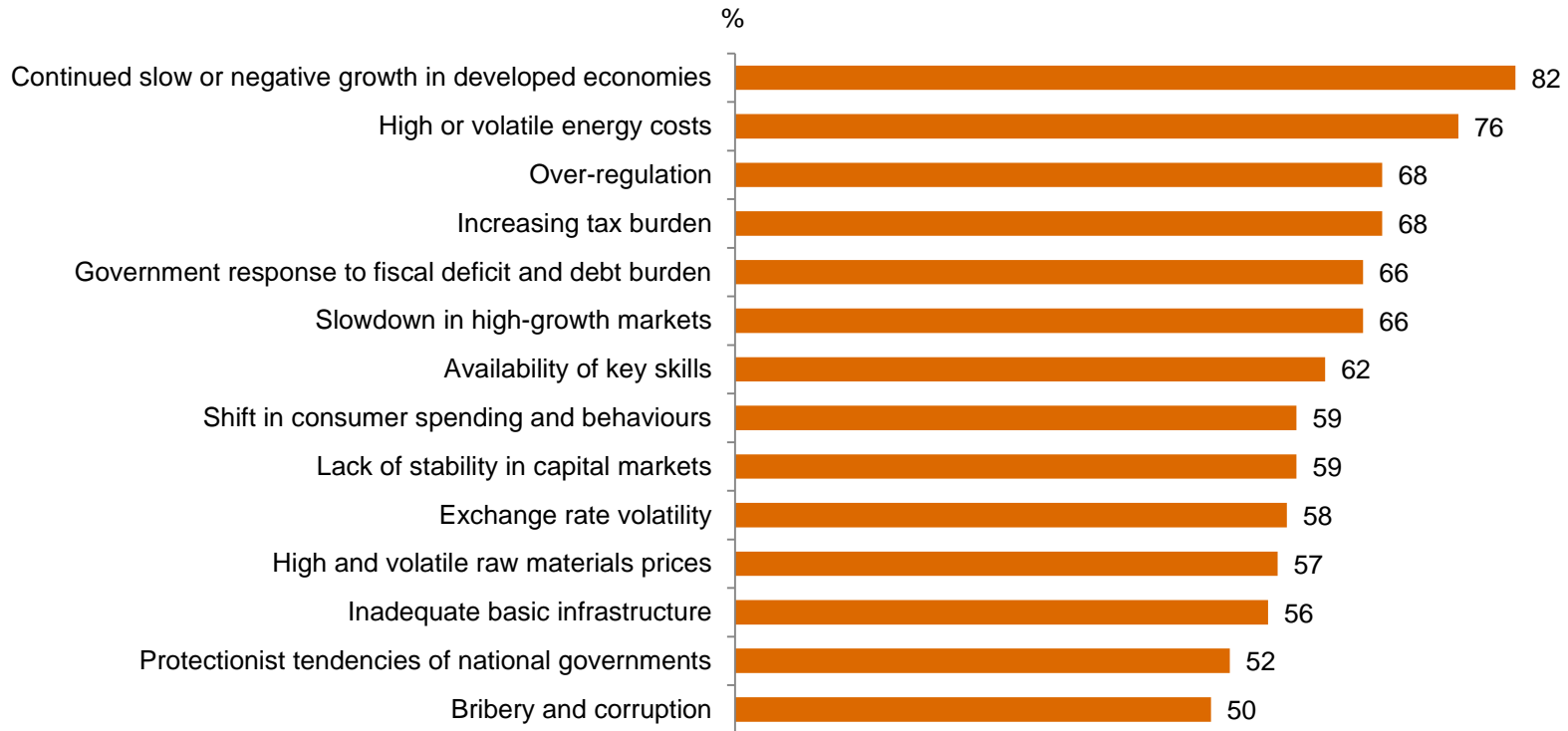


Q: How confident are you about your company's prospects for revenue growth over the next 12 months?

Base: All respondents 2014 (Total sample, 1344, Transportation & logistics, 101); 2013 (Total sample, 1330, Transportation & logistics, 109); 2012 (Total Sample, 1258; Transportation & logistics, 98); 2011 (Total sample, 1,201; Transportation & logistics, 60); 2010 (Total sample, 1,198; Transportation & logistics, 67); 2009 (Total sample, 1,124; Transportation & logistics, 67); 2008 (Total sample, 1,150; Transportation & logistics, 50)

Source: PwC 16th Annual Global CEO Survey 2013

More than half of T&L CEOs are still concerned about a wide range of issues



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

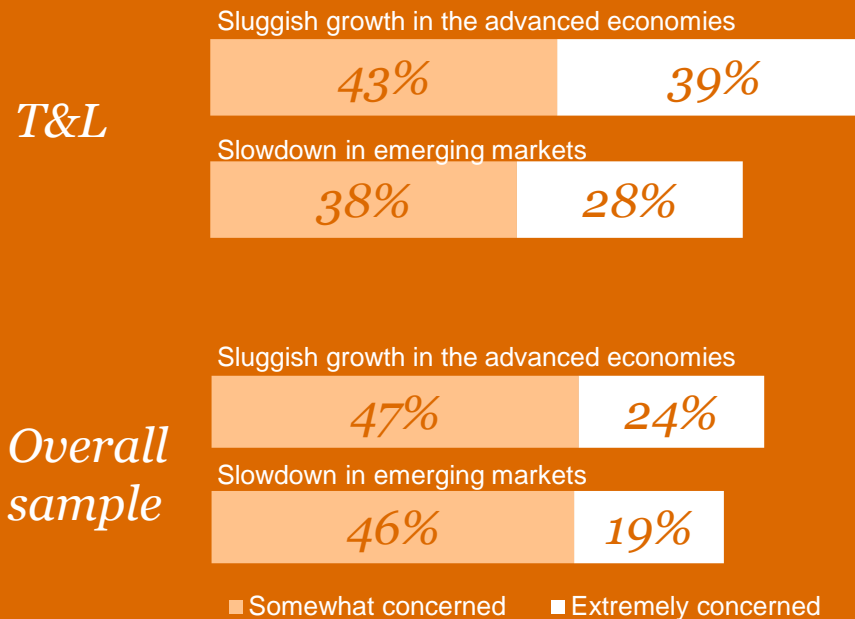
Base: All respondents (Total sample, 1344; T&L, 101)

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

Mature markets still dominate for T&L

T&L CEOs are much more worried about sluggish growth in the advanced economies than about a slowdown in emerging markets – that differs from the overall sample, where they worry about both nearly equally.

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



Base: All respondents (Total sample, 1344; T&L, 101)
Source: PwC 17th Annual Global CEO Survey

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

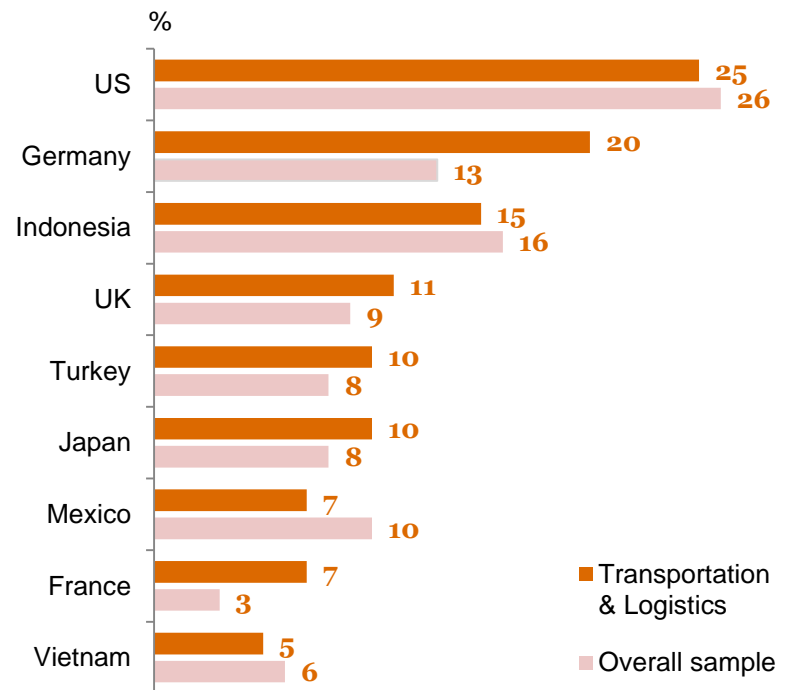
“In terms of population moves, of course we see the benefit that there is a lot of business moving from the developed world to the developing world.

Coming with that is the maritime traffic also moving towards the developing world. And we see that as having a very positive impact on our business over the next couple of years.

And so all of the factors that have been mentioned are actually very good for the developing world.”

**Brian Molefe, Group Chief Executive,
Transnet SOC Ltd., South Africa**

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 (Total sample, 1344 ; T&L, 101)
Source: PwC 17th Annual Global CEO Survey 2014

T&L CEOs are planning more alliances and JVs than mergers or acquisitions

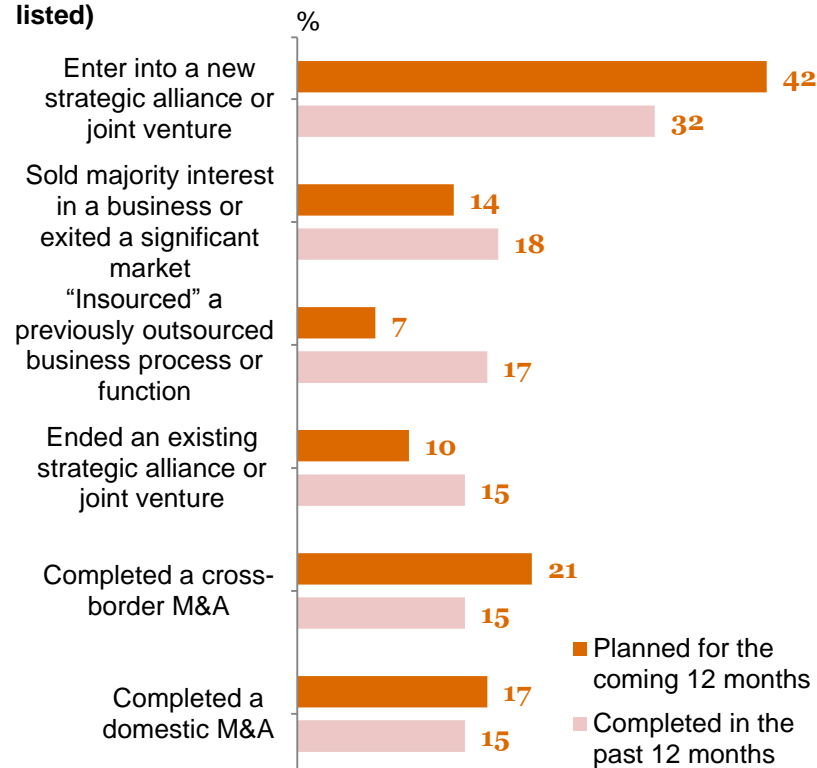
Regional Focus

- Of T&L CEOs who are planning a deal 34% are looking to **Western Europe**.
- Around a quarter expect transactions in **Latin America** and **CEE**, and 17% are targeting **Africa**.

Subsector Focus

- In our view the **shipping sector** will see high volumes of alliances and vessel sharing agreements, as large M&A deals are unlikely due to anti-competition laws.
- We also expect the more fragmented **trucking sector** to witness a wave of consolidation in 2014, as we note in our *Intersection Q4 2013* analysis.

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



Base: All respondents (T&L, 101)

Source: PwC 17th Annual Global CEO Survey 2014

Concerns around energy costs stand out

- Trains, planes, ships and trucks all rely on fuel – so it's not surprising that T&L CEOs continue to worry more about high or volatile energy costs than do their colleagues across the overall sample.
- Last year, 61% of T&L CEOs were somewhat or extremely concerned about energy costs. This year that figure has jumped to 76%.
- Since 2001 the price for crude oil has risen fourfold. Ongoing high oil prices will lead to an increased use of alternative fuels, like liquified natural gas (LNG).

Percentage of T&L
CEOs who worry
about energy costs

76%

And what governments do could have a big impact

That's reflected in many of T&L CEOs' top concerns

Debt and deficits

T&L CEOs, like their peers overall, are concerned about the ability of debt-laden governments to tackle soaring deficits. It's a worry that's been increasing over the past several years.

Percentage who are concerned about government responses to debt and deficits

66%

Increasing tax burden

Two-thirds of T&L CEOs believe taxes could sidetrack growth prospects. That's in line with results across the sample.

Percentage who are concerned about an increasing tax burden

68%

Over-regulation

Like their peers across the sample, T&L CEOs are also concerned that regulation could put the brakes on growth. Regulatory restrictions for T&L companies range from carbon emission regulations to road tolls or restrictions on toll-free road usage.

Percentage who are concerned about over-regulation

68%

Infrastructure is still high on the agenda

- Infrastructure is especially important for the T&L industry, which relies on roads, railways, airports and ports.
- Half of sector CEOs would like to see the government make it a priority.
- Many T&L CEOs (42%) believe that governments have been effective at improving country infrastructure.
- And many (43%) say their companies are taking direct responsibility too.

T&L CEOs who worry that basic infrastructure isn't adequate

56%

And infrastructure stands out as an especially big risk in many emerging or developing countries

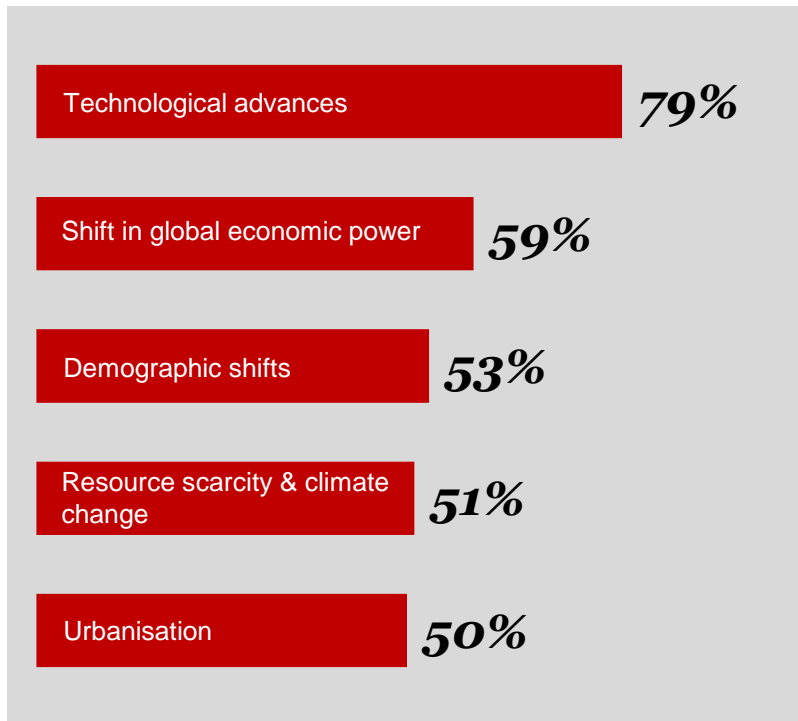
“The economic risk is always the availability of infrastructure or the unavailability of infrastructure. There is a lot of talk about how to improve infrastructure for manufacturing on the continent.

We think that if infrastructure never develops, or if infrastructure is not made available as a matter of urgency, then there is a big risk that many opportunities will be lost on the continent, and that growth will be slower than it could otherwise be.”

**Brian Molefe, Group Chief Executive, Transnet SOC Ltd.,
South Africa**

Transforming business

Technological advances will transform business the most, but other trends are vital too



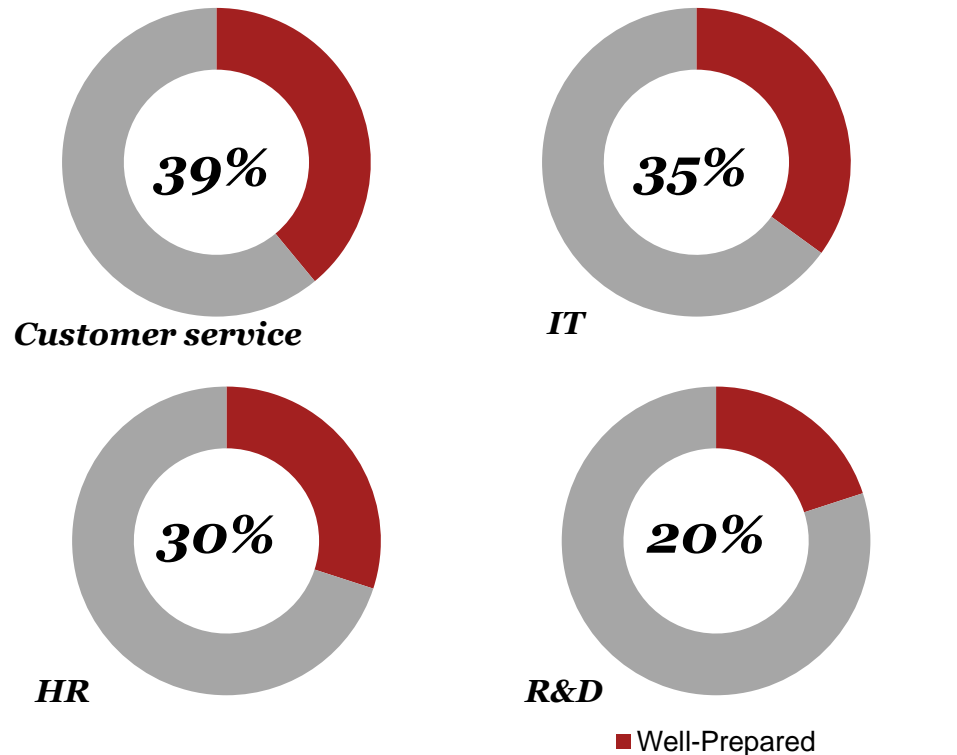
T&L CEOs told us they think three big trends will transform their businesses in the coming five years. Nearly four-fifths of them identified technological advances such as the digital economy, social media, mobile devices and big data. More than half also pointed to demographic fluctuations and global shifts in economic power, in line with the global sample.

For T&L CEOs, two other trends stood out sharply too – urbanisation and resource scarcity and climate change. They ranked them higher than did CEOs across the overall sample.

But many departments aren't yet well prepared for change

- The customer service, IT, HR and R&D departments will all be intimately involved in addressing global trends – but **only a minority of T&L CEOs feel their teams are well-prepared** for the task.
- And while that's true for other sectors too, **T&L is lagging behind in some areas. Just 20% of sector CEOs say that their R&D department is well-prepared**, vs. 28% of the overall sample.
- And when it comes to risk management, 18% of T&L CEOs rate their department as not prepared, compared to just 7% of the overall sample.

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?



Base: All respondents (Transportation & Logistics, 100)

Source: PwC 17th Annual Global CEO Survey 2014

■ Somewhat prepared, not prepared, don't know or refused

To cope with technological advances, T&L companies may need to ramp up innovation

- 43% of transportation & logistics CEOs are concerned about the **speed of technological change** – fewer than across the overall sample. That's probably because **fewer see product and service innovation** as their main route to growth.
- Still, most sector CEOs want to improve their company's ability to innovate: 75% aim to alter their **R&D** functions, while 89% are exploring better ways of using and managing **big data** and 82% are **changing their technology investments**.
- But there's a glaring gap between aspiration and action. For example, only 17% of T&L CEOs **have already started or completed the changes** they're planning to make their companies more innovative.

'Industrialising' Innovation

- 1** Breakthrough innovation
- 2** Disciplined innovation techniques
- 3** Collaborating more actively
- 4** Innovating processes, services and business models, not only products

Transnet is focusing on innovation – including rethinking the business model

„The way we want to expand into the African continent is by focusing on manufacturing, and producing goods that can actually be sold on the African continent for the railway business, as well as services for the ports business on the continent. That is how we plan to move into the continent. That is where we see a big opportunity for our company.“

Brian Molefe, Group
Chief Executive,
Transnet SOC Ltd.,
South Africa

„The Market Demand Strategy (MDS) is our investment programme aimed at [ZAR*307b] revitalising our equipment and assets over the next seven years. But within the ZAR*300b, we have budgeted ZAR*1b for research and development – and I think that is the most critical ZAR*1b of the entire ZAR*307b. This is because with research and development we get an opportunity to get on top of our game, to come up with innovations, to think out of the box, to think about doing things differently and to grow the company differently.“

* ZAR = South African Rand

T&L CEOs are more likely to be hiring than letting employees go

40%

say headcount
will increase
(50% overall)

29%

say headcount
will stay the
same
(29% overall)

30%

say headcount
will decrease
(20% overall)

T&L executives are still somewhat more cautious about headcount than the global sample, with 40% expecting to add staff, compared to 50% across the overall sample.

Last year 43% said they would increase their headcount while 24% saw a decrease in headcount of their company.

CEOs recognise a change in global population composition will impact the workplace

The composition of the global population is changing radically. And that's going to have a big impact.

By 2025, the population will hit 8 billion, and this growth won't be homogeneous with some countries seeing a decline in fertility rates will hit some countries harder than others.

The number of city dwellers is expected to rise by 72% of the next four decades.

Urbanisation in particular will have an enormous impact on both transportation and logistics alike, as urban areas get more congested and new strategies for mobility develop.

T&L CEOs who believe demographic shifts will transform their business over the next five years.

53%

But they are concerned about developing a workforce that can cope

- 62% of T&L CEOs are worried about the availability of key skills.
- 46% of T&L CEOs believe that **creating a skilled workforce** should be a government priority, but only 21% believe that the government has been effective.
- So many are taking action themselves – 62% say creating a skilled workforce is a priority.

Talent is one of the main engine 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.

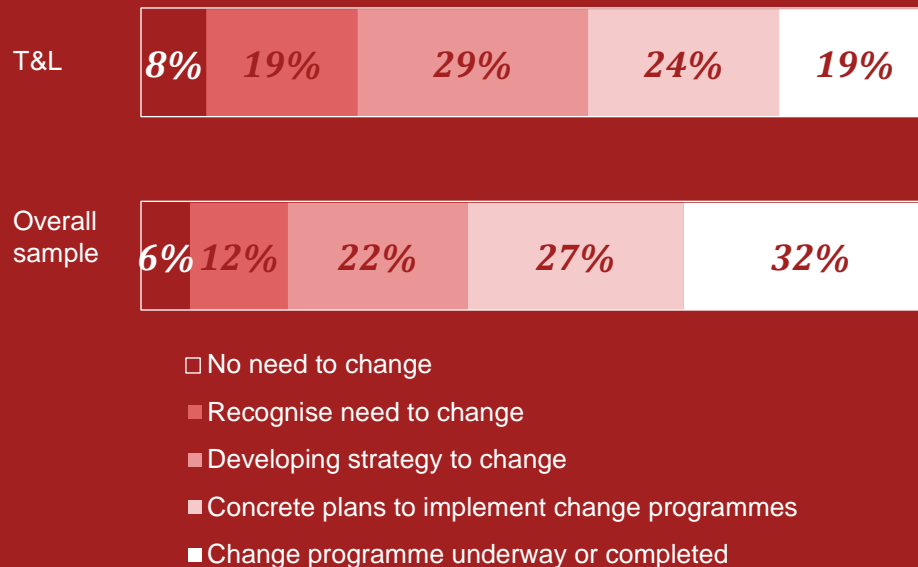
For T&L, there are major shortages looming in some key professions like pilots and truck drivers. And logistics skills are in short supply in many countries.

Only a minority are changing strategies to cope

T&L CEOs over-whelmingly agree they'll need to change their talent strategies to cope with future trends like demographic changes and urbanisation. But just 19% are already doing so, compared to a third of CEOs across the overall sample.

That may be because only 30% believe their HR departments are well-prepared. Again, that's less than overall.

Q: In order to capitalise on the two-three 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? (talent strategies).



Base: All respondents (Total sample, 1344; T&L, 101)

Source: PwC 17th Annual Global CEO Survey 2014

T&L companies have a strong focus on being good corporate citizens



T&L CEOs are taking sustainability seriously – 94% agree that it's important to promote a culture of ethical behaviour, and nearly as many feel it's important to ensure the integrity of the supply chain (93%).

Nearly nine out of ten also believe it's important to measure and reduce their environmental footprint, more than across the overall sample

Q: To what extent do you agree or disagree with the following statements?

Base: All respondents (Overall sample, 1344; T&L, 101)

Note: Respondents who stated 'agree strongly or 'agree somewhat'

Source: PwC 17th Annual Global CEO Survey 2014

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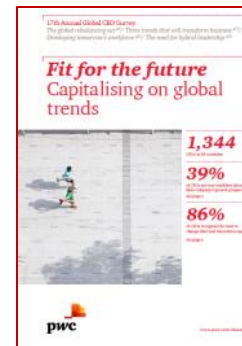
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Angeliki Frangou, Chairman and CEO
Navios Group of companies



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