US business leadership in the world in 2017

The US supplement to PwC’s annual Global CEO Survey
January 2017
The world in 2017

- US CEO confidence lifts, policy relief expected
- World CEOs look to US economy for growth signals
- But competitive threats are on the rise
The US CEOs’ transformation agenda

- Better engagement with policymakers
- Build the new workforce
- Get the man+machine equation right
- Stay on top of new threats
US CEO confidence lifts, on hopes for improved economic momentum and potential tax relief

US CEOs perceive slightly brighter prospects for 2017

Trump election lifts hope for tax policy relief but adds to trade uncertainty

% US CEOs who said...

- "Very confident" in revenue growth prospects over the next three years
  - Pre-election: 51%
  - Post-US election: 68%
  - Total US sample: 56%

- "Extremely concerned" about an increasing tax burden
  - Pre-election: 45%
  - Post-US election: 32%
  - Total US sample: 41%

- "Extremely concerned" about protectionism
  - Pre-election: 23%
  - Post-US election: 38%
  - Total US sample: 27%

Q: How confident are you about your company’s prospects for revenue growth over the next 12 months? Base: 114 US respondents
* Estimate, ** Forecast

Source: 2017 PwC Global CEO Survey–US supplement
Q: How concerned are you, if at all, about these business, economic, policy, social, and environmental threats to your organisation’s growth prospects? Base: 114 US respondents (80 pre-election; 34 post-election)
**US, the fastest growing developed (G7) economy, is considered most important to growth prospects by 43% of CEOs outside the US**

**US is becoming even more important to businesses around the world**

Percentage of CEOs who say the US is among the top three markets most important to growth prospects in the next 12 months

<table>
<thead>
<tr>
<th>Country</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
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<tr>
<td>Brazil</td>
<td></td>
<td></td>
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<tr>
<td>Japan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
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<tr>
<td>Australia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td></td>
<td></td>
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<tr>
<td>India</td>
<td></td>
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</tbody>
</table>

For third year in a row, US tops the list of most important markets for growth prospects

Percentage of CEOs who say that a country is among the top three markets most important to growth prospects in the next 12 months (by CEOs not based in these countries)

- **USA**: 43%
- **China**: 33%
- **Germany**: 17%
- **UK**: 15%
- **Japan**: 8%
- **Brazil**: 7%
- **India**: 7%
- **Mexico**: 6%
- **France**: 5%
- **Australia**: 5%

Source: 2017 PwC Global CEO Survey – US supplement

Q: Which three countries, excluding the country in which you are based, do you consider most important for your organisation’s overall growth prospects over the next 12 months?

Base: 1,379 CEOs globally (2017); 1,409 (2016)
In this time of change, US CEOs see competitive threats rising

Business threats related to technology-triggered transformations have intensified...
Percentage of US CEOs ‘extremely concerned’

- Cyber threats: 50% (2017), 44% (2016)
- Speed of technological change: 32% (2017), 26% (2016)
- Lack of trust in business: 19% (2017), 11% (2016)

..and US CEOs expect technology will change the nature of competition significantly in coming years
Percentage of US CEOs

- Over the past 20 years: 28%
- Over the past 5 years alone: 30%
- Over the next 5 years: 53%

Q: How concerned are you, if at all, about these business, economic, policy, social, and environmental threats to your organisation’s growth prospects?
Base: 114 US respondents

Q: To what extent has technology changed competition in your industry over the past (a) 20 years and (b) five years alone? To what extent do you think technology will change competition in your industry over the next five years?
Base: 114 US respondents
Changes in how we live, how we use resources, and how we make things will scale up in coming years

“A I and robotics will have a significant change on both design and manufacturing over the next 20 years. It may even impact software development. If the electric industry takes off, this could have a radical effect on the transportation, basic infrastructure and energy industries.”

“New technologies enabling precision medicine (molecular level diagnostics and imaging individualized and combined with individualized treatments), data mining capability of healthcare delivery systems will enable providers to reduce redundant and ineffective, dangerous medical interventions and reduce waste. As a result, companies and pharmaceutical companies, providers will profit less from ineffective interventions. Payment systems will change fundamentally away from fee for service to payment for outcomes.”

“Automation will fundamentally disrupt labor supply in fundamental ways. That in turn will give rise to a raft of new social and political problems governments will have to deal with.”

“There will be massive cyber threats which will lead to two digital worlds: one which is hardened and closed, and one which is open but vulnerable.”

“It is changing so fast that business cycles have accelerated to the point that it is difficult to do long term planning particularly where the competition is government owned or subsidized.”

“Severe dislocation of high wage, low skill jobs that are easy to replace through machine learning/AI, or robotics/autonomous equipment”

“The traditional workplace will be completely redundant in the next 20 years. People will demand a Life/work balance rather than the other way around and working from their preferred location will become the norm. Virtual/3D meeting/avatars etc. will be used to represent individuals more readily.”

Source: 2017 PwC Global CEO Survey-US supplement
Selected verbatim responses of US CEOs to the question:
Thinking about the next 20 years, what specific aspect of today’s world do you expect might be fixed, disrupted or replaced by new technology?
The US started the clock on the latest round of globalization and US voters just called time

Rapid rise in world trade as barriers fell...
Exports of goods and services worldwide (% of GDP)

Barriers fell, but some problems persist

...but US CEOs are deeply disappointed in these four areas
Percentage of US CEOs indicating the extent by which globalization has helped

- 60% Fairness and integrity of global tax systems
- 46% Closing the gap between rich and poor
- 46% Averting climate change and resource scarcity
- 38% Harmonizing regulations

Source: 2017 PwC Global CEO Survey–US supplement
Q: In your view, to what extent has globalization helped with …? Base: 114 respondents
A new kind of relationship between business and government is needed

“Trade and business associations need to get policymakers to understand the speed of change and how regulating yesterday’s problems ends up reducing competition by favoring established, large scale providers and also reduces growth. There is still a clear need for government oversight in a number of areas but policymakers need to have a much better understanding of the cost/benefit equation. Furthermore, there should be an effort to prune out old, no longer applicable rules and regulations and a move towards automatic sunset provisions on all new rules.”

“Help to better articulate the great benefits of globalization in a simple and non-complex way”

“It would be more helpful if there were business people included as part of government (i.e. cabinet-level participation). I also believe that there must be a more diligent analysis of costs and benefits of new regulation.”

“On a basic level, government and business need to operate as if they are on the same team rather than adversaries. Businesses can recognize and act on larger stakeholder needs that can be addressed by business and government can recognize this role and create policies that encourage business to take larger stakeholder needs into account.”

“…government and business can work well together to provide opportunities for workers displaced by globalization. While the overall trends of globalization raise more people than they lower, specific industries and geographies will be negatively impacted by the competitive and technological movements enabled by globalization. Those impacts need to be moderated with retraining and other initiatives in a much larger and better designed way than has been the case to date.”
Setting today’s workers up for tomorrow’s world

US CEOs are ahead in using digital training in learning programs and using technology to improve employees’ well-being, and on pace on the rest of strategies

Skills that CEOs want for the changing economy can’t be replicated by machines and are hard to fill

<table>
<thead>
<tr>
<th>% of CEOs who say they agree with the following statements about their organization</th>
<th>Global</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>We promote talent diversity and inclusiveness</td>
<td>87%</td>
<td>94%</td>
</tr>
<tr>
<td>We’ve changed our people strategy to reflect the skills and employment structures we need for the future</td>
<td>78%</td>
<td>83%</td>
</tr>
<tr>
<td>We have added digital training to our learning programs</td>
<td>65%</td>
<td>81%</td>
</tr>
<tr>
<td>We use technology to improve our people’s wellbeing</td>
<td>63%</td>
<td>80%</td>
</tr>
<tr>
<td>We seek out the best talent regardless of demographics or geography</td>
<td>74%</td>
<td>75%</td>
</tr>
<tr>
<td>We move talent to where we need it</td>
<td>76%</td>
<td>73%</td>
</tr>
<tr>
<td>We’re rethinking our HR function</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>We use data analytics to find, develop and keep people</td>
<td>50%</td>
<td>57%</td>
</tr>
<tr>
<td>We’re exploring the benefits of humans and machines working together</td>
<td>52%</td>
<td>47%</td>
</tr>
<tr>
<td>We’re considering the impact of artificial intelligence on future skills needs</td>
<td>39%</td>
<td>34%</td>
</tr>
<tr>
<td>We rely more on contractors, freelancers and outsourcing</td>
<td>28%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: 2017 PwC Global CEO Survey–US supplement
Q: To what extent do you agree or disagree with the following statements about your organisation’s talent activities?
Base: Global 1,379 respondents; 114 US respondents
One area of hyper growth: the job market for people with data science and analytics

Open jobs asking for analytics skills in 2015

2.3M

Total population with analytics skills in 2018

2.9M

Businesses can recruit from their own employee ranks for analytics-enabled jobs, while looking for newly minted data scientists

<table>
<thead>
<tr>
<th>Analytics-enabled jobs</th>
<th>Data science jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Data-driven</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>26%</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>32%</td>
</tr>
<tr>
<td>Information</td>
<td>43%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>45%</td>
</tr>
<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>30%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>46%</td>
</tr>
</tbody>
</table>

Sources: Burning Glass Technologies’ analysis of 26.9 million US job postings in 2015; McKinsey Global Institute, Big data: The next frontier for innovation, competition, and productivity (June 2011).

Notes: Job category of analytics manages not shown. Totals may not equal 100%.
Source: PwC analysis based on Burning Glass data, February 2017.
More automation of activities, lower costs

Most US CEOs plan to add or hold to headcount in 2017, but technologies like automation are a factor where headcount will decline.
Percentage of US CEOs adding, holding, or decreasing headcount:

- 18% Headcount will decrease
- 54% Headcount will increase
- 28% Headcount will stay the same

The power of automation quantified:
PwC estimates that manual, time-consuming, rules-based office tasks can be done more efficiently by robotic process automation, a software tool, thereby reducing cycle time and at lower costs than other automation solutions.

Just 5% of CEOs planning to reduce headcount say automation or other technologies play no role.

45% of work activities can be automated.

$2 trillion savings in global workforce costs.

Source: 2017 PwC Global CEO Survey–US supplement
Q: To what extent will the decrease in headcount be the result of automation and other technologies?
Base: Global 1,379 respondents; 114 US respondents

Connectivity tests trust

US CEOs say these factors could negatively affect stakeholder trust in their industry to a large extent

- **50%** Breaches of data privacy and ethics
- **49%** Cybersecurity breaches affecting business information and critical systems
- **27%** IT outages and disruptions

78% of US CEOs agree that it’s harder for business to gain and keep trust.
How to grow and be profitable at a time of great change? Coordinate these activities in an integrated way.

US CEOs are more likely to plan organic growth, new M&A, and divestitures/exports to drive corporate growth or profitability

Percentage of CEOs who are planning these activities in the next 12 months

<table>
<thead>
<tr>
<th>Activity</th>
<th>US</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic growth</td>
<td>92%</td>
<td>79%</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>68%</td>
<td>62%</td>
</tr>
<tr>
<td>New M&amp;A</td>
<td>55%</td>
<td>41%</td>
</tr>
<tr>
<td>New strategic alliance or joint venture</td>
<td>48%</td>
<td>45%</td>
</tr>
<tr>
<td>Collaborate with entrepreneurs or start-ups</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Sell a business or exit a market</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Outsourcing</td>
<td>18%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: 2017 PwC Global CEO Survey–US supplement

Q: Which of the following activities, if any, are you planning in the coming twelve months in order to drive corporate growth or profitability?

Base: Global 1,379 respondents; 114 US respondents

The secret to unlocking growth through cost reduction is to make deliberate choices not only about what we cut, but also about where to invest. We call it the Fit for Growth playbook.

Any company with an effective growth strategy is always in some stage of M&A preparation or action, is always assessing and executing alliances, and is always innovating and expanding its existing operations. But few companies consciously use them in ways that consistently reinforce and build on each other’s impact.
US CEOs’ biggest worries? Regulation, cyber threats, and taxes

Percentage of US CEOs who are extremely concerned about these threats

- Over-regulation: 56%
- Cyber threats: 50%
- Increasing tax burden: 41%
- Uncertain economic growth: 38%
- Geopolitical uncertainty: 34%
- Speed of technological change: 32%
- Protectionism: 27%
- Availability of key skills: 25%
- Terrorism: 21%
- Changing consumer behaviour: 20%
- Lack of trust in business: 19%
- Social instability: 18%
- Climate change & environmental damage: 18%
- New market entrants: 16%
- Volatile commodity prices: 15%
- Inadequate basic infrastructure: 15%
- Exchange rate volatility: 14%
- Future of Eurozone: 12%
- Volatile energy costs: 12%
- Readiness to respond to a crisis: 10%
- Supply chain disruption: 10%
- Unemployment: 10%
- Access to affordable capital: 10%

Source: 2017 Global CEO Survey US supplement
Q: How concerned are you, if at all, about these business, economic, policy, social, and environmental threats to your organisation’s growth prospects?
Base: Global 1,379 respondents; 114 US respondents
Goods, capital, and people flowing across borders have led to growth, but calls for a pause in globalization are louder than ever

Foreign direct investment inflows into opening markets exploded since 2000
Foreign direct investment, net inflows (balance of payments, current US$billions)

International travel and tourism spending climbed as more countries opened up in the past two decades
Spending on all trips outside the country of residence, in US$billions


Disappointment with globalization has given rise to nationalist sentiment in many parts of the world

Across the board, fewer US CEOs are prepared to say that globalization has helped 'to a large extent' in these areas, compared to all respondents

- Enabling universal connectivity: 46% globally, 62% in the US
- Improving the ease of moving capital, people, goods and information: 45% globally, 60% in the US
- Creating a skilled and educated labour force: 18% globally, 37% in the US
- Upholding access to infrastructure and basic services: 15% globally, 34% in the US
- Managing geopolitical risks: 13% globally, 23% in the US
- Harmonising regulations: 7% globally, 23% in the US
- Full and meaningful employment: 16% globally, 21% in the US
- Upholding standards for the protections and ethical use of data: 8% globally, 20% in the US
- Averting systemic failure: 10% globally, 16% in the US
- Averting climate change and resource scarcity: 4% globally, 15% in the US
- Fairness and integrity of global tax systems: 5% globally, 14% in the US
- Closing the gap between rich and poor: 13% globally, 10% in the US

Source: 2017 PwC Global CEO Survey–US supplement
Q: In your view, to what extent has globalisation helped 'to a large extent' in these areas? Base: Global 1,379 respondents; 114 US respondents