

Compete & Collaborate

What is
success in
a connected
world?*

Industrial Manufacturing summary

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The PricewaterhouseCoopers 11th Annual Global CEO Survey – ‘Compete & Collaborate’ – examines the impact of an increasingly connected world on the way companies work, grow, deal with risk and, ultimately, achieve business success. We focus on collaboration this year because achieving the correct balance between this emerging business model and traditional management discipline is a key to leveraging results in the connected world.

The survey divides into two main sections with special attention in each to the key enablers and barriers to success:

- Section 1 – The business environment: Business confidence, M&A, global risks, and climate change
- Section 2 – The impact on business models: People and change, collaborative business networks, and regulations

In addition to providing the analysis of the views of 1,150 CEOs, each section includes the personal views of individual CEOs who provide their perspective on how their organisations are meeting the challenges and addressing the opportunities of a connected world. In this Sector Summary, we look specifically at how Industrial Manufacturing (IM) CEOs view and are addressing these challenges and how their views compare and contrast with CEOs across all industries.

IM includes companies producing machinery, equipment, and physical plant. Globally, IM remains one of the world’s biggest sectors and a key contributor to the global economy; a strong manufacturing base provides the foundation needed to enable the growth of many other industries.

Although many think of IM as a traditional ‘old economy’ industry, in reality the sector is extremely dynamic. Executives place a premium around technological innovation as a source of growth; they also report that their companies are more actively using collaborative networks to achieve this goal compared to their peers across all industries. Industrial manufacturing is becoming a truly global industry, and CEOs are recognising this fact; they see improved sourcing/supply chain management as a source of competitive advantage at a higher rate than their peers, and also rate global experience as more critical for their people.

The full findings of PricewaterhouseCoopers’ 11th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

The business environment

Overall IM CEOs report roughly the same level of confidence in revenue growth as do executives across industries. More than four-fifths (86%) of IM executives are confident or very confident in achieving business growth over the next 12 months. CEOs rate the top three opportunities for growth as new product development, geographic expansion and better penetration of existing markets, with roughly a quarter of executives (26%) citing each of these factors.

Mechanical engineering underpins the IM sector, so it’s not surprising that new product development rated highly. Industrial Manufacturing CEOs are keenly aware of the importance of technological innovation as well – three-quarters of those responding are looking to technological innovation as a source of competitive advantage, compared to 65% of respondents across all industries, and nearly a third (30%) rate it as their main means of achieving growth, compared to 22% across all industries. This result reflects the increasing importance and

sophistication of technology in all sorts of machinery, equipment and physical plant.

More than three-fifths of executives (63%) also viewed improved sourcing/supply chain management as a source of competitive advantage, compared to only half of respondents overall, as manufacturers continue to set up operations in emerging markets in order to serve customers who have been locating there and to gain access to low-cost sourcing.

The geographic expansion which is driving growth in the industry is often happening via cross-border mergers or acquisitions. More than a quarter (28%) of IM CEOs report having completed such a transaction in the past twelve months, and the trend looks set to continue, with 36% of IM CEOs anticipating a cross-border merger in the coming twelve months. These mergers are also spread across the globe, with CEOs reporting the greatest interest in Western and Eastern Europe, followed closely by Asia (see chart).

In Eastern Europe, IM CEOs report a slightly higher rate of planned M&A than peers in other industries (37% of IM versus 29% overall). These activities reflect an expectation of continued strong growth in the region's manufacturing base.

We see consolidation as an important trend in the industry as a whole, with activity levels varying somewhat between sectors. Roughly two-thirds of IM CEOs (66%) are concerned about realising the expected value of a transaction, and almost as many (59%) see unexpected costs as a potential issue; in both areas IM executives express greater levels of concern than peers across all industries.

For companies which are able to overcome these potential obstacles, the rewards can be substantial. In their 2006 annual report, GE reported that the company had transformed its portfolio over the preceding five years, including over \$80 billion of announced or completed acquisitions and more than \$35 billion of dispositions. GE noted that these portfolio actions have grown revenues over 50% and increased earnings 64%.

Only a minority of IM CEOs (33%) are concerned that climate change poses a potential threat to business growth, in line with their peers across all industries, and a similar number (36%) are optimistic that climate change will benefit their business intangibly (e.g. in brand or reputation, or access to talent etc), a slightly higher number than across our sample as a whole (29%). Companies like United Technologies Corporation (UTC) have taken an active approach to greenhouse gas reduction and are conveying their leadership role to stakeholders; for example, UTC is using the greenhouse gas protocol developed by the World Resources Institute and the World Business Council for Sustainable Development to track and report progress. UTC's programme to minimise environmental impact despite an equally aggressive company growth strategy has been championed by CEO George David. Environmental Program Director John Vitello noted in an article in

IndustryWeek that 'the \$48 billion corporation of 2006 is using 19% less energy than the \$24 billion company of 1997'.¹

CEO David argues that it's a practical, common-sense business value. Many other IM CEOs agree – and almost a third (30%) believes that their companies will derive economic benefit from climate change. More efficient machinery can have a major impact on overall energy usage and help reduce a company's carbon footprint, so for some equipment makers climate change represents a major opportunity.

People and change: Strategy & Execution

As their operations become increasingly more global, IM CEOs are recognising the role of global experience – 65% see this as critical to their organisation, compared with 55% across industries.



Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

¹ 'Think Global, Act Global.' At www.industryweek.com/ReadArticle.aspx?ArticleID=15296

Even more vital to IM CEOs than global experience, however, is the ability to collaborate. Executives almost universally (90%) view it as critical, and collaborating with networks of external specialists is viewed by the majority of executives (70%) as valuable in addressing skills or talent shortages.

As in many other industries, IM is currently facing a shortage of highly skilled and trained employees, a situation which many expect to worsen in coming years. More than three-fifths of IM CEOs surveyed (62%) anticipate that lack of availability of key skills could pose a threat to business growth. The US National Association of Manufacturers (NAM) has flagged the issue as one of the key challenges for IM companies. Acknowledging that many young people don't view manufacturing as an exciting career path, the trade organisation, together with the Manufacturing Institute, has launched the 'Dream It. Do It.' campaign to spread the message that the manufacturing facility of today requires innovation, creativity and entrepreneurship.

Collaborative business networks: Opportunistic & Systematic

Industrial manufacturing is a highly diversified industry which covers a wide range of sectors; producers of everything from nuts and bolts to highly sophisticated machinery may be considered part of IM. Developing effective business networks for

collaboration therefore poses a far greater challenge for IM companies than for other industrial peers, such as chemicals or steel producers. The industry has already succeeded in overcoming these hurdles for some types of networks, as noted below, but additional opportunities may still exist, particularly for smaller players.

IM executives reported a greater level of interest in networks around innovation – more than a third (37%) are significantly involved in these types of networks, compared with just over a quarter (26%) of respondents across industries. IM CEOs felt that these networks are quite or very effective, to a greater extent than in other industries (72% of IM vs. 63% overall). Slightly more IM CEOs (77% of IM vs 70% overall) also reported that the networks in which they have involvement are quite or very effective at learning best practices. In a recent report on the European Mechanical Engineering industry,² the European Commission flagged the need to strengthen the industry's networks, particularly in order to support research, innovation, and the implementation thereof.

Regulations: Public & Private

Many IM companies operating in multiple jurisdictions face complex sets of labour and tax laws, which may vary substantially across national borders. Nearly three-tenths of IM CEOs (29%) saw labour laws as the most important area where the government could improve the business environment, followed by tax regimes (21%).

Looking forward

Industrial Manufacturers can benefit from the evolving global economy, but only if they are effective at increasing global reach. Technological innovation is critical to garnering market share in growing areas like improving energy efficiency to fight climate change. Companies also need to innovate to remain competitive on the global stage. Graeme Billings, Global Industrial Manufacturing Leader, PricewaterhouseCoopers, sums up the situation as follows: 'CEOs need to focus attention on cultivating effective business networks and investing in their people. Going global and driving technological innovation requires collaboration and strong skill sets. Industrial Manufacturing companies need to be pro-active in addressing network and people issues to succeed in the evolving world economy'.

Graeme Billings

Global Industrial Manufacturing Leader
PricewaterhouseCoopers
+61 3 8603 3007
graeme.billings@au.pwc.com

Nicole McCourt

Global Industrial Manufacturing
Marketing Manager
PricewaterhouseCoopers
+61 2 8266 0821
nicole.mccourt@au.pwc.com

² 'EnginEurope' For a thriving European Mechanical Engineering industry in the 21st century. Report and Recommendations of the 'EnginEurope' High-level Discussion Group. European Commission, 2007.

This summary provides a sampling of some findings within the Industrial Manufacturing sector. Full findings of the PricewaterhouseCoopers 11th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

For additional information regarding PricewaterhouseCoopers' Industrial Manufacturing sector practice, please visit www.pwc.com/industrialmanufacturing