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Industrial manufacturing industry summary

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Recent events have clearly demonstrated the extent to which the world is interconnected. The crisis which began in the US banking system has spread through the global economy as a whole – and no region has emerged unscathed. This historic moment provides an unprecedented opportunity for companies, governments and individuals to think more deeply about the sophisticated eco-systems of which we are all a part.

The current crisis has highlighted the need for new institutions, new mechanisms, new strategies and – most critically, perhaps – a different mindset among those leading the world’s most important institutions and companies. Every CEO will have to make tough decisions about what actions are required to ensure his or her company’s short-term survival. Yet none can afford to ignore the need to build a business that is agile enough to respond to new situations as they emerge, durable enough to grow over the long term and responsive to the requirements of all its stakeholders.

Redefining success, the PricewaterhouseCoopers 12th Annual Global CEO Survey, explores how CEOs are reconsidering the fundamentals of business in response to extreme operating conditions and assuming responsibility for issues that were once considered outside the scope of industry. We interviewed 1,124 CEOs around the world between September 10 and December 2, 2008. Our findings show that they are collaborating more extensively to balance the interests of increasingly influential stakeholders. They are also seeking new kinds of information to help them anticipate changes in critical business drivers.

Here, we look specifically at what the 109 CEOs in the industrial manufacturing industry think, and how they are dealing with a combination of challenges such as mankind has never seen before.

The business environment

Industrial manufacturing CEOs wary but still looking to new markets

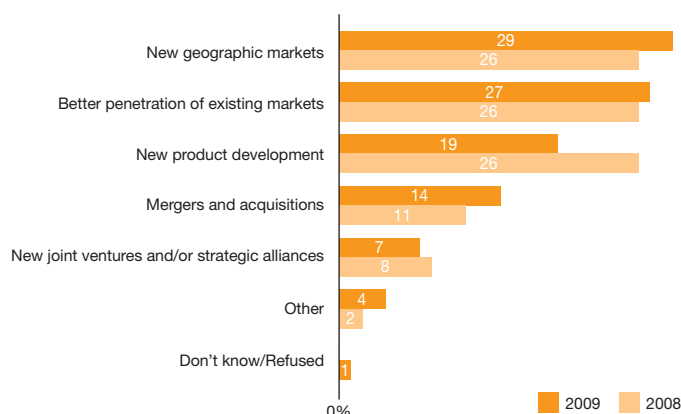
Industrial manufacturing CEOs are concerned about the immediate implications of the current economic climate. Last year, 86% of respondents were confident or very confident about the prospects for increasing their companies’ revenues over the next 12 months. This year, only 64% expressed the same level of optimism.

Industrial manufacturing CEOs are more positive about the longer term; 93% are confident or very confident about the potential for revenue growth over the next three years. But they clearly place more faith in their own companies than in the industry itself; only 78% anticipate that the industrial manufacturing sector as a whole will grow over the same period.

Their three top strategies for achieving growth still include geographic expansion (29%), better penetration of existing markets (27%) and new product development (19%) (see figure 1). But whereas, last year, they accorded these strategies equal weight, this year new product development ranks much lower on the boardroom agenda. The emphasis on new geographic markets is also much more pronounced than it is in the total survey population, where only 17% of respondents plan to expand overseas.

Figure 1

Industrial manufacturing CEOs concentrate on new geographic markets to grow



Q: Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?

Base: 2009: 109; 2008: 115

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Note: Data for 2009 are based on interviews conducted in the last quarter of 2008

Data for 2008 are based on interviews conducted in the last quarter of 2007

Despite the economic downturn, many industrial manufacturing CEOs are likewise looking for suitable deal-making opportunities. Thirty-five percent intend to complete a merger or acquisition

over the next 12 months, in line with earlier research by PricewaterhouseCoopers, which shows that deal numbers remained robust in the first part of 2008, even though deal values dropped substantially.¹ Indeed, some analysts contend that the time will soon be ripe for further consolidation; in November 2008, for example, Ann Duignan, machinery analyst at financial services firm J. P. Morgan, predicted that large machinery-makers would become buyers of smaller companies, once the liquidity crisis eases.

Industrial manufacturing CEOs also continue to place a high premium on technical improvement; 60% think that technological innovation is critical, compared with just 44% of the overall survey sample. However, as many companies are forced to scale back their R&D budgets, management will have to look for creative ways in which to support innovation. The vast majority of respondents say that their companies are already collaborating with supply chain partners (80%), as well as with customers and clients (84%). Expanding such partnerships to include new product development and other kinds of innovation may provide one way of solving the problem.

Some industrial manufacturing CEOs may also be able to improve the effectiveness of their R&D – but, here, better information is essential. Eighty-three percent think that information about R&D is either important or critical, but 57% of these respondents would like more details, while 13% concede that the information they currently get is inadequate.

Balancing short- and long-term concerns

Tackling systemic risks

In a difficult economic environment, many industrial manufacturing companies may have to focus on short-term measures to a much greater extent, as well as working more closely with suppliers and customers – to share investment costs and support those that are struggling. But collaboration is also critical to the management of long-term, systemic challenges, such as the threat of climate change and diminishing natural resources.

Lack of natural resources is one of the issues that most concerns industrial manufacturing CEOs. Forty-six percent believe that the world's dependence on carbon-based energy will have a negative impact on their businesses, and most are already taking various steps to alleviate the situation; 88% are seeking operational improvements to reduce their energy consumption, for example,

while 59% are investing in energy-efficient technologies and 51% are turning to renewable sources of energy.

In fact, 70% of industrial manufacturing CEOs believe that the pressure on natural resources will only intensify. Between 35% and 44% are also worried about the commercial impact of systemic risks such as scarcity of fresh water, spread of infectious diseases, climate change, demographic shifts and the planetary toll inflicted by overpopulation. However, some of these challenges may provide new business opportunities, says Jorma Eloranta, President and CEO of Metso Corporation. 'As a paper technology provider, we go to great lengths to build machines that use less energy and water in paper-making. This kind of thinking is at the core of our R&D efforts and business model – supplying technology that is both highly efficient and environmentally-friendly. That is why our customers buy from us. We provide technology that not only supports their businesses' economic viability but also their environmental agenda. Environmental responsibility is a business opportunity for us,' he explains.

Eloranta is optimistic about technology's potential in helping companies to achieve more sustainable growth, too: 'Whenever our customers are thinking about setting up, say, a paper or pulp mill, issues of deforestation and pollution are very much part of the discussion. In my view, the essential link in striking the right balance between growth and the sustainable use of natural resources is technology. I do not imagine that technology will be sufficient in itself to solve every environmental problem. But technology is essential to the solution,' he remarks.

Many other industrial manufacturing companies are likewise working together to address the issues posed by global climate change. The Low Carbon Innovation Network is one example of cross-industry collaboration to reduce carbon emissions through technological advances. However, most industrial manufacturing CEOs believe that government must also play its part. Eighty-five percent want a clear and consistent policy framework to help them respond appropriately to the challenge, and 64% want a successor to the Kyoto Protocol.

Cultivating key skills

The economic downturn has helped to push the people factor lower down on the boardroom agenda, though. Only 47% of industrial manufacturing CEOs are somewhat or very concerned about the shortage of talent, compared with 62% last year. In addition, fewer industrial manufacturing respondents describe

¹ PricewaterhouseCoopers, 'Assembling Value: Industrial manufacturing mergers and acquisitions analysis, third quarter 2008' (2008), available at www.pwc.com/industrialmanufacturing

providing an interesting career path for good candidates as a challenge than do respondents in the total survey sample (51% versus 58%).

This seems surprising, given that 38% of industrial manufacturing CEOs still anticipate increasing the headcount over the next 12 months and that they experience many of the same problems in finding good staff as their peers in other industries. Sixty-nine percent say that the 'limited supply of candidates with the right skills' is a major challenge, while 44% are worried about declining enrolment in university courses for the sciences and technologies, and 59% expect difficulties in recruiting and integrating younger employees.

Industrial manufacturing CEOs are also more likely to see the demographic 'time bomb' as a threat to the long-term growth of their companies. Eloranta sums up the situation: 'We have had to invest more in our people planning processes in order to ensure that, as people in [countries with aging populations] retire, the transition is smooth and our skills are maintained at the required levels. It's definitely an issue.'

Looking forward

Industrial manufacturing CEOs will have to ensure that they do not focus on short-term risks to the exclusion of long-term risks like climate change, shrinking natural resources and the impact of demographic shifts on the talent pool. Fortunately, many respondents are already well aware of how important it is to balance these sometimes competing demands. They recognise the need for new business models to address the challenges the world faces – and 39% believe that structural changes in the way the industry operates will have a positive effect.

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Full findings of the PricewaterhouseCoopers 12th 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