12th Annual Global CEO Survey
Redefining success

~~Fool proof plans~~

Future proof plans

Metals industry summary

PricewaterhouseCoopers

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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 25 CEOs in the metals industry think, and how they are dealing with a combination of challenges such as mankind has never seen before.

The business environment

Declining confidence

Metals CEOs are very concerned about the current economic crisis. Two of the industry's key customer segments – automotive and construction companies – are likely to be among those most severely affected by the global recession, and demand has already plummeted. The price increases the steel sector enjoyed before September 2008 have been completely eroded. The aluminium sector has also been experiencing considerable pricing pressures, and some commentators suspect that a number of global producers are now operating at a loss. Even in areas where there is still demand for metals, many customers cannot access Letters of Credit to support their orders.

So it may come as no surprise that metals CEOs are gloomier than CEOs in any of the other industries we surveyed. Only 44% are somewhat or very confident about the prospects for revenue growth over the next 12 months, compared with 64% of the total survey sample. That said, many metals respondents are more optimistic about the longer-term outlook; 80% are somewhat or very confident that they can increase their companies' revenues over the next three years, so they are clearly hoping for a rapid economic recovery.

Thirty-six percent of metals CEOs are also focusing on new geographic markets, in marked contrast with the total survey population (17%). Better penetration of their existing markets comes second on the list of strategies they believe will deliver the best opportunities for growth over the next 12 months; 24% plan to concentrate their efforts close to home – although, given the potential for a fundamental shift in global automotive manufacturing, they may find it difficult to make much headway.

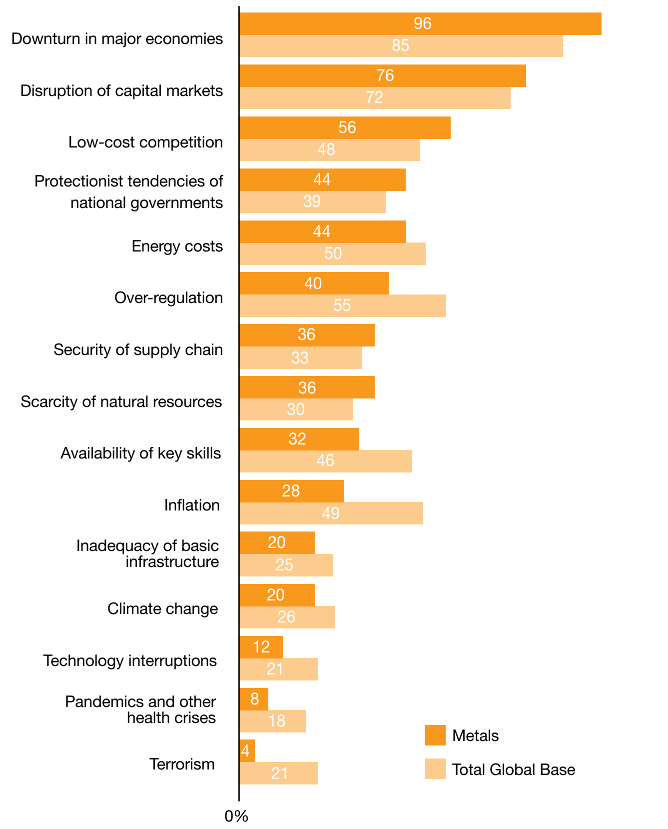
Twenty-four percent of metals CEOs likewise intend to complete a cross-border merger or acquisition (M&A) over the next 12 months, but most of them are pessimistic about the extent to which these transactions will improve their companies' short-term profitability. Only 4% see M&A as their main means of growing revenues over the next 12 months – a view that makes sense, since tumbling metals prices have already called the economics of several recent acquisitions into question. Conversely, interest in joint ventures and strategic alliances is growing; 76% of metals CEOs expect to participate in an increasing number of collaborative business arrangements over the next three years.

Coping with key business threats

Metals CEOs are not only less confident about the short-term future than their peers in other industries, they are more likely to see the downturn in the world's major economies as a serious business threat (see figure 1). Some producers were able to mitigate the effects of the last global economic slump by exporting to countries that were less badly affected. But, with

Figure 1

Immediate threats drive CEOs' priorities



Q: How concerned are you about the following threats in relation to your business growth prospects?
Base: Respondents stating somewhat or extremely concerned. Metals: 25; Global: 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

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

the globalisation of the industry, this is no longer possible. Many companies, particularly steelmakers, are therefore cutting back on production, curbing their plans for expanding and going into cash conservation mode.

Metals CEOs are also more likely than CEOs in other sectors to see low-cost competition as a serious problem (56% versus 48% of the total survey sample). Three factors help to explain this discrepancy: concerns about China's low production costs on the part of domestic manufacturers in other regions; fears that some manufacturers may cut prices to generate much needed cash to finance acquisition debt; and apprehensions about whether some mini-mill producers will take advantage of scrap price anomalies to lower prices in an effort to keep capacity utilisation at acceptable levels while still generating margins.

These worries could be distracting some metals CEOs from other issues that could also pose a threat to their companies. It is notable, for example, that fewer metals executives are concerned about over-regulation and technology interruptions than their peers in other industries.

Balancing short- and long-term concerns

Many metals CEOs are currently operating in survival mode, with conservation of cash taking top priority; indeed, some are only preparing short-term forecasts for 2009, citing the extreme state of uncertainty as a reason not to look farther out. But though the immediate need to survive may be taking precedence right now, metals executives face a difficult balancing act. They must also ensure that they build durable businesses that are well placed to capitalise on the recovery, when it occurs.

Addressing global risks

Metals companies have been among the hardest hit by the global financial crisis and resulting economic downturn. Yet industry executives are still somewhat blasé about the possible impact of another, potentially graver systemic crisis – climate change. Only 20% see climate change as a major threat to their businesses, compared with 26% of the total survey sample. Metals executives are also less likely than their peers in other sectors to believe that clearer communication about the dangers of climate change is critical or important.

The situation is similar when it comes to natural resources, even though metals manufacturing is heavily reliant on mineral ores. Eighty percent of metals CEOs believe that the pressure on natural resources will increase, yet only 36% think that scarcity of natural resources is a commercial threat. This is surprising, given that the prices of many key raw materials are locked in by contract – and they are unlikely to fall in line with metals prices, which will come under even more pressure from troubled customers like the carmakers.

However, a rather larger number – 48% – of metals CEOs are concerned that the world's dependence on carbon-based energy sources could have a deleterious impact on their companies. And, as we noted in the latest edition of *Forging Ahead*, our annual review of deals in the metals industry, a growing number of metals executives are now considering carbon regulation when they review their capital allocation plans and long-term corporate strategies.[1]

1 PricewaterhouseCoopers, *Forging Ahead: Mergers and acquisitions activity in the global metals industry, 2007* (2008), available for download at www.pwc.com/metals.

Dealing with supply chain risks

Working out how to measure, evaluate and manage supply chain risk is fundamental to remaining profitable in the metals industry, as the vast majority of metals CEOs recognise. Eighty-eight percent rate efficient sourcing or supply chain management as critical or important, compared with 79% of the overall survey sample. Eighty percent also regard information about sourcing and supply chain management as critical or important, and they are generally happier with the quality of the information they get than executives in other sectors. But there is still room for improvement; 45% of these respondents would like further details, while 15% say that the information they get is inadequate.

Moreover, some metals CEOs may be missing an opportunity to mitigate the supply chain risks they face by working more closely with their partners. Only 64% collaborate with their supply chain partners, compared with 75% of the total survey population.

Cultivating key skills

The human factor has slipped down the agenda for many of the CEOs we surveyed, as the short-term demands of surviving become more urgent. Although this is understandable, it is important to recall that people are central to the long-term success of every business. No company can afford to weaken its skills base or lose valuable talent, even in a tough economic environment.

Some metals CEOs clearly realise this; 28% plan to increase the number of people they employ over the next 12 months, whereas only 20% plan to downsize. Yet they are much less worried about the shortage of talent than before. Only 32% of respondents are somewhat or extremely concerned that lack of people with the skills they need will have a negative impact on their companies' growth, compared with 66% last year.

Metals executives are also less likely to redeploy pivotal employees, collaborate with networks of external specialists to attract talent or create a more flexible working environment than their peers in other industries. But the evidence suggests that many metals companies need to pay more attention to such issues. Seventy-two percent of metals CEOs say that they experience challenges in recruiting and integrating younger employees; 68% say that the limited supply of candidate with the right skills is a problem; and 60% are worried about declining college and university enrolments in the sciences and technologies.

Looking forward

What's next for the metals industry? In the near term, some companies – especially those serving the sectors that are most badly affected by the economic downturn – will certainly face tough times. The CEOs who head these companies will need to focus on managing their working capital and costs as effectively as possible.

In the longer term, however, metals executives will also have to ensure that they address systemic risks such as climate change and the impact of demographic shifts on the talent pool. At present, metals CEOs typically place less weight on ensuring the wellbeing of future generations or satisfying society's needs (as distinct from those of investors) than their peers in other industries. As we enter an era in which the corporate community is expected to assume a wider array of responsibilities, the industry will have to extend its horizons.

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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' metals sector practice, please visit www.pwc.com/metals