

Industrial manufacturing



292

CEOs interviewed in 56 countries

41%

of industrial manufacturing CEOs
said they were very confident
about growth

See page 1

93%

of industrial manufacturing
executives say strong corporate
purpose has gained in importance

See page 4

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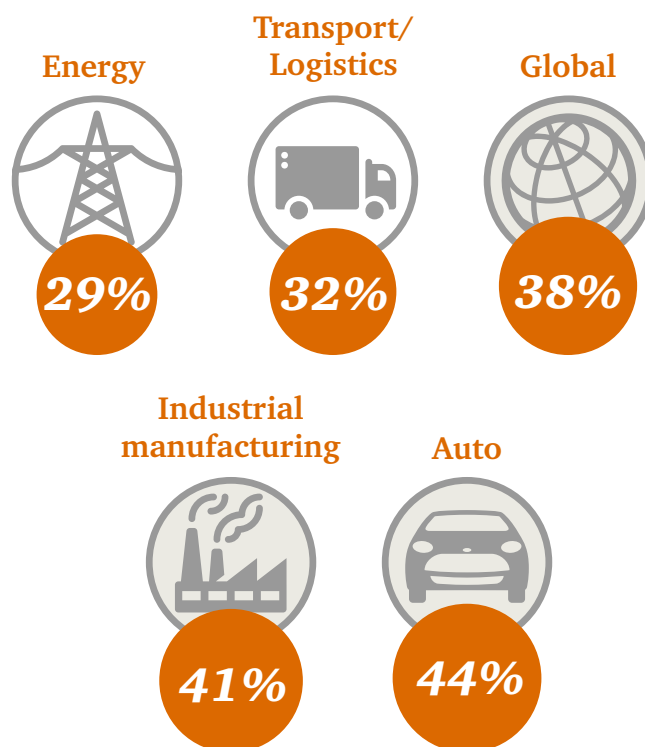


Confidence holds strong

In these economically and politically challenging times, Industrial Manufacturing (IM) CEOs maintain healthy, relative optimism about their own company's growth during the next year. 41% of IM CEOs said they were very confident in PwC's 20th CEO Survey, carried out between 26 September and 5 December, 2016. Looking longer term over the upcoming three-year horizon, all CEOs, including IM, are bullish on their companies—with a global average of 51% very confident. In historical context, this compares to only 33% in our first 1997 survey.

Figure 1 Industrial manufacturing leans to optimism

Q: How confident are you about your company's prospects for revenue growth over the next 3 years?



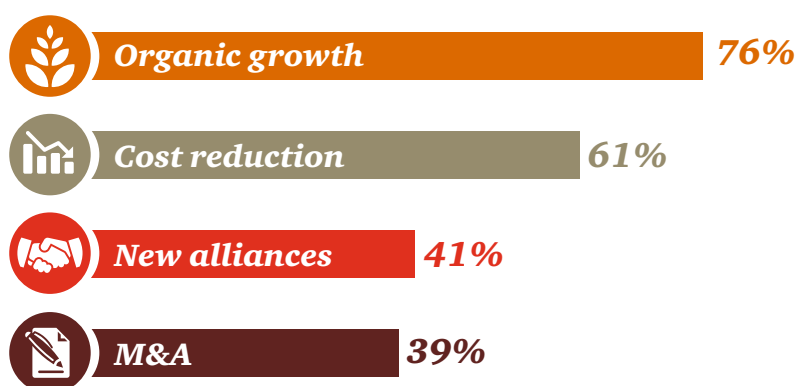
Source: PwC, 20th Annual Global CEO Survey.

Balanced growth, with a nod to Germany

IM CEOs follow the global pattern in expecting the lion's share of growth to develop organically (76%) or be driven by cost reduction (61%), with new alliances and mergers and acquisitions following at 41% and 39%. Germany, however, maintains a higher profile in IM importance than the global average, with 29% IM CEOs saying that nation will be the most important one to their growth in the next year, versus only 17% globally. This is not surprising given Germany's long history of manufacturing strength. In terms of external risks today, along with greater convergence has come divergence in beliefs, values and systems, as well as growing public discontent over rising inequality. In this environment, IM CEOs view uncertain economic growth (84%), geopolitical uncertainty (76%) and exchange rate volatility (76%) as the top three threats to business prospects. Among business threats, availability of key skills (81%) tops the list of concerns.

Figure 2 Natural expansion and an eye on cost

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



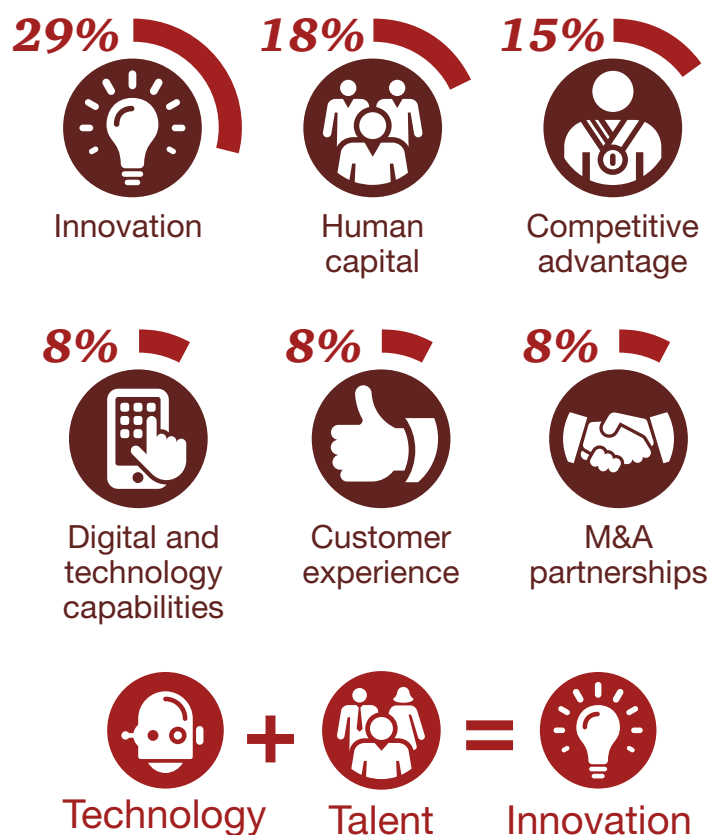
Source: PwC, 20th Annual Global CEO Survey.

Man, machine and manufacturing

IM CEOs see innovation as the key to a future that is driven by talent, skill, relationships and intelligent deals. In short, the human factor is working in consort with technology to create opportunities, not remove jobs. IM CEOs agree with the global average in prioritizing innovation (29%) and human capital (18%) as the two areas they most want to strengthen in order to capitalize on new opportunities. They place slightly greater importance than average on gaining competitive advantage, with 15% flagging that as the third most important springboard to opportunity versus 10% globally. From there in terms of seizing opportunity, IM puts equal weight (8%) on digital and technology capabilities, customer experience and M&A. But the human factor presents a challenge: CEOs deem recruiting most difficult when it comes to attracting people talented in creativity and innovation or leadership (both 81%), emotional intelligence (70%), problem solving (69%), and adaptability (68%).

Figure 3 Innovation spells opportunity in industrial manufacturing

Q: Given the business environment you're in, which one of the following do you most want to strengthen in order to capitalise on new opportunities?



Source: PwC, 20th Annual Global CEO Survey.

Vigilant and confident in keeping trust

Trust has been climbing steadily up the CEO agenda. And as our interactions become ever more automated, data driven and virtual, the human factor is receding. In this environment, IM CEOs are aware of the risks and relatively confident in their systems and safeguards against damage to stakeholder trust levels. Paralleling the global group of CEOs, IM executives (93%) say strong corporate purpose has gained in importance, as has the need to account for wider stakeholder expectations (80%) and difficulty in gaining and keeping trust (69%). Set against this, the good news is IM CEOs are confident, relative to global levels over the next five years, that damage in breaches of data privacy and ethics, cyber security and risks from use of social media will not impact negatively on stakeholder trust.

Figure 4 Vulnerabilities on stakeholder trust

Q: To what extent do you think the following areas will impact negatively on stakeholder trust levels in your industry in the next five years?

Breaches of data privacy and ethics



Cyber security breaches affecting business information or critical systems



Risks from use of social media



Global



Industrial manufacturing

Source: PwC, 20th Annual Global CEO Survey.

On the global vs. national trade seesaw

CEOs recognize the challenge as the world's political and social compass begins to point more toward national interests rather than collective, global ones. In IM, 55% of CEOs agree or agree strongly that it is becoming harder to balance competing in an open, global marketplace with trends toward more closed national policies. As for the benefits of

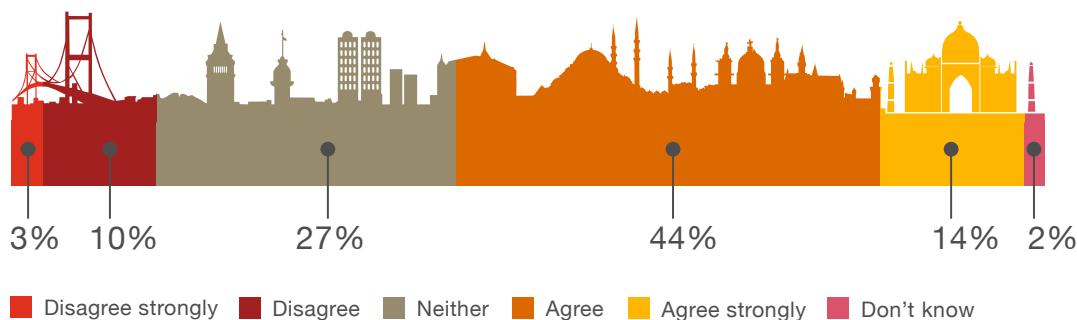
globalization, 65% say it enabled universal connectivity, 64% that it improved the ease of moving capital, people, goods and information, and 39% that it created a skilled and educated workforce. Yet at the same time, globalization has not helped to close the gap between rich and poor (only 13% agreeing) or bolster fairness and integrity of global tax systems (21%).

“The future in industrial manufacturing revolves around the way companies embrace strategic change; how they leverage constantly developing digital technology and data analysis. As industrial manufacturers continue to expand their use of intelligent systems and platforms, such as the cloud, that securely gather and enable data analysis, they will optimize business processes, reduce supply chain and manufacturing costs and, ultimately, drive improved profitability.”

Barry Misthal
Global Industrial
Manufacturing Leader
PwC

Figure 5 Walking the changing line on global trade

Q: To what extent do you agree or disagree that it is becoming harder for CEOs to balance competing in an open global marketplace with trends toward more closed national policies?



Source: PwC, 20th Annual Global CEO Survey.

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