

Fit for the future *17th Annual Global CEO Survey*

Key findings in the retail and consumer goods industry

February 2014



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Sector snapshot

Sector snapshot

Technology has the potential to transform retail and consumer goods businesses

Eighty percent of retail CEOs said that “technological advances” is the global trend that will transform their businesses most over the next five years. As for consumer goods CEOs, 67% said the same. On the other side of the coin, just 34% of consumer goods CEOs and 38% of retail CEOs see the speed of technological change as a concern, compared to 47% of CEOs overall.

Why is technological change viewed as such a positive by these CEOs, given the daunting investment it takes to develop and deploy the latest enterprise-wide and consumer technologies?

Perhaps because it makes the world smaller and potentially puts products in the hands of millions of additional consumers. Take online shopping. In this year's PwC Total Retail survey of global consumers, 41% of global shoppers bought products using tablets, compared to 28% in 2012, and 43% of respondents purchased products through smartphones, compared to 30% in 2012.

That's tech-savvy customers using technology to improve and expand their buying experience – a boon for consumer goods companies and their retail partners.

For retail and consumer goods CEOs, technology is a conduit to new consumers

Sector snapshot

Into Africa

Africa has some of the fastest-growing economies in the world, and consumer goods CEOs, in particular, have taken notice. Eighteen percent of consumer goods CEOs planning a joint venture or strategic alliance are looking to Africa, while 12% of retail CEOs planning a deal are looking there, compared to 9% of CEOs overall.

**Consumer goods
CEOs planning a
deal who are
looking to Africa
24%**

Reaching consumers is one thing – understanding their shopping habits is another

Sixty-four percent of retail CEOs said they were “concerned” about shifts in consumer behavior, with 28% saying they were “extremely concerned.”

One potential shift: Are consumers shopping with fewer retailers? When we asked our Total Retail shoppers to tell us how many retailers in a given group they’d shopped with in the last 12 months, 15% of our global sample responded that they had shopped with just one – an increase of 7% from 2012. That same trend held in the “2 to 5” favorite retailers range.

When it comes to business threats, high, volatile raw materials prices stand out

High, volatile raw materials prices round out the top five concerns for both retail and consumer goods CEOs.

Most believe they’ll need to make changes to their supply chains in response to global trends. On a positive note, consumer goods CEOs believe their procurement and sourcing departments are well prepared to make those changes.

Confidence in growth

“GDP is too blunt an instrument: you have to drill down and see what is and what is not driving that GDP.”

Jan Johansson, CEO, Svenska Cellulosa AB (SCA)

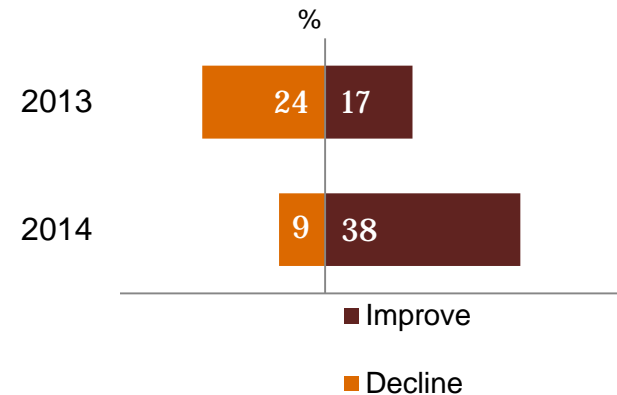
Views on the economy are looking up

Retail and consumer goods CEOs are more optimistic than last year. Thirty-eight percent of them believe that the global economy will improve in the next 12 months, compared to just 17% last year.

And while a third expected to see the economic situation worsen last year, this year only 9% are anticipating a global decline.

Many consumer goods CEOs are **worried about continued slow or negative growth in developed markets** (67%). It's higher on their list of concerns than a slowdown in growth markets (58%). And while retail CEOs aren't quite as concerned, the same gap applies.

Q: Do you believe the global economy will improve, stay the same, or decline over the next 12 months?



Base: All respondents 2014 (Retail and consumer goods, 344)

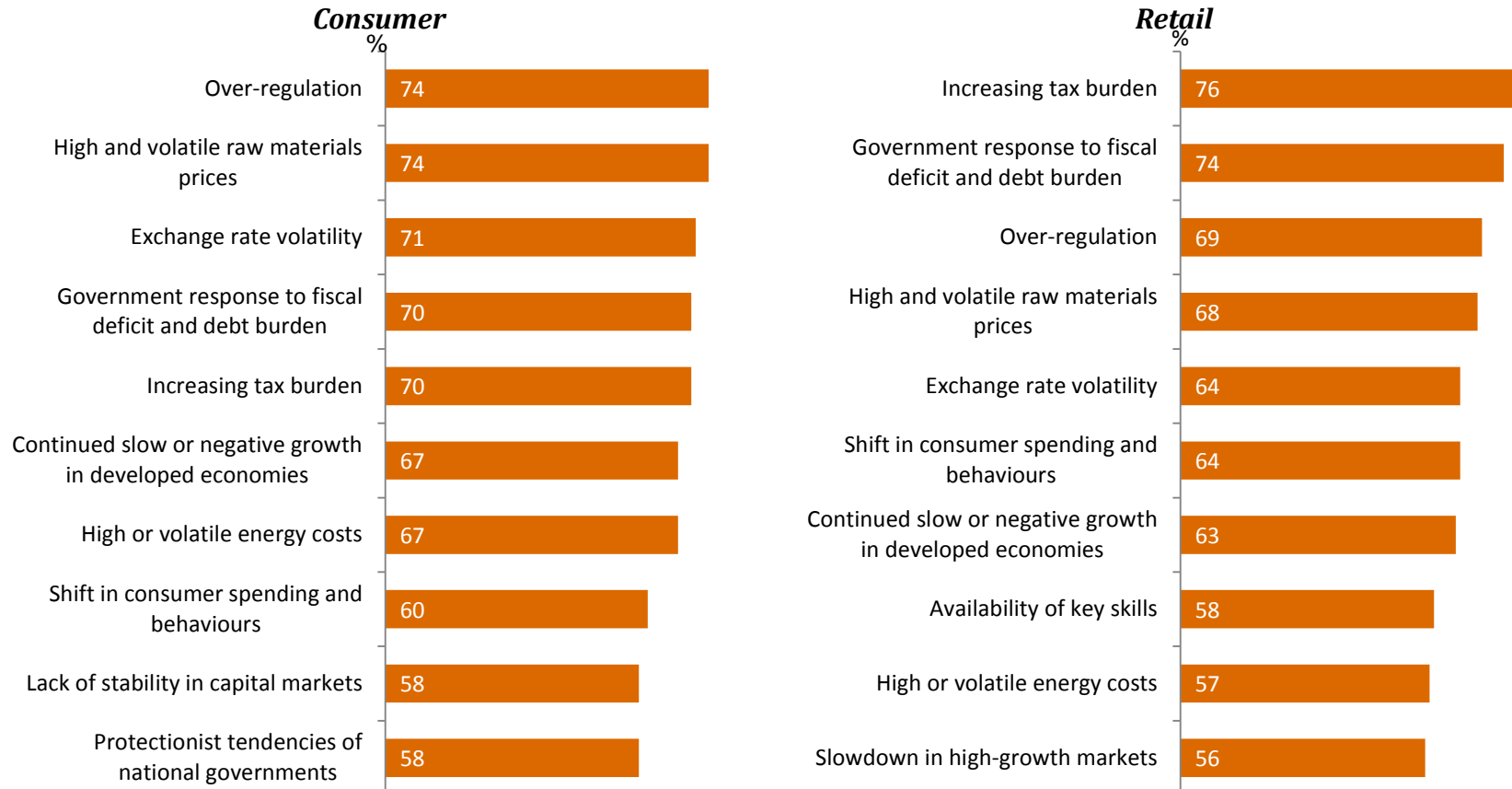
2013 (Retail and consumer goods, 283)

Note: 'Stay the same' and 'Don't' know/refused' not shown.

Source: PwC 16th Annual Global CEO Survey 2013

PwC 17th Annual Global CEO Survey 2014

Retail and consumer goods CEOs are concerned about many of the same issues



Q: How concerned are you, if at all, about each of the following threats to your growth prospects? Top ten choices listed

Base: All respondents (Total sample, 1344; Consumer goods, 199; Retail, 145)

Note: Respondents who stated 'extremely' or 'somewhat' concerned.

Mature markets are a greater cause for concern

Retail and consumer goods CEOs are more more worried about sluggish growth in developed economies than about a slowdown in high-growth markets – that differs from the overall sample, where CEOs worry nearly equally about both.

Q: How concerned are you, if at all, about each of the following threats to your growth prospects?



Base: All respondents (Total sample, 1344; Consumer goods, 199; Retail, 145)
Source: PwC 17th Annual Global CEO Survey

Worries about raw materials prices are looming

**Consumer
goods
74%**

High and volatile raw materials prices are an issue

Nearly three-quarters of consumer goods CEOs and almost as many retail CEOs say they are somewhat or extremely concerned that a rise in those raw materials prices could slow down growth. That's far more than the total number of CEOs in the sample who worry about the same thing.

**Retail
68%**

More than two-thirds of consumer goods CEOs worry about high or volatile energy costs too, although just 57% of retail CEOs say they are concerned.

**Overall sample
55%**

Last year, 72% of consumer goods CEOs and 52% of retail CEOs were concerned about energy and raw material costs.

The global re-balancing act

Retail and consumer goods CEOs are expanding in growth markets and developed markets alike

Western Europe still holding on

Around a quarter of retail CEOs planning transactions have their eyes on Western Europe, making it their top deal destination. That number drops to 21% for consumer goods CEOs.

Retail CEOs planning deals are looking most often at Western Europe

26%

North America and South-East Asia rank high too

For consumer goods CEOs, Western Europe ties with North America and South-East Asia as the most important deal region, (21% each), followed closely by Africa, with 18%.

Consumer goods CEOs expecting transactions rate Africa #4

18%

China is the strongest growth market over the next 12 months

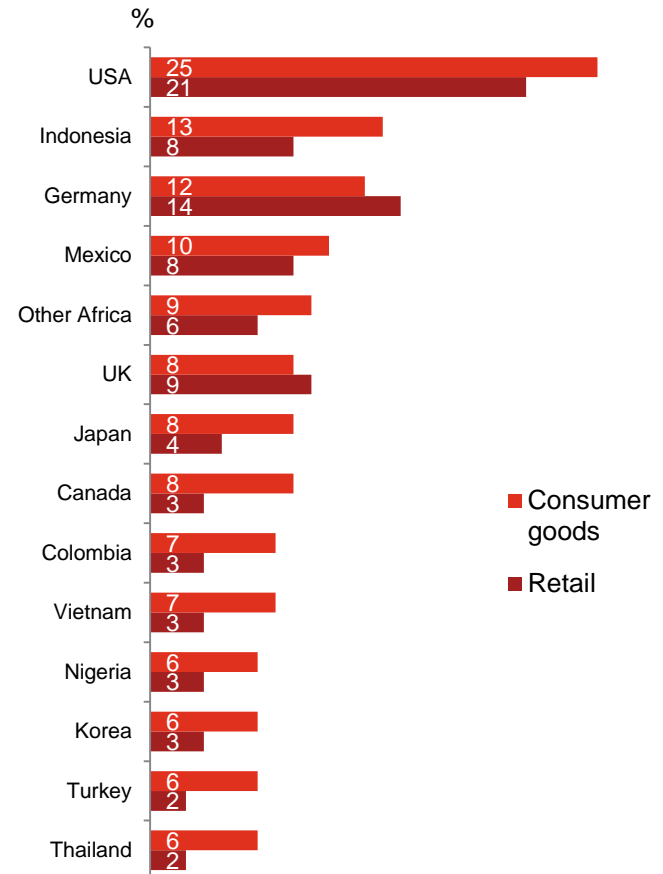
More than a third of consumer goods CEOs and around a quarter of retail CEOs rank it in their top three growth markets. But for both sectors, the USA is next on the list.

Retail and consumer goods CEOs who rate China as one their top growth markets

34%

Retail and consumer goods CEOs have a long list of growth markets beyond the BRICS

The BRICS are important to retail and consumer goods companies, but so are a whole host of other countries, from traditional consumer powerhouses like the USA, Germany and the UK to a wide range of growth markets in Asia, Africa, and Latin America.



Q: Thinking specifically about high growth markets beyond the BRICs, which three markets excluding Brazil, Russia, India, China and South Africa do you consider most important for your growth prospects over the next 3 to 5 years?

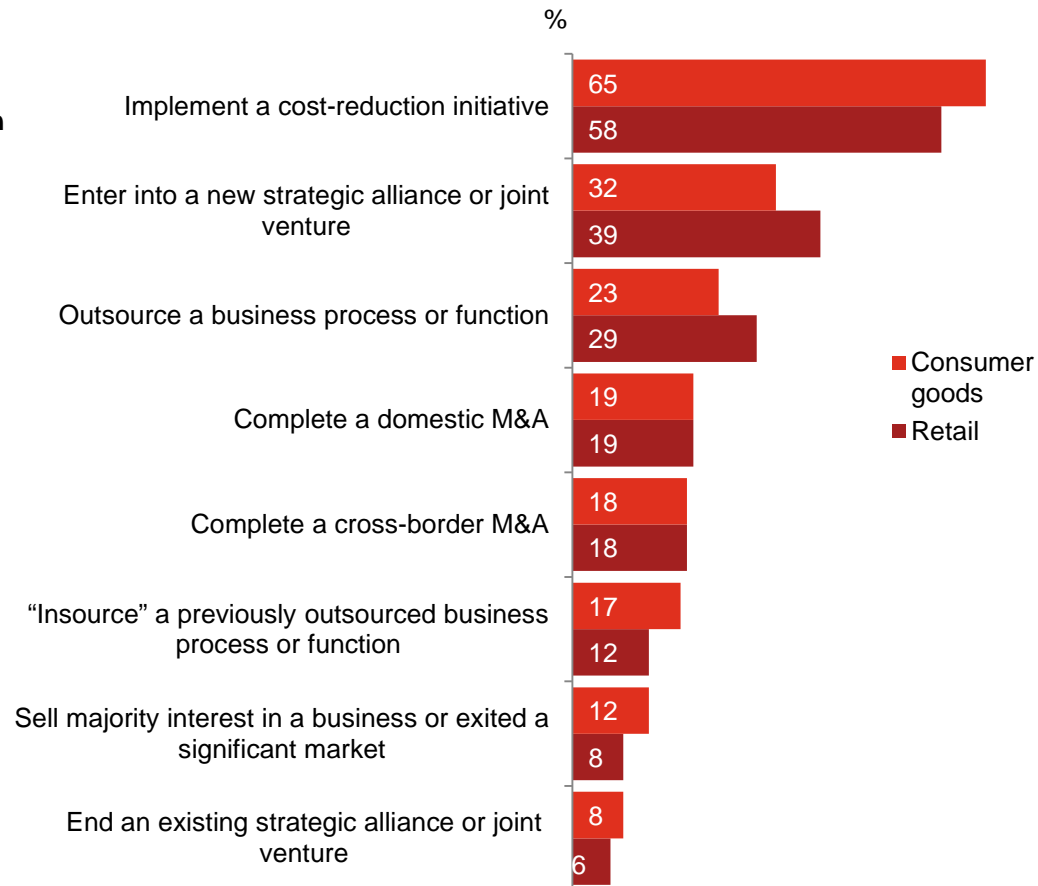
Base: All respondents (Total sample, 1344 ; Consumer goods, 199; Retail, 145)

Source: PwC 17th Annual Global CEO Survey 2014

All countries with more than 5% from retail or consumer CEOs listed. 'Other Africa' included responses naming Zimbabwe, Morocco, Ethiopia, Uganda, Kenya, Zambia and Egypt.

Cost reduction is the top type of restructuring, and outsourcing still beats out ‘insourcing’

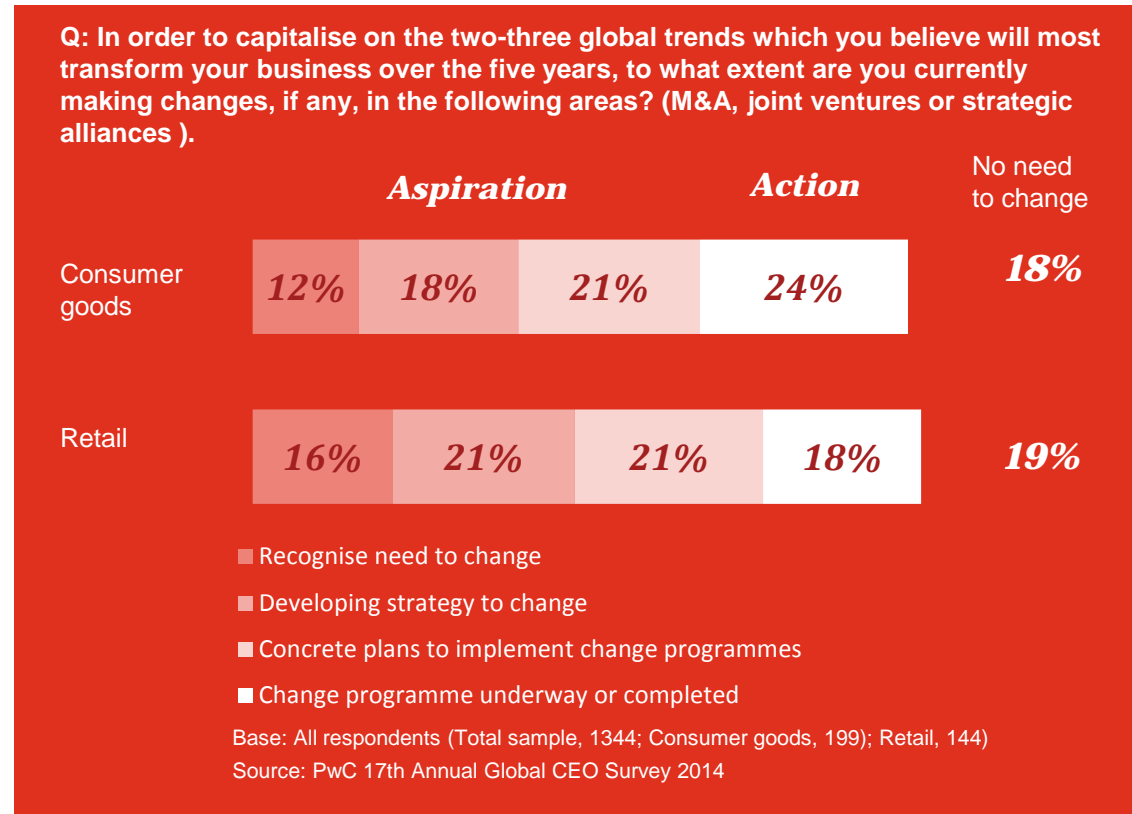
Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months?



Base: All respondents (Retail, 145; Consumer goods, 199)
 Source: PwC 17th Annual Global CEO Survey 2014

Only around a quarter of consumer goods CEOs are already changing their deal strategies

Most retail and consumer goods CEOs see a need to change their strategies around M&A, joint ventures, or strategic alliances, but relatively few have gotten started. Just 24% of consumer goods CEOs say a change programme is underway or completed. That's still slightly more than the overall sample (17%) or their retail peers (18%).



Transforming business

Technological advances will transform retail and consumer goods businesses the most

Q: Which of the following global trends do you believe will transform your business the most over the next five years? (CEOs ranking #1, #2 or #3)

Technological advances



Shift in global economic power



Demographic shifts



Resource scarcity & climate change



Urbanisation

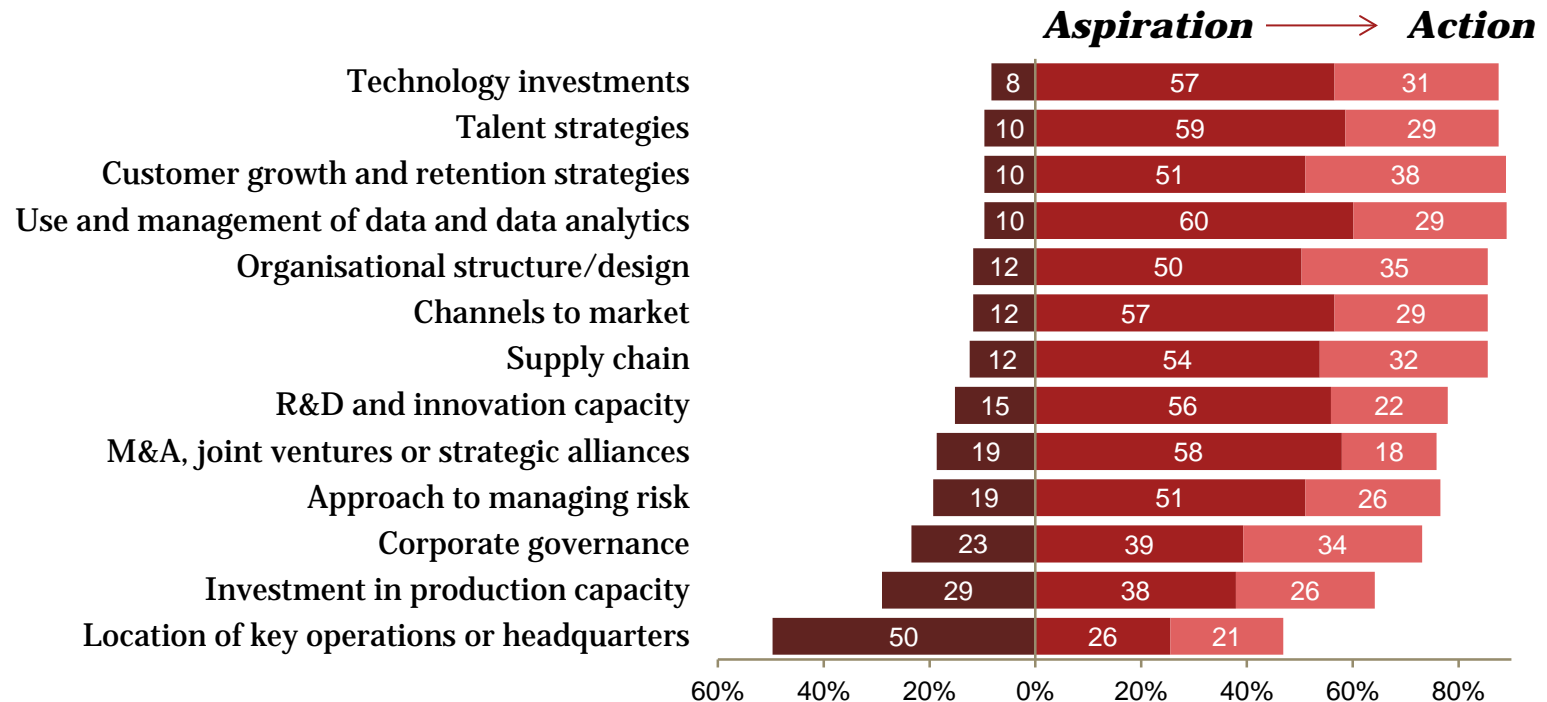


■ Consumer goods ■ Retail

Eighty percent of retail CEOs said that “technological advances” is the global trend that will most transform their businesses over the next five years, with “demographic shifts” a distant second.

As for consumer goods CEOs, 67% also chose “technological advances”.

Retail CEOs see changes ahead in most areas, with technology investments topping the list



■ No need to change ■ Recognise need/developing strategy/concrete plans to change ■ Change programme underway or completed

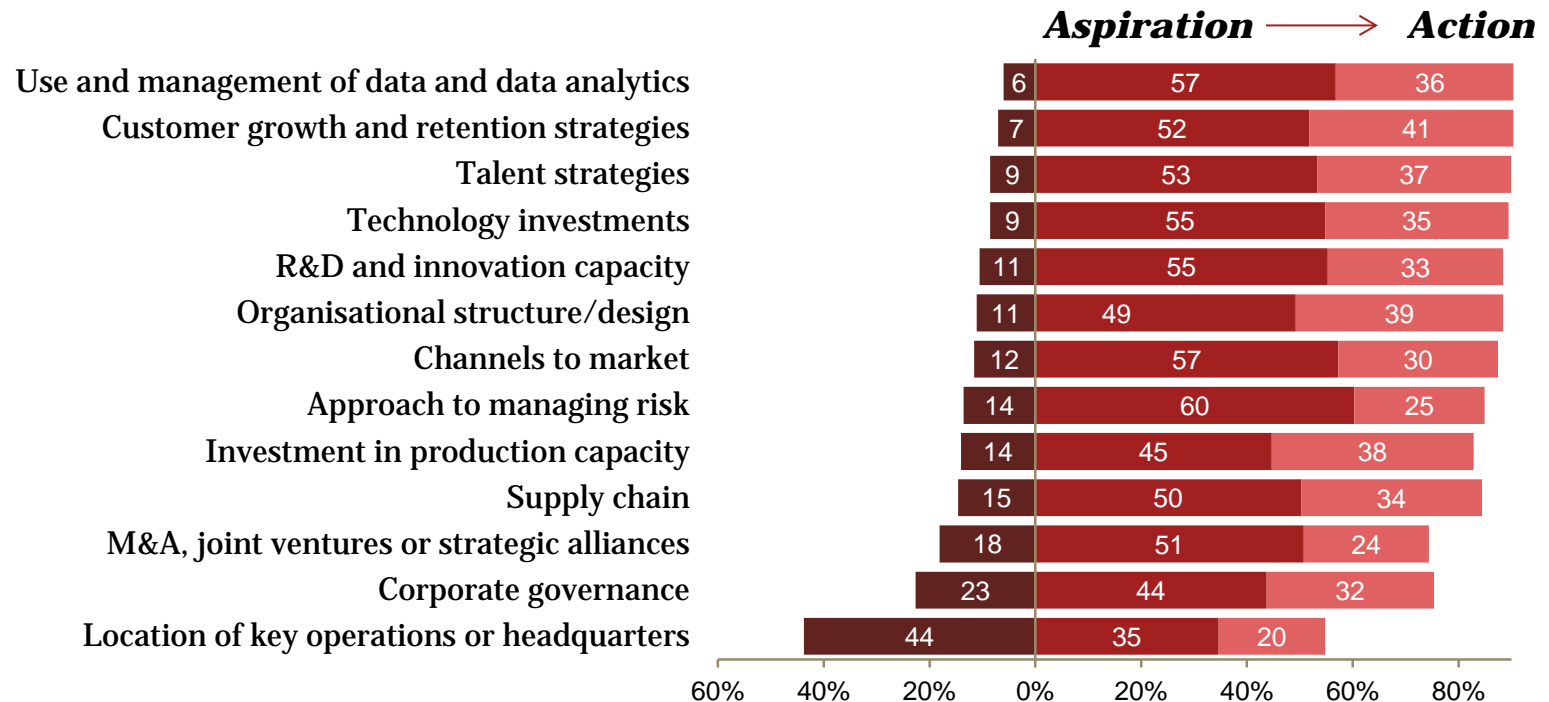
Q: To what extent are you currently making changes, if any, in the following areas?

Base: All respondents (Retail, 145)

Note: Don't know/refused not shown.

Source: PwC 17th Annual Global CEO Survey 2014

Consumer goods CEOs are reshaping their organisations; customers and data are top priorities



■ No need to change ■ Recognise need/developing strategy/concrete plans to change ■ Change programme underway or completed

Q: To what extent are you currently making changes, if any, in the following areas?

Base: All respondents (Consumer goods, 199)

Note: Don't know/refused not shown.

Source: PwC 17th Annual Global CEO Survey 2014

Consumer goods CEOs on transformative trends

“It is a fact that consumer behaviour and spending patterns have changed. It is paramount for retailers to take heed of consumers’ changing behaviours and identify ways to meet their needs.”

CHEN Long, Chairman, China Resources Enterprise, Limited

“The costs for acquiring ICT and information have fallen to incredibly low levels – and whoever takes advantage of information innovation will win in the marketplace.”

Shigetaka Komori, Chairman and Chief Executive Officer, FUJIFILM Holdings Corporation

“As faster economic growth shifts to places in Africa, across Asia, and Latin America, consumer goods companies have to adapt with the right products in the right stores at the right prices at the right time to meet the needs of new consumers.”

Muhtar Kent, Chairman and Chief Executive Officer, The Coca-Cola Company

Retail companies may need to catch up to consumer goods companies on innovation

- Consumer goods CEOs in particular are placing their bets on **product and service innovation** – 40% see it as their main route to growth. For retail CEOs it comes in second, with 30% rating it their main opportunity to grow their business (after increased share in existing markets).
- Retail and consumer goods CEOs are relatively confident in their ability to keep up with a changing world. Just 34% of consumer goods CEOs and 38% of retail CEOs are concerned about the **speed of technological change** – fewer than across the overall sample (47%).
- Consumer goods CEOs are also somewhat more likely to believe that their R&D department is ready to cope. Thirty-five percent say it's well prepared, compared to 28% overall and 19% of retail CEOs.

In other research, we've found that the most successful CEOs are doing three things to 'industrialise' innovation – i.e., to make it repeatable, dependable and scalable.

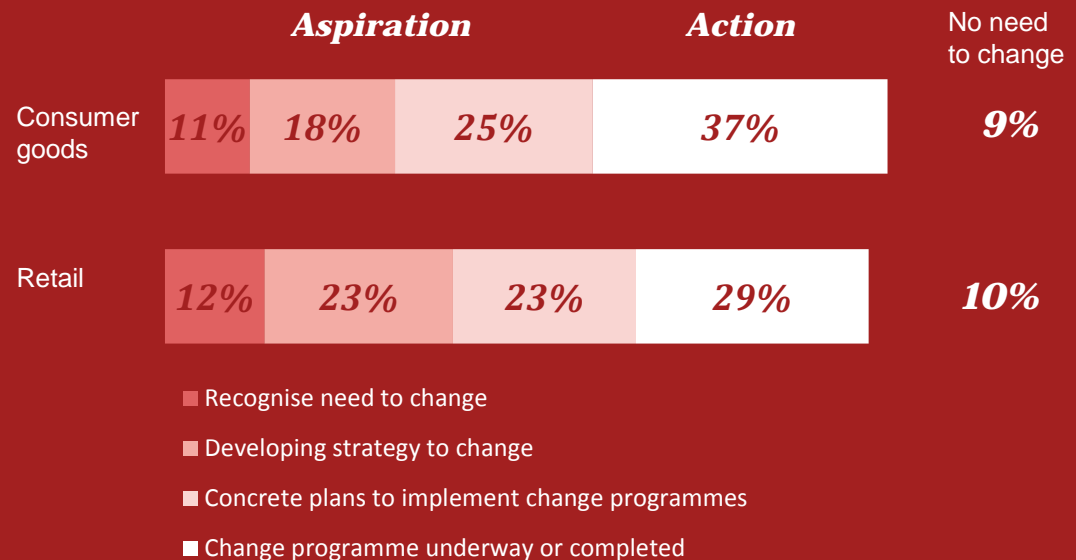
They're focusing on breakthrough innovation in all its forms; putting disciplined innovation techniques in place; and collaborating much more actively.

Poised to change talent strategies...

Retail and consumer goods CEOs agree they'll need to change their talent strategies to cope with future trends like demographic changes and urbanisation.

Only a minority are already doing so, although consumer goods companies are slightly ahead of retailers in this area.

Q: In order to capitalise on the two-three global trends which you believe will most transform your business over the five years, to what extent are you currently making changes, if any, in the following areas? (talent strategies).



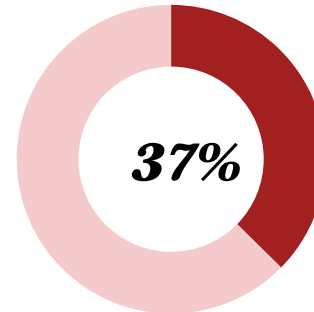
Base: All respondents (Consumer goods, 199; Retail, 145)

Source: PwC 17th Annual Global CEO Survey 2014

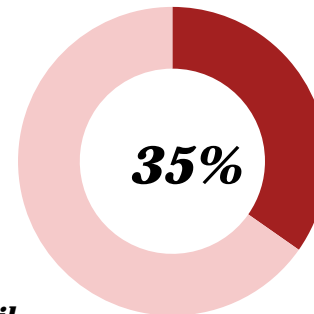
...But there is work to do to get ready

Less than 40% of retail and consumer goods CEOs think their HR departments are well prepared to execute on plans to capitalise on transformative global trends.

Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organization prepared to make these changes? HR



Consumer goods



Retail

- Well prepared
- Somewhat prepared, not prepared, don't know or refused

Base: All respondents (Consumer goods, 199; Retail, 145)

Source: PwC 17th Annual Global CEO Survey 2014

Transformation also means improving supply chains...

Around half of both retail and consumer goods CEOs worry that supply chain disruption could threaten growth.

What are they doing about it? Most see a need to make changes to their supply chains, and around a third have already gotten started.

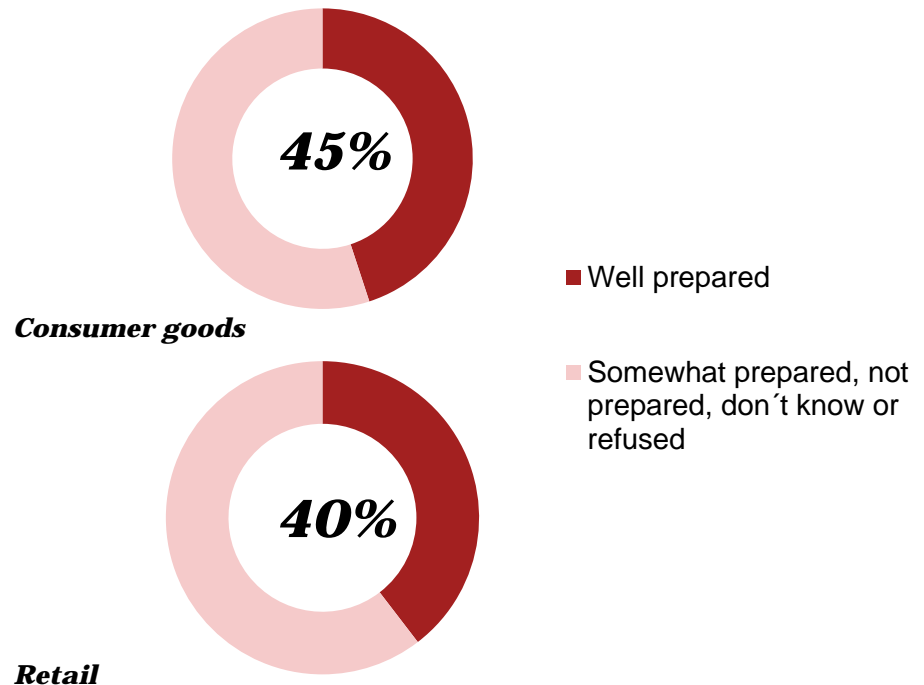


...And retail and consumer goods CEOs are already getting prepared

Only a tiny minority of retail and consumer goods CEOs think their procurement and sourcing functions aren't prepared at all to cope with transformative change.

Consumer goods CEOs in particular are more confident they're ahead of the curve in this area – 45% say their departments are well prepared, compared to 33% overall and 40% of their retail peers.

Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organisation prepared to make these changes? Procurement and sourcing



Base: All respondents (Consumer goods, 199; Retail, 145)

Source: PwC 17th Annual Global CEO Survey 2014

About PwC's 17th Annual Global CEO Survey



Retail and consumer
goods respondents

344

In countries across the
world

55

We surveyed 1,344 business leaders across 68 countries in the last quarter of 2013, and conducted further in-depth interviews with 34 CEOs.

Our overall survey sees a leap in CEOs' confidence in the global economy – but caution as to whether this will translate into better prospects for their own companies. The search for growth is getting more and more complicated, as opportunities in both developed and emerging economies become more nuanced, leading CEOs to revise the portfolio of overseas markets on which they'll focus.

In 'Fit for the future: Capitalising on global trends', we also explore three forces that business leaders think will transform their businesses in the next five years: technological advances, demographic changes and global economic shifts. We show how these trends, and more importantly the interplay between them, are creating many new – but challenging – opportunities for growth through creating value in totally new ways; developing tomorrow's workforce; and serving the new consumers.

We also show how, in responding to these trends, CEOs have the opportunity to help solve important social problems.

In short, the demands being placed on business leaders to adapt to the changing environment are increasing exponentially; CEOs are having to become hybrid leaders who can successfully run the business of today while creating the business of tomorrow.

This sector key findings report takes a closer look at responses from retail and consumer goods CEOs. It is based on 344 interviews with 145 retail CEOs and 199 consumer goods CEOs in 55 countries. We also cite more in-depth conversations with four sector CEOs.

Contacts and acknowledgements



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Acknowledgements

Our thanks to the following CEOs who are quoted in this document:

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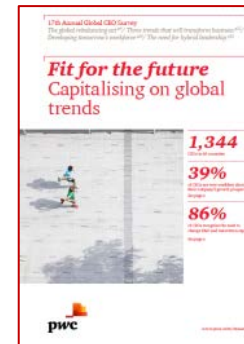
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