

Private business trends 2019

External volatility impacting private business CEOs' confidence

Part of PwC's 22nd Annual Global CEO Survey trends series



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PwC's 22nd Annual Global CEO Survey

Executive summary

So what are CEOs saying about the year ahead? PwC's 22nd Annual Global CEO Survey of 1,378 chief executives in more than 90 territories explores that question and many others regarding the global business climate in 2019.

Conducted in September and October of 2018, this year's survey drills down on CEO insights in top-of-mind areas such as: Growth, Data and Analytics, and Artificial Intelligence.

You can find the full CEO Survey report, as well as other industry and other related reports here: ceosurvey.pwc

1. Reality check

Our previous survey saw a record jump in optimism regarding global growth prospects for 2018, and this exuberance translated across regions. This survey, by contrast, saw a record jump in pessimism, with nearly 30% of CEOs projecting a decline in global economic growth, up from a mere 5% the previous year. CEOs also reported a noteworthy dip in confidence in their own organisations' revenue prospects over the short (12-month) and medium (three-year) term. If CEOs' confidence continues to be a leading indicator, global economic growth will slow down in 2019.

2. Look inside-out for growth

Across the survey rang a general theme of hunkering down as CEOs adapt to the strong nationalist and populist sentiment sweeping the globe. The threats they consider most pressing are less existential than in years past (e.g. terrorism, climate change) and more related to the ease of doing business in the markets where they operate (e.g. overregulation, policy uncertainty, availability of key skills, trade conflicts). When asked to identify the most attractive foreign markets for investment, CEOs are narrowing their choices and expressing more uncertainty.

3. Mind the information and skills gaps

In addition to the fault lines developing geopolitically, CEOs are working to bridge the gaps in their own capabilities. Organisations are struggling to translate a deluge of data into better decision making. There is a shortage of skilled talent to clean, integrate, and extract value from big data and move beyond baby steps toward artificial intelligence (AI). One of the more striking findings in this year's survey was the fact that — despite billions of dollars of investment and priority positioning on the C-suite agenda — the gap between the information CEOs need and what they get has not closed in the past ten years.



The private business view

Two notable results stand out in the more than 800 private business CEO responses to PwC's 22nd Annual Global CEO Survey: first, chief executives running private businesses — about one-quarter of which are family-owned — are less confident about their firm's growth prospects than their counterparts at public corporations, and, second, they are also less optimistic about global economic growth. Consequently, private business CEOs are more likely to look inward for organic growth — achieved through operational efficiencies and new products or services — rather than enter new markets.

Although such a stance is understandable, it's fair to ask: is this aversion to risk-taking actually obscuring strategic opportunities for competitive advantage and growth? If you're a private business CEO, do you have to choose between being safe and being bold?

Private businesses enjoy structural advantages, some of which are especially valuable in volatile times. They are, in many ways, better positioned to deal with disruptions and find competitive advantage than their publicly traded counterparts. Their unique qualities — fewer stakeholders, established relationships, stable access to capital and, above all, a strategic view that's measured not in quarters but in generations — enable them to be both more patient and more nimble.

However, private businesses are generally more sensitive to changes in government policy. In particular, tax policies — with their incentives and disincentives, complexity and potential for shifting rates — are

wielded by governments as weapons of competitive advantage, remedial revenue or other national priorities. A private business, especially one with limited ability to hedge operations overseas, will bear the full brunt of any policy changes.

Private businesses with lean structures and little free cash also have less room to manoeuvre than their publicly traded counterparts when exposed to other kinds of external disruptions, such as cybercrime, populism, trade imbalances and regulatory overreach. And private businesses are far from immune to some of the larger trends evidenced in our CEO Survey, especially in crucial areas of talent and technology.

Faced with these conflicting realities, leaders of private businesses would do well to be vigilant when crafting a growth strategy in the current environment. In other words, the best approach would be to manage, rather than avoid, risks — and seize opportunities that may be hiding in times of disruption and inflection.

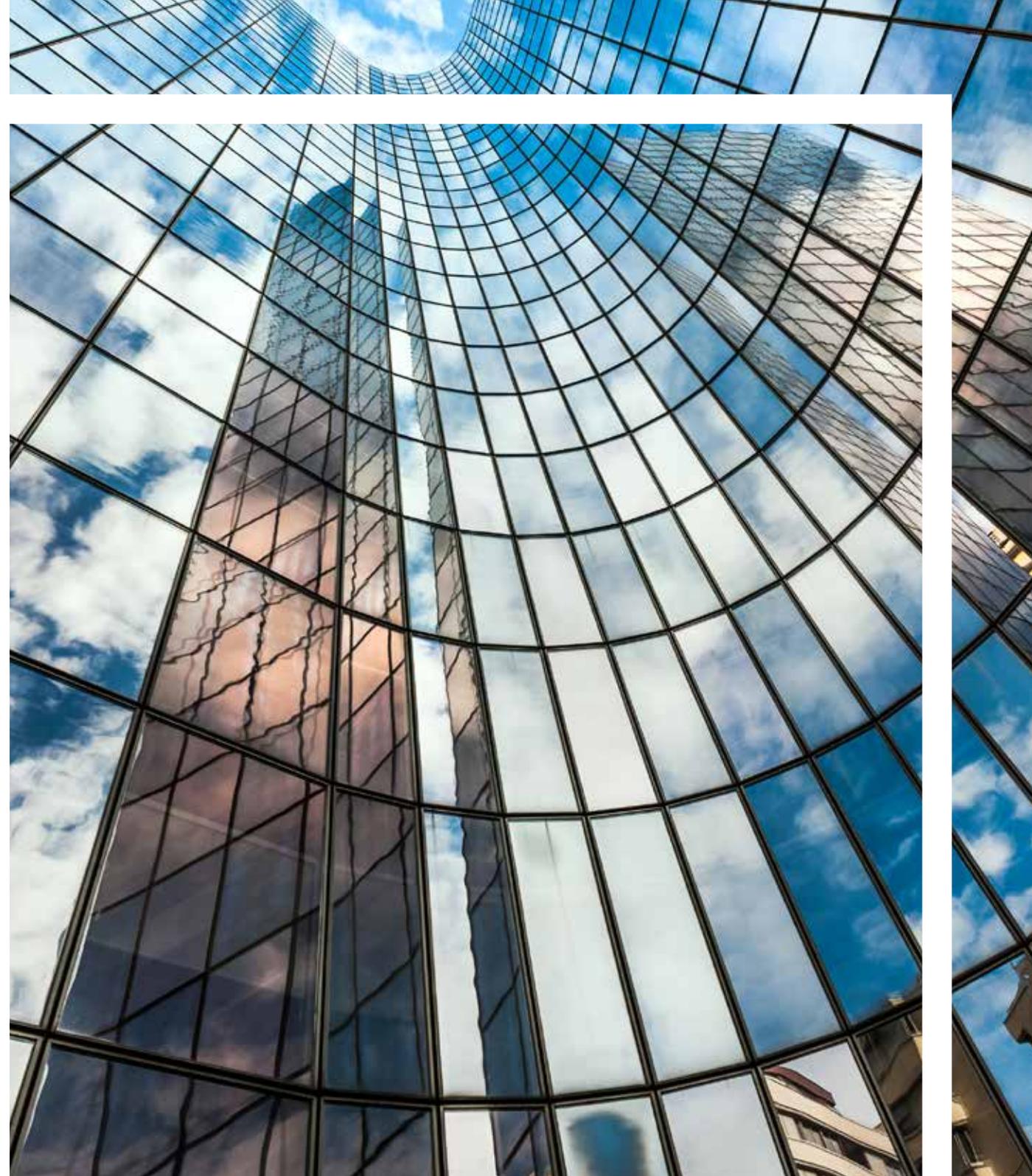
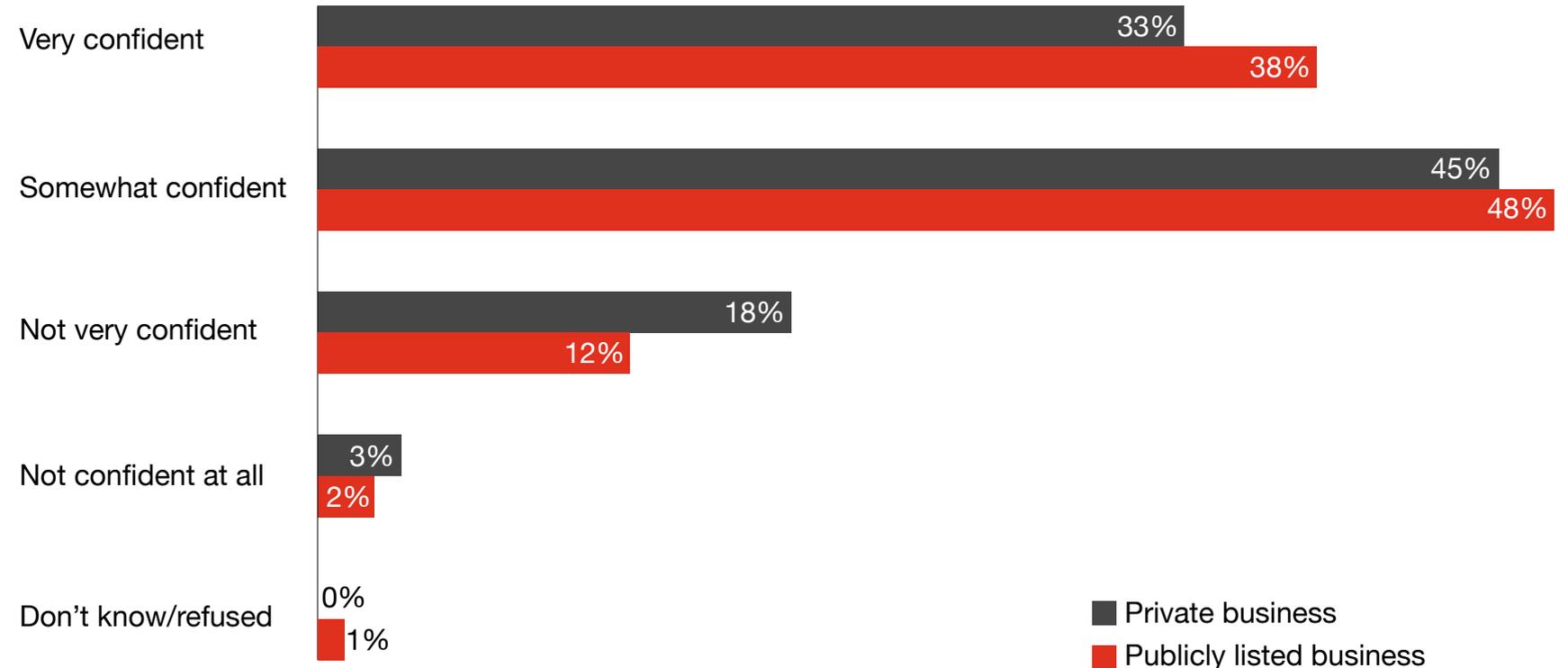


EXHIBIT 1

Private business CEOs made up 59% of survey respondents; their confidence in revenue growth over the next 12 months is lower than that of their public company counterparts

QUESTION

How confident are you about your company's prospects for revenue growth over the next 12 months?



Source: PwC, 22nd Annual Global CEO Survey
Base: Private business CEOs (811); public company CEOs (567)

32%

of private business CEOs predicted merger or acquisition activity would drive revenue growth in the next 12 months

43%

of public company CEOs predicted merger or acquisition activity would drive revenue growth in the next 12 months

Pessimism isn't a strategy — it's an emotion

In last year's Annual Global CEO Survey, private business respondents were much more optimistic about the future. But this year is clearly different; external volatility has resulted in a more tempered outlook for company growth — especially compared to that of publicly traded companies — and pessimism when it comes to macroeconomic growth. Only 33% of private business CEOs said they were very confident about growing revenue in the coming 12 months, compared with

38% of executives in publicly traded companies (see Exhibit 1). And although 43% of private business CEOs expect the global economy to improve over the next 12 months, as many as 30% forecast it to decline, compared with only 6% in the previous year's survey. We pay close attention to such prospective viewpoints: year over year in our global survey, CEO sentiment has proven to be a leading indicator of future global economic growth.

But pessimism isn't a strategy — it's an emotion. And it may lead to a cautiousness that could in turn impede the future growth

potential for private businesses. Consider the sharply lower percentage of private businesses likely to pursue a merger or acquisition, when compared with public company respondents (32% and 43%, respectively). Is that inward-looking stance a disadvantage? Can a nimble private business find a hidden opportunity in pursuing an acquisition target — especially if it can keep its capital structure and debt position under control? In those cases, M&A that provides access to an adjacent market could make sense, particularly because competitors may be more reluctant to make bold moves.

Look the issues in the eye, and don't blink

But instead of becoming insular or even bearish, private businesses should be using this period of uncertainty to prepare for a significant shift that could determine their place in the commercial landscape in the near future. Particularly for family-owned companies based in developed Western countries, the next decade will see the biggest intergenerational change in history, with a baton passing from the

baby boomer founders to their millennial successors. This shift will bring upheaval to this class of companies; some businesses might become candidates for acquisition, either by intent or default, while others that have set the stage well for the future could become even stronger.

Two interrelated motifs among the larger themes of the CEO Survey point to steps that private businesses should take in order to put themselves in an advantageous position over the coming years.



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1. The right talent can make a difference

The talent crunch is an overarching concern in this year's CEO Survey. Almost two-thirds of private business CEOs are finding it more difficult to hire workers, with more than one-third 'extremely concerned' about availability of key skills (see Exhibit 2). This shortage ultimately impacts innovation, customer experience and — with people costs rising more than expected — the bottom line, both private and public CEO respondents said.

But in the hunt for the best people and the right skills, private businesses have a few inherent advantages, which they would do well to focus on. For retention, draw first on the equity of shared values you've already built with your workforce: loyalty and trust is easier to develop in private businesses. Invest in your employees' (and your own) ongoing success by continually training them, 'up-skilling' them and rewarding them.

For recruiting, actively solicit your people's buy-in (and contacts). Use your position as a key employer in the community to partner with schools and trade organisations to help develop the skill sets and skilled people you need. Offer flexible work arrangements to lure experienced, inactive workers back into the fold. You can also seek a competitive edge by investing some of your 'patient capital' in attractive compensation packages. And — especially,

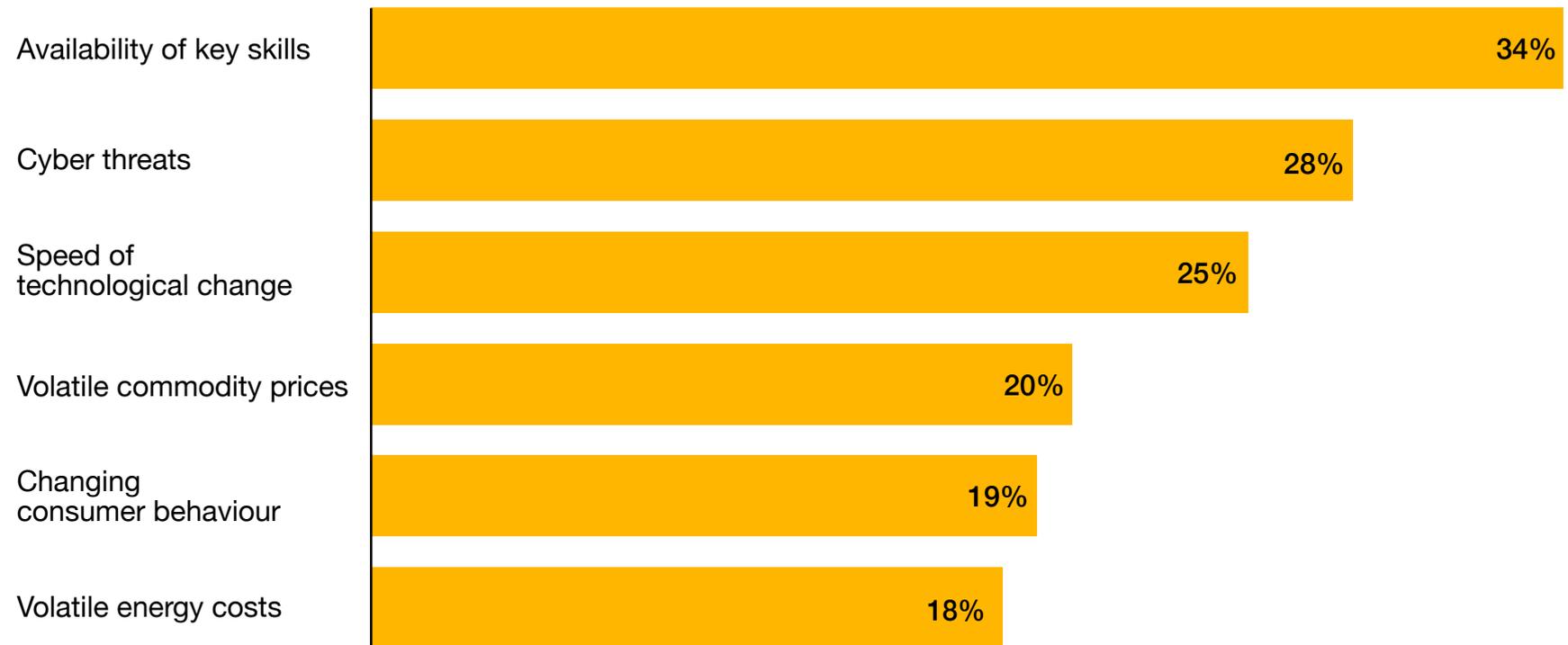
EXHIBIT 2

Private business CEOs identified 'availability of key skills' as a significant threat to their organisation's growth prospects

QUESTION

How concerned are you about the following potential business threats to your organisation's growth prospects?

(Showing those who responded 'extremely concerned')



Source: PwC, 22nd Annual Global CEO Survey
Base: Private business CEOs (811)

but not exclusively, if yours is a family business — draw on the homegrown talent in waiting, and tirelessly work to advance your next generation of leadership.

2. Technology can reshape your business

There's an additional benefit to aggressively courting the next generation of talent, one that may have special resonance for private businesses with an older leadership team in place: the rise of tech savviness among digital natives.

The truth is, for all companies, staying on the leading edge — to both advance and defend the enterprise — is extremely hard to do. Technology tools, such as AI and data analytics, and tech-related threats, such as cyber attacks and IP theft, are changing at a far faster pace than the skills of your workforce. Although private businesses enjoy a degree of flexibility that can support innovation, this is one area where publicly traded companies generally have the edge over their counterparts — a fact that private CEOs are at least aware of, even if they

also profess to be more sceptical of the value that AI can deliver.

Here again, the generational change afoot brings opportunity to both modernise and improve the business. The next generation is inherently better suited to function in a world where the moving target of technology is inseparable from nearly every other facet of business operations. And, although most traditional family and private businesses don't need to overreach and spend their limited resources on the latest-and-greatest digital tools, they should be cognisant of the tools that may be coming online — and be ready to spend on them at the right time.

Talent and technology are in fact deeply interrelated. In many ways, the best tech investment you can make is in people. The more you can attract and invest in talent who have a sophisticated grasp of the cost-benefit ratios offered by the latest technology, the less you will invest in unnecessary or inappropriate digital tools.

In the tug of war between the structural advantages and obstacles of being a private business, will you come out ahead? Many private businesses have a decided edge in the most important challenges of the next few years, even in the midst of uncertainty. This includes advantages in developing talent, implementing the right technology for the business, making quick and nimble moves to pounce on opportunities, and viewing the world through a longer lens than what the next quarter will bring. These advantages are responsible for the longevity and resilience of many private businesses. This is no time to abandon them.

Private businesses should be using this period of uncertainty to prepare for a significant shift that could determine their place in the commercial landscape in the near future.

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About PwC's 22nd Annual Global CEO Survey

PwC conducted 1,378 interviews in September and October 2018 with CEOs in 91 territories. Our sample is weighted by national GDP to ensure that CEOs' views are fairly represented across all major regions. The interviews were also spread across a range of industries. Further details by region and industry are available by request. There were 811 respondents from private businesses, and 39% of private business CEOs reported an annual revenue greater than US\$1bn.

Notes:

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the second half of 2018. The interviews can be found at [ceosurvey.pwc](https://ceosurvey.pwc.com).
- The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services: www.pwc.co.uk/pwcresearch.

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