21st CEO Survey

A complex present, a murky future

Key findings from the consumer markets industry

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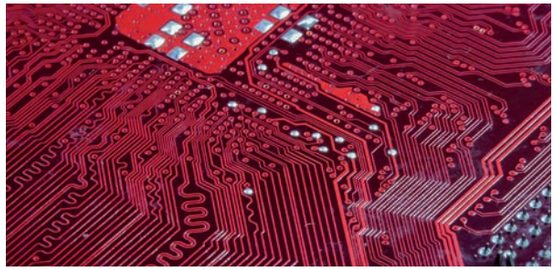
Contents



Introduction

CEOs of consumer goods manufacturers and retailers might be feeling a bit beleaguered these days.

Growth is hard to come by, especially for the larger, more established players; investment budgets are stretched thin; consumer preferences and shopping habits are in rapid flux; and investors are waiting impatiently for near-term improvements. These circumstances help explain why consumer goods CEOs aren't as bullish as the average CEO about growth prospects for the economy and their own organisations, according to PwC's 21st CEO survey. It also offers insight into why retailing and consumer goods CEOs are shying away from M&A activity, and why they are inclined to hold back as their counterparts in other sectors join the rush to digitise their businesses.

With consumer markets in unprecedented upheaval, CEOs in the sector appear to be more focused on the here and now than on ambitious long-term undertakings. Operating as they are in an environment of dramatic change, the long view may be a luxury they can't afford.

01

Growth expectations shape acquisition strategies

CEOs of consumer goods companies, on both the manufacturing and retailing sides, are somewhat less sanguine about overall growth than the average CEO, with 52% of manufacturing CEOs and 49% of retailing CEOs believing that the global economy will grow in the coming 12 months, compared with the global average of 57%. Similarly, 38% of manufacturers and 33% of retailing CEOs said they were very confident of their own companies' growth prospects over the next 12 months, against a global average of 42% (see exhibit 1).

Exhibit 1

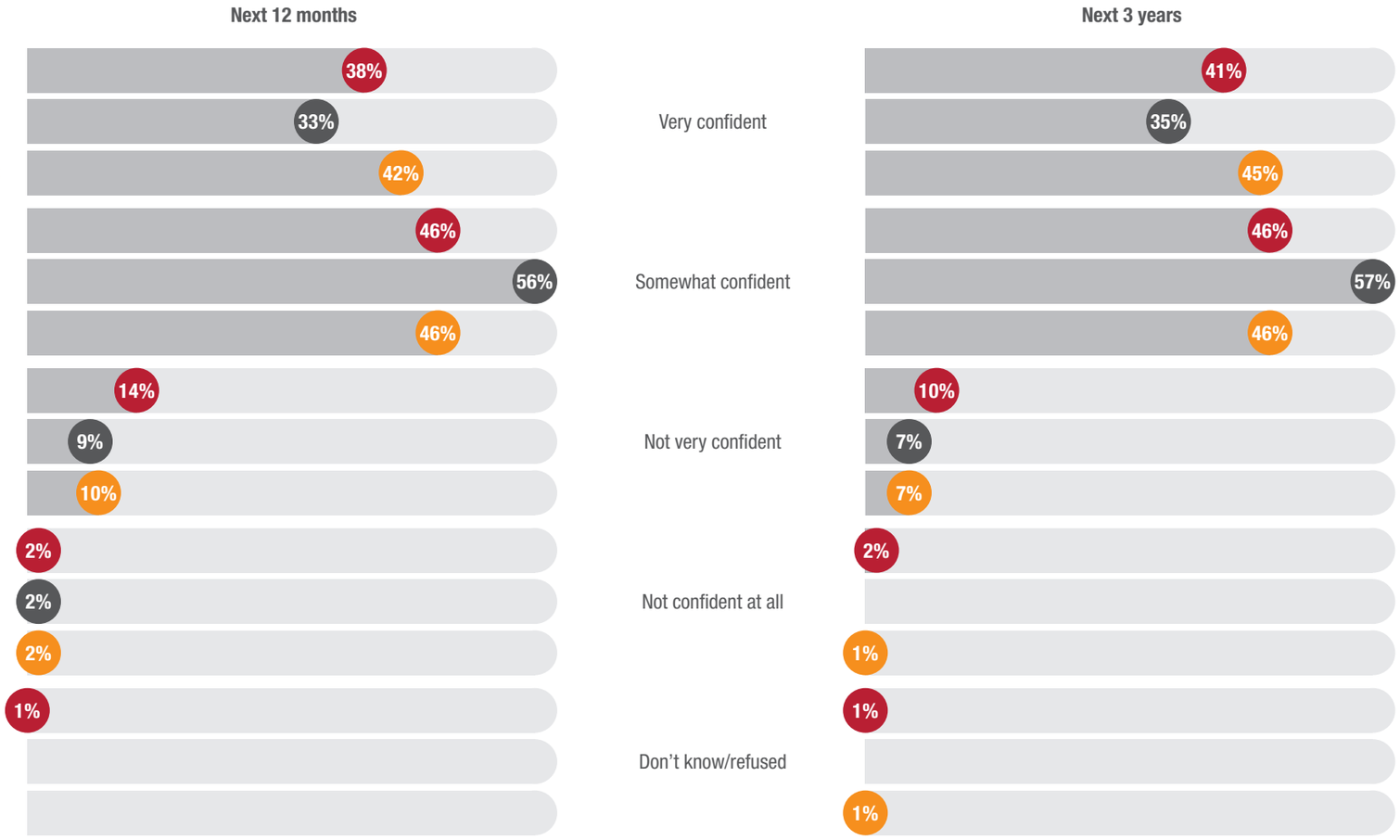
Consumer market CEOs are cautious about growth

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

Consumer good manufacturers ● Retail (Retail and wholesale) ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Consumer markets and retail (retail and wholesale) respondents.

Q How confident are you about your company's prospects for revenue growth over the next 12 months and next 3 years?



Consumer good manufacturers ● Retail (Retail and wholesale) ● Global

Source: PwC, 21st Annual Global CEO Survey. Base: Consumer markets and retail (retail and wholesale) respondents.

The consumer goods CEOs' views are likely coloured by conditions in their sector, where low-single-digit growth has been the norm for at least a decade. The exceptions to that tendency are almost all smaller, younger companies with niche brands that are starting from a low base.

Modest growth expectations are having an effect on M&A activity. Given the turmoil in retailing in recent years, driven by the rise of large e-commerce platforms with broad product selections, low or nonexistent delivery charges, and competitive prices, it's no surprise that deal activity in the sector has been limited. Only 9% of retailer CEOs reported completing an acquisition of a sizable target (that is, one with revenues of 20% or more of the acquirer's annual revenues) in the past 12 months. (see exhibit 2)

Most such acquisitions, the CEOs say, were undertaken with the main objective of realising synergies or economies of scale, reflecting the sector's emphasis on cost control. Growth ambitions are secondary: only 34% of retailers plan to drive growth through M&A over the next 12 months, compared with a global average of 42%. The most likely explanation for the relative absence of retailing deals is that most players are focused on rationalising their store count, not expanding their footprint.

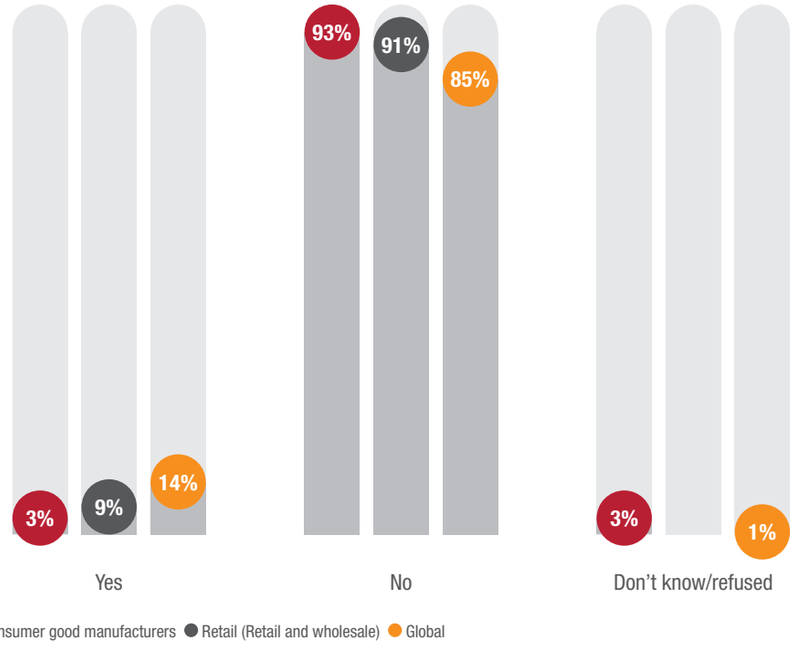
On the manufacturing side, only 3% of CEOs of consumer goods manufacturers say they completed a sizable acquisition – again, of a target whose annual revenues are at least 20% of the acquirer's – in the past 12 months. In many cases, manufacturers may simply not have capital available for large transactions, their financial flexibility constrained by slow-growing or declining revenues, deep cost cuts, and the increasing prevalence of zero-based budgeting.

In light of those conditions, it makes sense that only 27% of manufacturers are counting on M&A to drive growth over the next 12 months, compared with the global average of 42%.

Exhibit 2

Consumer market CEOs are not keen on acquisitions

Q Has your organisation acquired a business greater in size than 20% of your own organisation during the last 12 months?



Source: PwC, 21st Annual Global CEO Survey. Base: Consumer markets and retail (retail and wholesale) respondents.

02

Digital worries abound

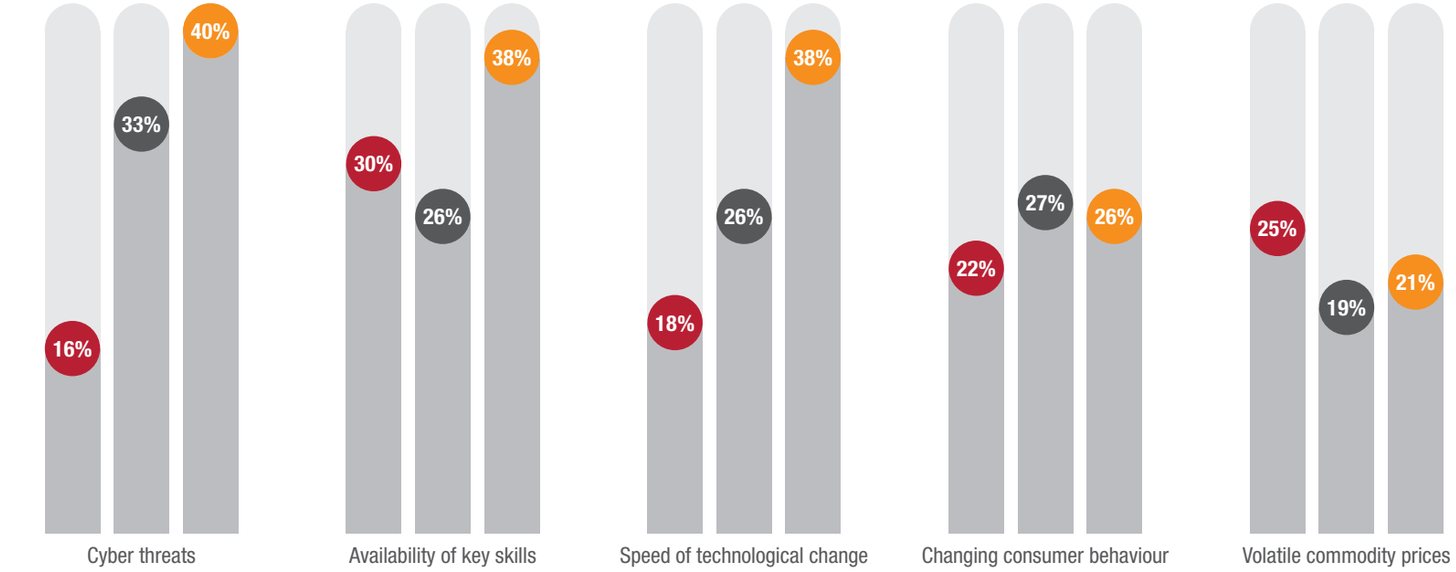
One third (33%) of retailing CEOs say that they're extremely concerned that cyber threats could upend their growth plans (see exhibit 3). Those findings suggest that while retailers have taken note of the widely publicised thefts of consumers' data, they still do not believe that they have adequately hardened systems against such intrusions. That may stem, in part, from a lack of available funding for investment in digital security. By contrast, only 16% of consumer goods manufacturing CEOs say they're extremely concerned about cyber threats, an indication that most CEOs in the sector believe their organisations have managed cyber risk effectively. However, with 40% of global CEOs reporting that they are extremely concerned about cyber threats, one wonders if consumer markets CEOs are concerned enough.

Exhibit 3

Cyber threats top retail CEOs' worries

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

Chart shows percentage of respondents who responded 'extremely concerned'



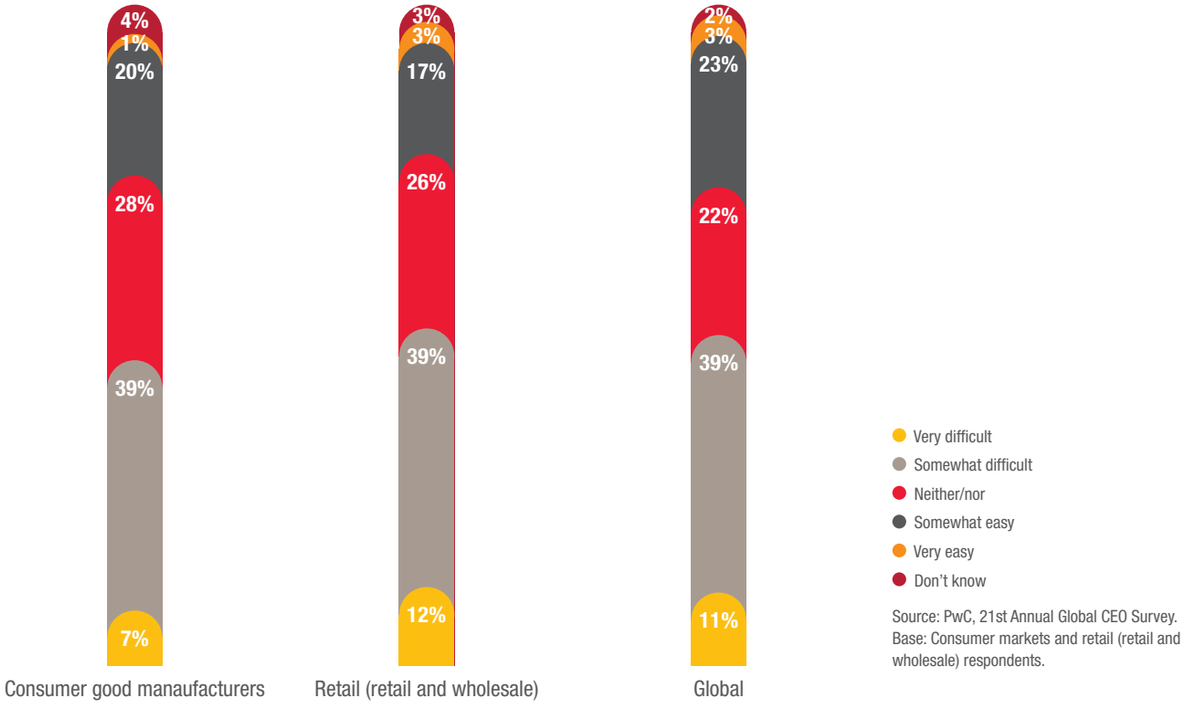
Source: PwC, 21st Annual Global CEO Survey. Base: Consumer markets and retail (retail and wholesale) respondents.

Like their counterparts in other industries, retailing CEOs report that they are having trouble finding and recruiting the digital talent they need. Nearly three-quarters (72%) of retail CEOs say they're concerned about the availability of digital skills among their employees, and 51% say it's somewhat or very difficult to attract digital talent to their organisations (see exhibit 4). Meanwhile, 76% of consumer goods manufacturing CEOs are concerned about the availability of digital skills among their employees, in line with the global average, and 50% say that it's very or somewhat difficult to attract digital talent. Relatively few are modernising their working environments to acquire talent. For example, only 15% of retailers and 14% of consumer goods companies are working to a large extent with academic institutions to build digital capabilities.

Exhibit 4

More than half of retail CEOs find it difficult to attract digital talent

Q Overall, how easy or difficult is it for you to attract digital talent?



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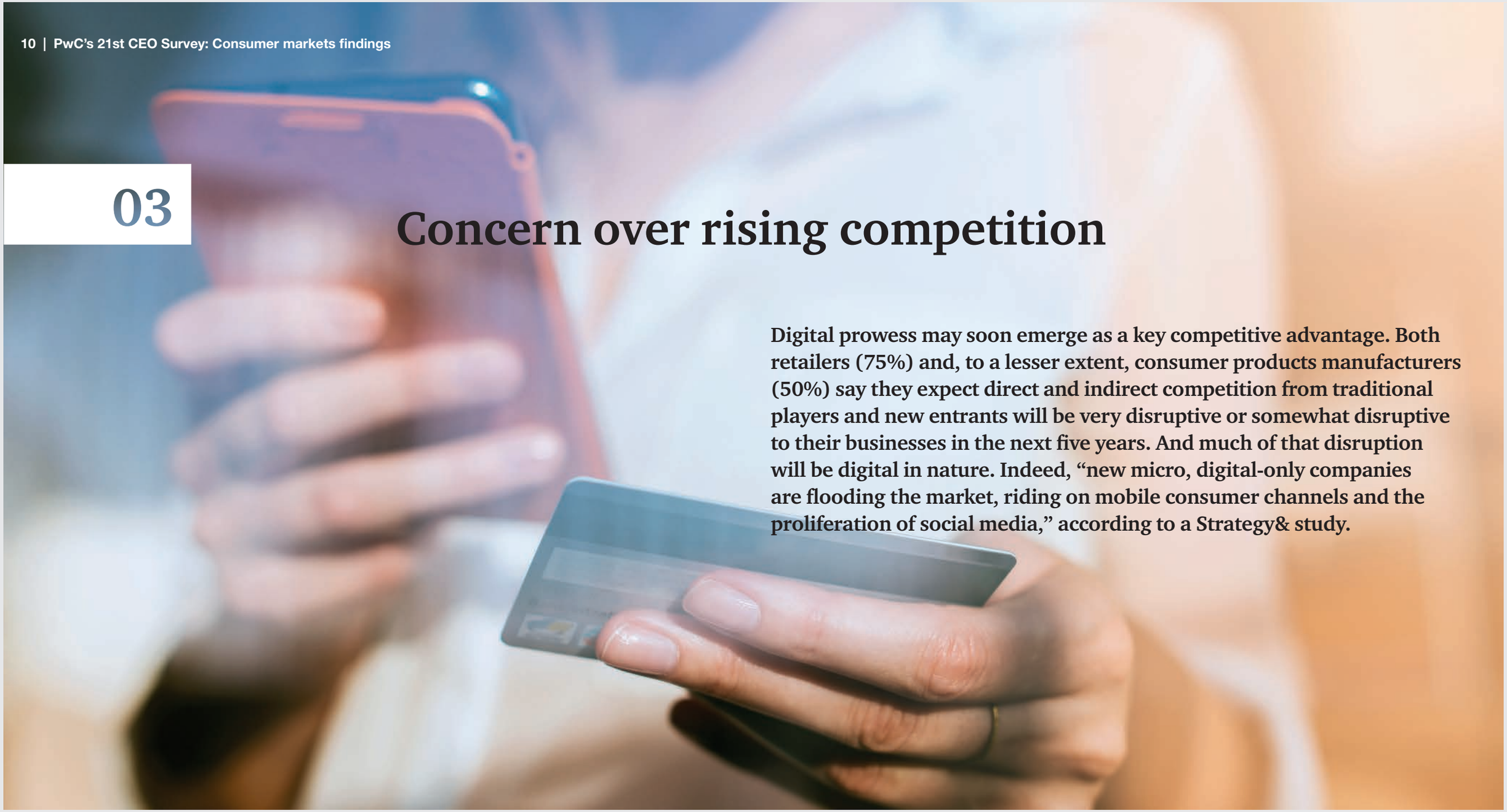
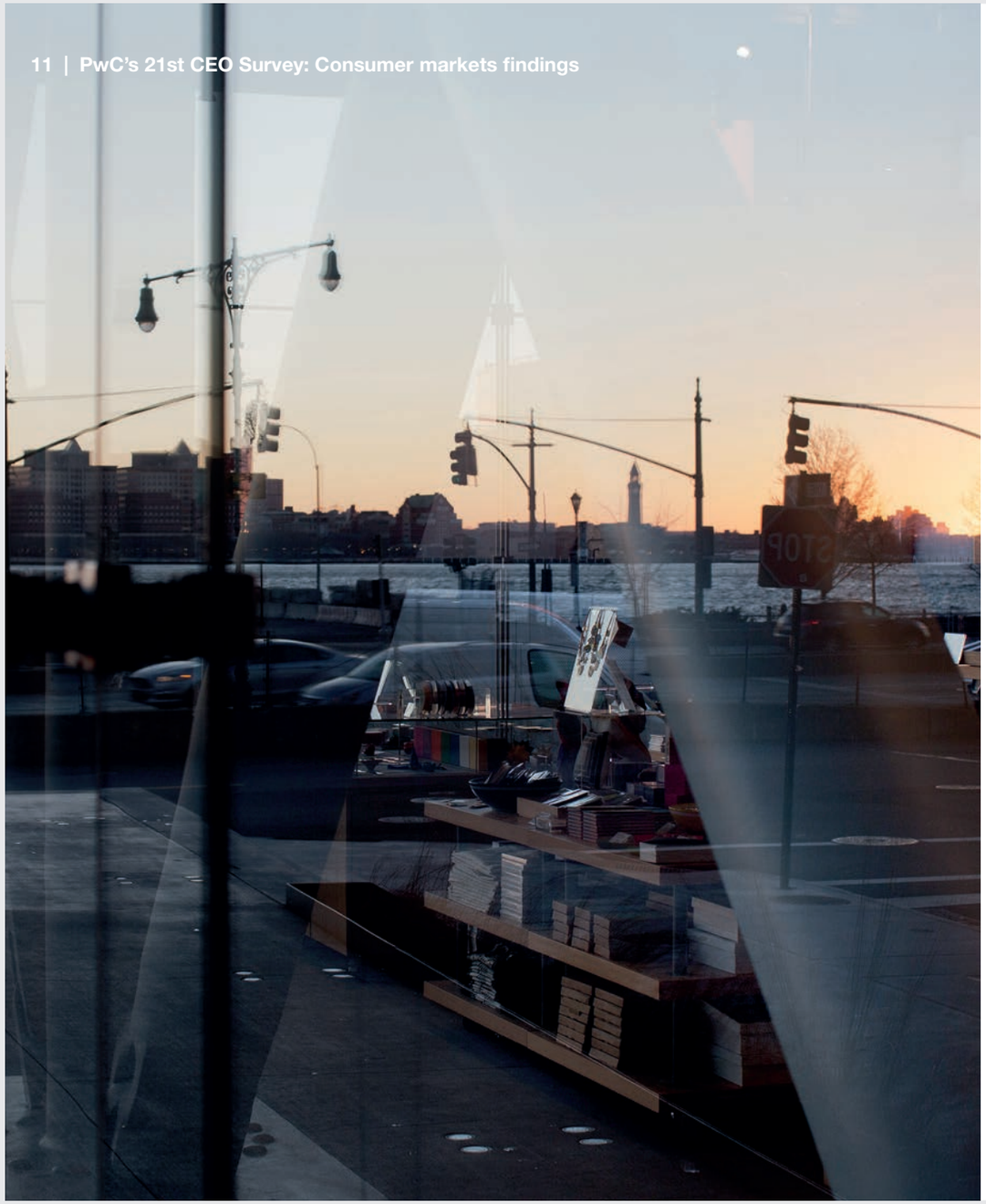


03

Concern over rising competition

Digital prowess may soon emerge as a key competitive advantage. Both retailers (75%) and, to a lesser extent, consumer products manufacturers (50%) say they expect direct and indirect competition from traditional players and new entrants will be very disruptive or somewhat disruptive to their businesses in the next five years. And much of that disruption will be digital in nature. Indeed, "new micro, digital-only companies are flooding the market, riding on mobile consumer channels and the proliferation of social media," according to a Strategy& study.



Many new competitors have a formidable array of digital skills that incumbents may be hard-pressed to counter – on that score, it's telling that only 34% of retail CEOs and 41% of consumer goods manufacturing CEOs say they have a clear understanding of how artificial intelligence and robotics can improve the customer experience. And 93% of retail CEOs and 88% of consumer goods manufacturing CEOs admit they need to strengthen their employees' softer skills such as teamwork and communication, which are necessary complements to digital expertise.

Ultimately, retailers and consumer goods companies may be driven to upgrade their digital skills in order to learn more about their customers and maintain their trust. At present, only 14% of retail CEOs and the same percentage of consumer goods manufacturing CEOs say they are experiencing declining trust among their customers. Yet only 67% of consumer goods manufacturing CEOs and 66% of retail CEOs say their organisations actually measure trust between their organisation and its customers – off the global average of 74%. Assuming that the boundaries between manufacturers and retailers will continue to blur in coming years, and considering that 63% of consumer goods manufacturing CEOs cite changing consumer behaviour a threat to their growth prospects, learning how to measure that trust will likely emerge as a top CEO priority.

Conclusion

In the past decade, massive changes to consumer markets have buffeted consumer goods manufacturers and retailers alike. But the effects have not been evenly distributed. Certainly, consumer goods manufacturers have had to lower their costs bases dramatically, develop new channel strategies, reconfigure supply chains, and deepen their understanding of their customers. But however and wherever they shop, consumers will always need groceries, toiletries, and cleaning supplies.

The story is quite different for retailers. As online shopping platforms continue to claim a growing share of the consumer goods market and the consumer wallet, the very need for brick-and-mortar retailers has come into question. Retailers have a range of options to respond to the existential threat they face, ranging from reducing their store counts, creating a distinctive store experience, and expanding their digital bandwidth to handle greater order volumes. The only choice that's off the table is to stand still.

21st CEO Survey Methodology

In the second half of 2017, PwC conducted 2,223 quantitative surveys with CEOs based in 85 countries. Most of those surveys (77%) took place online, with the remaining by phone (11%) or by post or face-to-face (12%).

Of those 2,223 responses, 206, or 9% were from the retail (retail & wholesale) industry.

The profile for retail (retail & wholesale) respondents:

- 36% had 1–5 years tenure
- 95% were male and 5% were female
- 35% were younger than 50

Their companies:

- 77% were privately owned, most commonly family run
- 10% had government ownership or backing

Notes

- The overall report on the CEO survey uses only 1,293 responses, not 2,223, in order to achieve a representative global sample.
- Not all figures add up to 100%, due to rounding and the exclusion of 'neither/nor' and 'don't know' responses.
- The base for figures is 206 (all retail (retail & wholesale) respondents) unless otherwise stated.

We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the fourth quarter of 2017. Their interviews can be found on our website at ceosurvey.pwc.com, where you can also explore responses by sector and location.

The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services

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