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# *Growth reimagined*

## Prospects in emerging markets drive CEO confidence

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# Asset management summary

***The global economy is still recovering from the worst economic crisis in 75 years, as many countries grapple with the aftermath of the recession. The PwC 14th Annual Global CEO Survey sets out to uncover how chief executive officers (CEOs) are approaching business growth during a time when sustainable economic growth in many developed markets is far from certain. We surveyed 1,201 business leaders in 69 countries around the globe in the last quarter of 2010.***

***The cross-sector findings reveal a surprising level of confidence in this environment; chief executives are nearly as confident of growth over this coming year as they were in the boom years before the crisis. The survey also revealed where CEOs see growth coming in 2011, and how they are going to achieve it. In 'Growth reimagined: Prospects in emerging markets', we show how CEO confidence is being driven by targeted investments in particular emerging markets – often far from home.***

***We also identified three strategic focal points to achieve that growth: innovation, talent and a shared agenda with government. These three business imperatives have always had their place on the CEO agenda. But now, with their worst fears about the crisis behind them and an emerging recovery ahead, CEOs are adopting new attitudes and approaches, tailored to dealing with the issues of the multi-speed global recovery that they hope is underway. To explore the full results from the 14th Annual Global CEO Survey, please visit www.pwc.com/ceosurvey***

## *Gearing up for renewed growth*

This is a summary of the findings in the asset management (traditional and alternative funds) sector, drawing on the perspectives of the 31 CEOs from the sector who took part in the survey. While some of the cross-sector themes are reflected in the responses from the asset management CEOs, their perspectives highlight further challenges and opportunities.

Asset management CEOs are among the most optimistic CEOs in our survey, though this confidence is tempered by a keen awareness of the challenges of increasing regulation, competition for talent and evolving investor expectations. Sixty-eight percent are 'very confident' about their company's growth prospects over the next three years, which is higher than in any of the other financial services sectors and some way ahead of the 51% average for the survey population as a whole. The remaining 32% are 'somewhat confident' about the outlook for their companies.

Much of this confidence clearly stems from the huge market potential opened up by an ageing population, not just in the developed world, but in Asia as well. While this potential has been evident for some time, the financial crisis has created further openings for asset managers by accelerating the pressure on defined benefits pension plans and putting even greater strains on already hard-pressed public pension provisions. The result is increasing uncertainty over retirement income and far greater readiness to put money aside. In the US, for example, our analysis suggests that the savings rate could rise to as high as 10% of disposable income, a level not seen since the 1970s. In the years leading up to the financial crisis it was running at below 3%[1].

To encourage workers to invest their growing savings in fund products rather than simply putting them in deposit accounts, asset managers will need to provide investment vehicles that combine reasonably secure income with sufficient yield to pay for longer retirements. They will also have to deal with an increasingly knowledgeable, demanding and empowered client base, which has been made more sceptical and risk-aware by the financial crisis.

Our survey indicates that asset managers are increasing investment in new product development and customer relationship management. Over 80% of asset management CEOs believe that innovations will lead to significant revenue opportunities for their businesses over the coming three years. More than 50% are stepping up product innovation, as well as upgrading their customer profiling and other systems capabilities to support growth initiatives.

One of the key developments within the mainstream retail sector will be the continuing shift from active to passive funds. Some analysts predict that the proportion of global funds managed passively could rise from around 15% to 25% over the next ten years[2]. This development could be especially telling within the pensions sector.

On the active management side, the post-crisis environment is creating valuable opportunities for the alternative investment industry. More than ever, institutional investors are convinced of the need to diversify their portfolios of assets. They recognise that the best alternatives managers offer them the potential to diversify and protect a portion of their assets. As we discuss later, good transparency and governance will be critical in attracting this flow of institutional investment.

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1 'The New Rule of 10%: The coming pension crisis, higher savings rates and fundamental changes in the US financial services industry', PwC (May 2010).

2 'Investment industry set for big shift into passive manegement', *Financial Times*, 27.06.10

***Three-quarters of asset management CEOs in our survey believe that emerging markets will drive growth in their companies and that these markets will be more important than developed markets to their organisation's future prosperity. Nearly all expect an increase in revenue from their Asian operations over the next 12 months, and some 80% anticipate growth in the Middle East and Latin America. Asia could provide an especially important source of growth for real estate funds as they seek to contend with the tough market conditions within most developed markets.***

## *Emerging market growth*

Further opportunities stem from the increasing level of affluence in China, India and other emerging markets. Our analysis indicates that while New York will remain one of the leading 'clusters' for asset management business over the next 20 years, Singapore could overtake today's other top three centres, London and Boston, by 2025[3]. Hong Kong, Beijing and other regional centres are also likely to see strong and rapid growth.

Three-quarters of asset management CEOs in our survey believe that emerging markets will drive growth in their companies and that these markets will be more important than developed markets to their organisation's future prosperity. Nearly all expect an increase in revenue from their Asian operations over the next 12 months, and some 80% anticipate growth in the Middle East and Latin America. Asia could provide an especially important source of growth for real estate funds as they seek to contend with the tough market conditions within most developed markets.

More than 30% of asset management CEOs are looking to make a cross-border acquisition to support their growth plans over the coming year. Emerging markets feature strongly in the target regions for M&As, with 40% planning an acquisition in Eastern Europe and 30% looking to buy a business in Asia and Latin America.

## *Contending with regulation*

Our survey reveals that asset management CEOs see over-regulation as the greatest threat to growth (see Figure 1). There are clearly challenges in implementing a wave of new directives, including the US Dodd-Frank Act, European Union Alternative Investment Fund Managers Directive (AIFMD) and the latest update of the Undertakings for Collective Investments in Transferable Securities (UCITS IV). Asset managers also face wider legislative developments such as the US Foreign Account Tax Compliance Act (FATCA), as well as the potential fallout from moves to control systemic risk within the banking sector.

It will be important to take account of national and regional differences in regulation and the impact of potential conflicts between the various regulatory developments. It will also be important to assess and address the strategic implications in key areas such as choice of domicile, product design, distribution and pricing. We believe M&As will form an important element of the resulting strategic realignment and restructuring, providing further impetus for the growing wave of acquisition, divestment and consolidation within the asset management sector. Regulatory changes could also lead to a more conservative risk appetite among many institutional investors, despite their broader need for alpha based on demographics and pension shortfalls, which will present asset managers with an even tougher challenge in balancing return maximisation and risk minimisation.

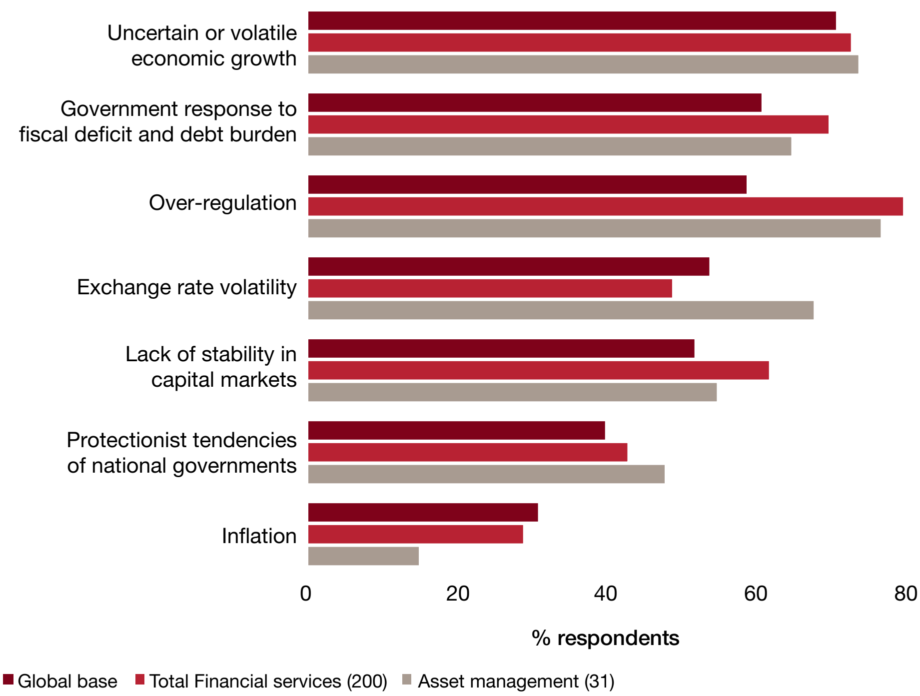
3 'Economic views: Future industry clusters', PwC (September 2010).

At the same time, many of these regulatory developments open up competitive opportunities. This includes rationalising operations and improving tax and capital efficiency. The new requirements on governance and disclosure could also provide the catalyst for enhancing transparency and trust. More than 70% of asset management CEOs plan to increase their company's financial transparency and focus more on strengthening their company's reputation and rebuilding trust over the coming year.

A recent PwC report looked at how greater openness could be especially important in helping alternative funds such as hedge, real estate and private equity funds to strengthen market confidence and attract more institutional investment[4]. Transparency is essential in sustaining investors' trust and reassuring them that there are appropriate controls across the fund value chain – including the fund board, manager, administrator and prime broker. More broadly, alternative funds are going to face increasing pressure from institutional investors to develop a more robust infrastructure of regulatory compliance and tax management.

**Figure 1: Policy and economic threats**

Q: How concerned are you about the following potential economic and policy threats to your business growth prospects?




Respondents who stated 'extremely' or – somewhat concerned'

*Base: All respondents (1,201)*
*Source: PwC 14th Annual Global CEO Survey 2011*

Only 21% of asset management CEOs intend to increase the headcount in their risk management teams, only 33% plan to re-examine their capital structures and only 38% plan to adjust their performance incentives to account for risk.

## *Closer focus on risk*

A more systematic approach to risk management will be critical in sustaining investor confidence and complying with new regulatory demands. Nearly 90% of asset management CEOs are modifying their operating models to manage risk more effectively. Over 80% will be focusing more of their senior management's attention on risk management and more than 60% intend to formally incorporate risk scenarios in their strategic planning. Nonetheless, how far many firms are embedding these changes into their day-to-day operations is open to question. Only 21% of asset management CEOs intend to increase the headcount in their risk management teams, only 33% plan to re-examine their capital structures and only 38% plan to adjust their performance incentives to account for risk.

4 'From black box to open book: Hedge fund trust and transparency', PwC (November 2010).

## *Driving down costs*

The renewed focus on fees and charges in the wake of the financial crisis is heightening the pressure on costs, especially within the retail sector. Three-quarters of asset management CEOs – a higher proportion than in any of the other financial services sectors – believe that consumers will focus more on price and value for money. Nearly 70% have responded by initiating or continuing a cost-reduction initiative over the past 12 months. Outsourcing is a significant element of the drive to control costs, with 42% having outsourced a business process over the past year and a further 29% planning to do so over the coming year. A significant proportion will be outsourcing offshore.

In our experience, however, these cost-reduction initiatives often deliver only short-lived savings or, worse still, impede a firm's ability to sustain quality of service, meet its strategic goals and respond to market opportunities. As our survey highlights, outsourcing is a potential case in point. A significant proportion of firms have brought a process in house over the past year or are planning to do so in the next 12 months (16%), suggesting that the arrangements have met with mixed success. If offshoring is managed effectively, it can create significant savings. But it opens up the particular challenges of operating across different time zones, regulatory regimes and long chains of management command.

The difficulties in gaining the anticipated benefits of cost-control initiatives underline the importance of a more sustainable approach to cost management. This seeks to align expenditure with strategic goals rather than relying on arbitrary and potentially damaging cost-reduction targets. It also seeks to make sure that savings can be maintained over the longer term by streamlining operations and improving efficiency. More effective systems and processes will be critical, as many asset management CEOs recognise; over 60% are looking to investments in IT to reduce costs and improve operational efficiency. The underlying requirement is a real understanding of the component costs and drivers of profit to discern the true margins and eliminate uncompetitive expenses in areas such as operational duplication.

## *The people to succeed*

As growth picks up in the sector, so will the competition for talent. Sixty-five percent of asset management CEOs see the availability of key skills as a significant concern and 36% believe that it is the biggest threat to their growth prospects.

Expansion in emerging markets is opening up a new front in this war for talent. Many asset managers are finding it difficult to secure the people they need to support their growth aspirations. With talent in short supply, competition for recruitment is leading to high staff turnover and escalating salary inflation. Secondment could help to bridge the gaps in the short-term. Forty-five percent of asset management CEOs are planning to deploy more staff on international assignments over the coming year. However, as the numbers needed to fill positions in emerging

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markets grow, it could prove hard to find enough employees who are willing to relocate. Many firms may also struggle to afford the generous pay and relocation packages that may be needed to encourage their top people to move overseas. It is notable that 35% of asset management CEOs reported difficulties in deploying experienced talent globally.

Is there a way to overcome talent gaps without allowing costs to go through the roof? Asset management is not an industry that necessarily needs people on the ground. Investment in technology would allow asset managers to deploy the talent that is readily available within existing industry clusters without having to fund expensive relocations or salary escalation. This could be combined with a longer-term approach to nurturing local graduates in centres targeted for growth.

## *Key competitive differentiators*

Our survey confirms that asset managers are emerging from the financial crisis with renewed confidence. However, success will be hard won. Customers are becoming savvier and more price-conscious. Regulation is increasing expenses and opening up asset managers to greater investor and market scrutiny.

Technology will be a crucial competitive differentiator, helping to give firms the edge in controlling costs, improving efficiency and responding to evolving investor demands. Greater transparency will also be critical in attracting funds by providing a clear indication of the strategy, risk appetite and performance of the funds and helping to assure investors that the business is properly controlled and governed.

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# *Striving to sustain growth*
## Insurance industry summary

*Key industry findings from 14th Annual Global CEO Survey*

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# *Insurance industry summary*

*The global economy is still recovering from the worst economic crisis in 75 years, as many countries grapple with the aftermath of the recession. So we set out to uncover how chief executive officers (CEOs) are approaching growth during a time when sustainable economic growth is far from certain. We surveyed 1,201 business leaders in 69 countries around the globe in the last quarter of 2010, including 57 insurance CEOs, and conducted further in-depth interviews with 31 CEOs.*

*The PwC 14th Annual Global CEO Survey documents a surprising level of confidence in this environment; chief executives are nearly as confident of growth this coming year as they were in the boom years before the crisis. The survey also revealed where CEOs see growth coming in 2011, and how they are going to achieve it. In 'Growth reimagined: Prospects in emerging markets', we show how CEO confidence is being driven by targeted investments in particular emerging markets – often far from home.*

*We also identified three strategic focal points to achieve that growth: innovation, talent and a shared agenda with government. These three business imperatives have always had their place on the CEO agenda. But now, with their worst fears about the crisis behind them and an emerging recovery ahead, CEOs are adopting new attitudes and approaches, tailored to dealing with the issues of the multi-speed global recovery that they hope is underway.*

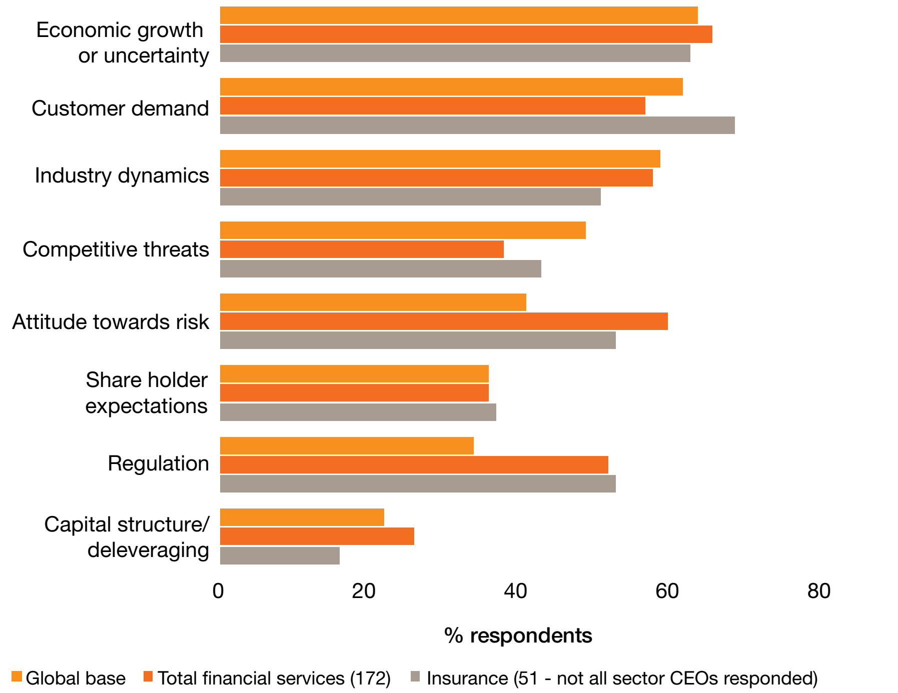
## *Striving to sustain growth*

Insurance CEOs are emerging from the financial crisis with renewed confidence about their growth prospects. Yet, generating profitable growth is going to be challenging for many companies in the face of tight margins, mounting regulation and the fragile economic environment within many developed markets. Insurers are also finding it difficult to communicate the value being created within their businesses and hence to achieve the share prices they believe their performance should merit. For many insurers, overcoming these challenges is likely to require a transformational shift.

The insurance CEOs taking part in our survey are upbeat about the future. More than half (56%) are very confident about their company's prospects for revenue growth over the next three years and virtually all the rest are reasonably confident. That makes them more optimistic than CEOs in almost every other sector.

**Figure 1: Strategic influences**

Q: Of the following eight factors that may be changing in your business, which have significantly influenced your need to change your strategy?




All respondents who stated 'changed in fundamental ways' or 'somewhat changed'

*Base: All respondents (1,201)*
*Source: PwC 14th Annual Global CEO Survey 2011*

This is also an industry in transformation. Forty-six percent of insurance CEOs – more than the percentage in other financial services sectors – have fundamentally changed their strategy over the past two years. Another 44% have made at least some modifications. The primary driver is customer demand, though economic growth or uncertainty, regulation and attitudes to risk are also important factors (see Figure 1).

## *Opportunities for innovation*

Ageing populations, not just in the developed world, but in Asia as well, are opening up significant opportunities for life insurers. The financial crisis has created further openings by accelerating the decline in defined benefits pension plans and putting further pressure on public pension provision.

Smart use of technology is set to be one of the key differentiators in a sector that has long been dogged by aged and inefficient legacy systems. More than 60% of the insurance CEOs in our survey see investment in IT as a key driver of their growth initiatives. Technology could be invaluable not only in improving efficiency and cutting costs, but also in enabling companies to broaden their distribution, enhance their customer insight and capitalise on cross-selling opportunities. Indeed, one of the most important perceived benefits of IT investment for the insurance CEOs in our survey was the ability to leverage innovations such as mobile devices and social media.

Cost control will clearly continue to be critical across the sector as a whole – 58% of insurance CEOs plan further cost control initiatives over the next 12 months. Thirty-nine percent plan to outsource a business process, though 18% are looking to bring a previously outsourced function back in house, suggesting that success in this area continues to be mixed.

London Market businesses, Bermudian and global reinsurers ('wholesale insurers') are facing a continuing decline in rates across most lines. With relatively few major loss events in recent years, many wholesale insurers have built up a surfeit of capital, which is adding to the downward pressure on prices. In a recent PwC report examining the way forward for reinsurers, several CEOs suggested that it would take a loss event akin to a Hurricane Katrina to propel premium prices up again[1].

***The underlying opportunity is to extend the borders of insurability and provide clients with effective ways to deal with a complex and uncertain risk environment. Nearly 70% of the insurance CEOs in our survey believe that their clients will look to them to provide product innovation, and this will be a key driver of their growth strategy over the coming three years.***

The immediate dilemma for these wholesale insurers is what to do with the surplus capital. Returning it to shareholders is one option, though this may simply reinforce the perception that wholesale insurance is a low-growth sector and hence deter investment. Insurers are also facing pressure from regulators to hold more capital.

While growth in many mature markets may be slowing and returns on some of the more commoditised lines may continue to be low, there are ways for wholesale insurers to generate more favourable and sustainable shareholder value. This includes developing the scale and efficiency to provide volume products efficiently and cost-effectively. They could also get closer to the client, rather than waiting for the broker to deliver the business. This would enable them to build up a better understanding of the client's specific risk management demands and develop carefully tailored solutions to meet them. Some could take this further by exploring demand trends and identifying niches that would allow them to profitably leverage their risk analytics and specialist expertise. There may also be opportunities to package insurance risk in a form that better meets the needs of capital providers.

The underlying opportunity is to extend the borders of insurability and provide clients with effective ways to deal with a complex and uncertain risk environment. Nearly 70% of the insurance CEOs in our survey believe that their clients will look to them to provide product innovation, and this will be a key driver of their growth strategy over the coming three years.

1 'Way Forward: Innovation and differentiation in the reinsurance industry – the CEO perspective', PwC (September 2010).

## *Fast-growth markets*

In the longer term, 56% of the insurance CEOs in our survey believe that emerging markets will be more important than developed markets to their company's future; only 44% see their home markets as offering high growth potential. China tops the list of countries targeted for growth (cited by 28% of insurance CEOs), followed by the US, Brazil and India (all 19%). The potential within emerging markets is evident. For example, life premiums in China, Brazil and India all grew by more than 10% in 2009, compared to a fall of about 15% in the US[2]. Insurance penetration is only around 3% of GDP in China and Brazil, and 5% in India, compared to 8% in the US[2].

However, tapping into these markets may be difficult. While organic growth is clearly an option, it can take a considerable amount of time to build a market presence and be in a position to compete with well-established local players. Mergers and acquisitions could offer a faster way to build scale. A quarter of insurance CEOs expect their company to make a cross-border acquisition over the next 12 months, with Asia being the primary focus of attention (43% are planning an acquisition in this region). However, curbs on majority foreign control remain in a number of significant growth markets, including China and India. This helps to explain why 47% of insurance CEOs fear that the protectionist tendencies of national governments could impede their plans for growth. Insurers from developed countries could also face pressure from the governments in their home territories to target their investment towards the local economy, which may reduce the capital that can be directed overseas. Seventy percent of insurance CEOs accept that they will need to actively support new government policies that promote 'good growth'.

The final hurdle is securing sufficient talent to meet growth aspirations. More than half of insurance CEOs see the availability of key skills as a significant threat to their growth plans. Tapping into the limited pool of talent within many emerging markets could be especially problematic. With local talent in short supply, many companies are struggling to keep pace with salary escalation among local professionals or face the potentially prohibitive expenses of large-scale secondments. A third of insurance CEOs think understanding and forecasting the availability of talent in emerging markets is a key challenge. A similar proportion pointed to difficulties in deploying experienced talent globally. These challenges will only mount, as companies expand further – highlighting the need for a more a strategic approach to training and nurturing talent locally. The vast majority of insurance CEOs recognise this; more than 90% are planning to revamp their strategy for managing talent. However, it is notable that a greater proportion plan to deploy more staff on international assignments (49%) than to develop talent locally (40%).

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2 Swiss Re Sigma World Insurance in 2009

## *Managing perceptions*

Of all the threats to growth highlighted by insurance CEOs, over-regulation is by the far the most significant (cited by 79% of insurance CEOs). There is a real danger that insurers in many developed markets could be forced to comply with more stringent regulatory demands that have been primarily designed for banks. Such a development could be especially challenging for European insurers already facing the introduction of a new capital adequacy regime under Solvency II. Most insurers came through the financial crisis strongly and those that incurred significant losses did so primarily as a result of their non-insurance operations. Nonetheless, many governments and regulators have come to see insurance as posing a systemic risk and thus in need of similarly draconian controls and capital requirements to those facing banks. It is therefore crucial that insurers make a concerted effort to lobby the authorities and stress the vital contribution their industry makes to the economy and society as a whole.

Implementing Solvency II will be a huge challenge, but it is also an opportunity for forward-looking companies to put their businesses on a more competitive footing. This includes developing the risk insights needed to capitalise on market openings that less well informed firms may miss or be reluctant to pursue. A clear example is guaranteed life policies. Many customers now want guarantees in the wake of the uncertainty created by the financial crisis, but some insurers may want to scale back such business because of the potentially high capital requirements under Solvency II. Firms with a clear understanding of their risks are well placed to offer these products more economically and thus to move into the market as others exit.

Solvency II could also provide a further catalyst for rationalising complex business operations and developing more efficient capital structures, which could reduce both capital requirements and compliance costs. Companies that take advantage of these opportunities will be able to offer lower prices and use their funds more flexibly as a result.

The underlying challenge for all insurers is how to communicate their performance and prospects in a clear, credible and consistent way. Many insurance CEOs believe that their company's share price fails to reflect the strength of the business – largely because most analysts and investors find it difficult to make sense of the complexities of insurance and because there is little comparability in the way results are disclosed.

Our research confirms that analysts are particularly keen to see more information about risk and the level of cash being generated within companies. The planned overhaul of IFRS for insurance contracts is a chance to put insurance disclosure on a more coherent and comparable footing, though it may be several years before the details are finalised. In the meantime, companies that can explain the link between their strategies, the risk they have assumed and the cash they expect to generate will have a valuable opportunity to increase their share prices.

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*The winners will be those insurers that can develop a clear strategy for value creation and market differentiation and communicate how this strategy differs from their competitors and why it deserves to be valued differently. They will also be able to attract the talent and develop the risk analytics to enhance innovation, price their products more competitively and capitalise on market openings.*

## *Standing out from the pack*

The fact that insurance CEOs are so confident about the prospects for growth is encouraging. The problem is that many companies are finding it difficult to deliver favourable and sustainable returns. This is, in turn, making it difficult to secure investment for growth. The winners will be those insurers that can develop a clear strategy for value creation and market differentiation, and communicate how this strategy differs from those of their competitors and why it deserves to be valued differently. There will also be those that can attract the talent and develop the risk analytics to enhance innovation, price their products more competitively and capitalise on market openings.

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# *Growth reimagined*
## Retail industry summary

*Key industry findings from the 14th Annual Global CEO Survey*


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# *Retail industry summary*

This is a summary of the findings in the retail sector based on interviews with 75 retail CEOs in 30 countries. To explore the full results of the 14th Annual Global CEO Survey, please visit www.pwc.com/ceosurvey.

**The global economy is still recovering from the worst economic crisis in 75 years, as many countries grapple with the aftermath of the recession. In the PwC 14th Annual Global CEO Survey, we set out to uncover how chief executive officers (CEOs) are approaching growth during a time when sustainable economic growth is far from certain. We surveyed 1,201 business leaders in 69 countries around the globe in the last quarter of 2010, and conducted further in-depth interviews with 31 CEOs.**

We found a surprising level of confidence in this environment; chief executives are nearly as confident of growth this coming year as they were in the boom years before the crisis. Our survey also revealed ***where*** CEOs see growth coming in 2011, and ***how*** they are going to achieve it. In 'Growth reimagined: Prospects in emerging markets', we show how CEO confidence is being driven by targeted investments in particular emerging markets —often far from home.

We also identified three strategic focal points to achieve that growth: innovation, talent and a shared agenda with government. These three business imperatives have always had their place on the CEO agenda. But now, with their worst fears about the crisis behind them and an emerging recovery ahead, CEOs are adopting new attitudes and approaches, tailored to dealing with the issues of the multi-speed global recovery that they hope is underway.

## *Renewed confidence*

CEOs have renewed confidence in their companies' growth prospects this year, and retail CEOs are no exception. Ninety percent expect to generate higher revenues over the next 12 months, while 93% expect to do so over the next three years. Short-term confidence levels are up strongly in comparison with last year, when only 74% of retail CEOs were somewhat or very confident of being able to increase sales over the next 12 months.

It's not surprising that confidence is up, with even the worst-hit economies showing signs of improvement and consumer demand on the rise once again. Retail CEOs are particularly optimistic about the outlook in Asia: 93% believe they'll be able to expand their Asian operations over the next 12 months. But 55% also see promise in the established markets of Western Europe—which is markedly more than the overall average of 45%.

## *New strategies to meet new expectations*

Most retail CEOs, like their peers in other industries, are changing course. Eighty-nine percent have altered their corporate strategies in the past two years, and 33% describe the change as 'fundamental'. Customer demand is by far the most important factor motivating them: 34% of respondents regard it as the key driver of change, while 79% regard it as one of the top three. The recession has seen consumers become more careful with their cash, and retailers are responding to such behavioural shifts in many ways—e.g., by increasing their private label offerings, reducing their overall inventory, closing stores and introducing new products at lower price points.

## *Targeting emerging markets*

CEOs in nearly every industry, including retail, have their eyes on emerging markets. That's partly because of macroeconomic forces. The International Monetary Fund predicts that developed economies will grow sluggishly this year. But emerging markets are booming.[1]

Greater affluence is playing a role, too. The rising number of middle-class consumers in China and India is creating new opportunities—and many consumer goods companies are already aggressively targeting these markets. Bob McDonald, Chairman of the Board, President and CEO of US-based The Procter & Gamble Company (P&G), summed up such ambitions when he told us: 'This decade for us, I think, will be about getting our categories into every country around the world.'

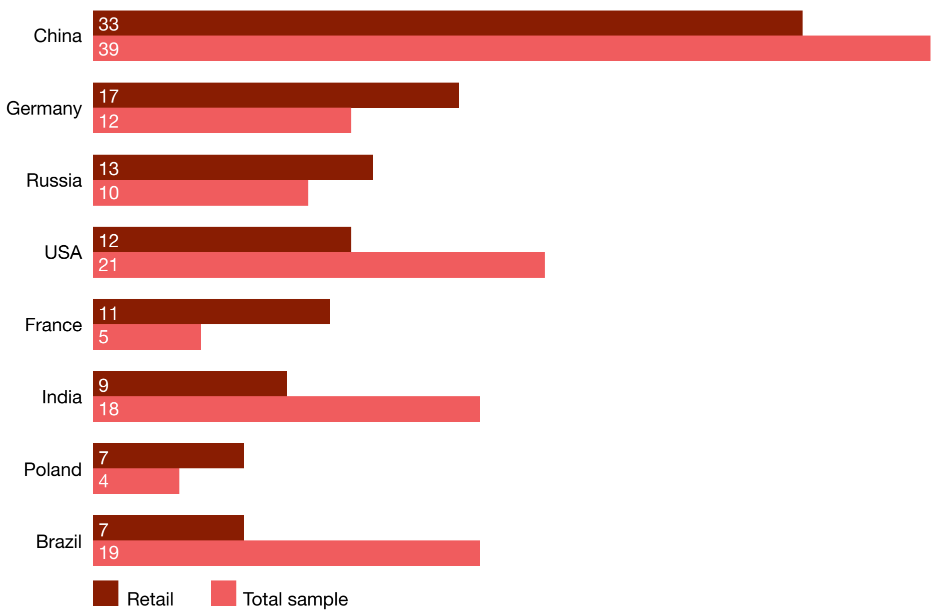
Where Western consumer goods companies go, retailers are sure to follow, particularly as the regulators in certain emerging markets appear ready to ease restrictions for international retailers. Only single-brand foreign retailers are currently allowed a significant presence in India, for example. But Indian regulators are now considering allowing foreign 'big box' retailers to own up to 49% of a joint venture with domestic Indian retailers.[2]

However, China is still the Holy Grail, primarily because of its huge population, rapid growth and burgeoning middle class. Many companies began operating in China for sourcing reasons, but its vast domestic market is drawing more and more attention. Thirty-nine percent of CEOs in the full sample already regard China as one of the three foreign countries most critical to their company's growth, although the number is slightly lower (33%) amongst retail CEOs (see Figure 1). That's not to say retailers are ignoring developed markets. Germany, the USA and France all make it to the top five countries on retailers' growth lists.

Thirty-three percent of retail CEOs are looking to China for growth—and 44% see it as important for their future sourcing needs.

**Figure 1: China tops the list of countries retail CEOs regard as important for growth**

Q: Which countries, not including the country in which you are based, do you consider most important for your growth prospects over the next three years?




*Base: All respondents (Total sample, 1,201; Retail, 75)*
*Source: PwC 14th Annual Global CEO Survey 2011*

[1] IMF World Economic Outlook (October 2010).
[2] 'Strategic Issues for Retail CEOs: Perspectives on Operating in India's Retail Sector', PwC and Retailers Association of India (RAI) (2010).

Fifty-three percent of retail CEOs are changing strategies significantly in response to increased use of mobile devices and social media by consumers.

## *Putting customers at the centre of innovation*

For the past few years, most business leaders have hunkered down, believing that their best opportunities for growth lay in better penetration of core markets. Today, they are just as likely to be focusing on the development of innovative new products and services.

Retail CEOs differ from their peers in this respect: 41% are still focusing on their existing markets, and only 21% on developing new offerings. That said, retail CEOs are well aware of the need to keep abreast of consumers.

### *Mobile devices and social networks*

Technology has become a key enabler—in terms of both the shopping experience and as a driver of consumer involvement in product development. Fifty-three percent of retail CEOs think they'll need to make 'significant' changes in strategy, as consumers turn to mobile devices and social media to voice their preferences. And 57% told us one of the main reasons they're investing in IT is to support such emerging innovations.

PwC's 2010 Retail CFO study sheds further light on trends in mobile and online media in the retail sector. Only 67% of the retailers participating in the study could handle e-commerce transactions, for example, even though all of them had websites. Most respondents thought that there was some degree of channel blurring, because customers often use websites to research products and compare prices, and then buy what they want in a store.

### *Green measures*

The industry is responding to changing consumer expectations in other ways as well. Many retailers are making efforts to sell more sustainable products and reduce their own environmental footprints, for example—although only 52% of retail CEOs see it as their task to develop environmentally-friendly products or services (versus 64% of CEOs in the full sample). That's probably because retailers generally sell products made by other companies.[3]

However, the most pioneering retailers are now becoming more involved in the production process, as attention shifts to the carbon emissions in entire supply chains and the environmental impact of products from the point of manufacture to final disposal. These retailers are working with their suppliers to reduce greenhouse gas emissions throughout their supply chains, meeting stakeholder desires for 'greener' shelves and achieving critical cost savings.

### *Open innovation*

In fact, it's not uncommon for supply chain partners to work together in the search for innovation—and 41% of retail CEOs think the majority of their innovations will be co-developed with external partners. In some cases this means working with consumer goods companies to understand and address the needs of the consumer.

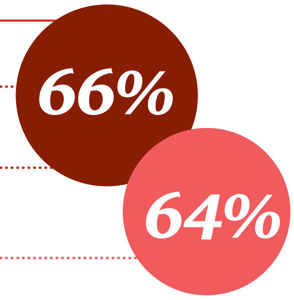
Collaboration can bring considerable benefits. As Paul Polman, CEO of Unilever, noted: 'Tesco is going to be around for another hundred years or more—and so is Unilever. It only makes sense to work in concert to meet consumers' needs. By working together towards a common goal there is much more value to be gained than there is in haggling over costs.'

[3] 'The New Retail Priorities for 2011', PwC (2011).

**Figure 2: Retail CEOs face considerable people challenges**

Q. Considering the talent required for the success of your business over the next three years, what are the key challenges you expect to face?

Limited supply of candidates with the right skills




Total sample | Retail

*Base: All respondents (Total sample, 1,201; Retail, 75)*
*Source: PwC 14th Annual Global CEO Survey*

Fifty-nine percent of retail CEOs believe the world will be more open to free international trade and capital flows in the future.

## *Bridging global skills gaps*

The 'war for talent' has been waged in many places and for many decades, but few CEOs—whether they're in retail or any other industry—are prepared to declare victory. In fact, over half of all retail CEOs plan to hire more people in the next 12 months. However, it's not just a question of getting more workers in the aisles; it's also important to make sure those new employees have the right skills—and finding them isn't going to be easy. Nearly two-thirds of retail CEOs believe the supply of skilled candidates is limited (see Figure 2).

## *Achieving shared priorities with government*

Although CEOs everywhere are focusing on their own growth plans, many also see a common purpose with governments. But constrained budgets are forcing politicians to make difficult decisions—and sustained collaboration between the public and private sectors doesn't always come naturally.

Over-regulation has remained among the top three concerns of CEOs in every industry through both good and bad economic times, for example. Many CEOs are also worried that public spending cuts or tax increases in response to rising public debt will slow domestic economic growth in their home countries. Retail CEOs are particularly concerned on this score.

However, they are more optimistic on other counts. They are more convinced than their peers in other industries that the barriers to globalisation will continue to come down, for example. Fifty-nine percent of retail CEOs believe the world will be more open to free international trade and capital flows in the future, compared to 49% of CEOs overall.

## *Globalisation reimagined*

The favourable macroeconomic environment and increasing affluence of consumers living in emerging markets are both good news for retailers, and the CEOs who head such businesses are reshaping their strategies accordingly. But companies are not only affected by globalisation; the actions they take will influence its direction. Retail CEOs, like CEOs in other industries, believe it's essential to behave responsibly: 71% are committed to 'good growth' that is financially, socially and environmentally sustainable. They recognise that good growth is a long-term path towards value creation that creates lasting prosperity for both shareholders and society.

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Our CEO Survey coverage includes a full report, in-depth interviews and a visual story of the data. Explore the entire story in the full report. Simply download at www.pwc.com/ceosurvey. To view other publications and learn about PwC's retail industry practice visit www.pwc.com/retail.

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