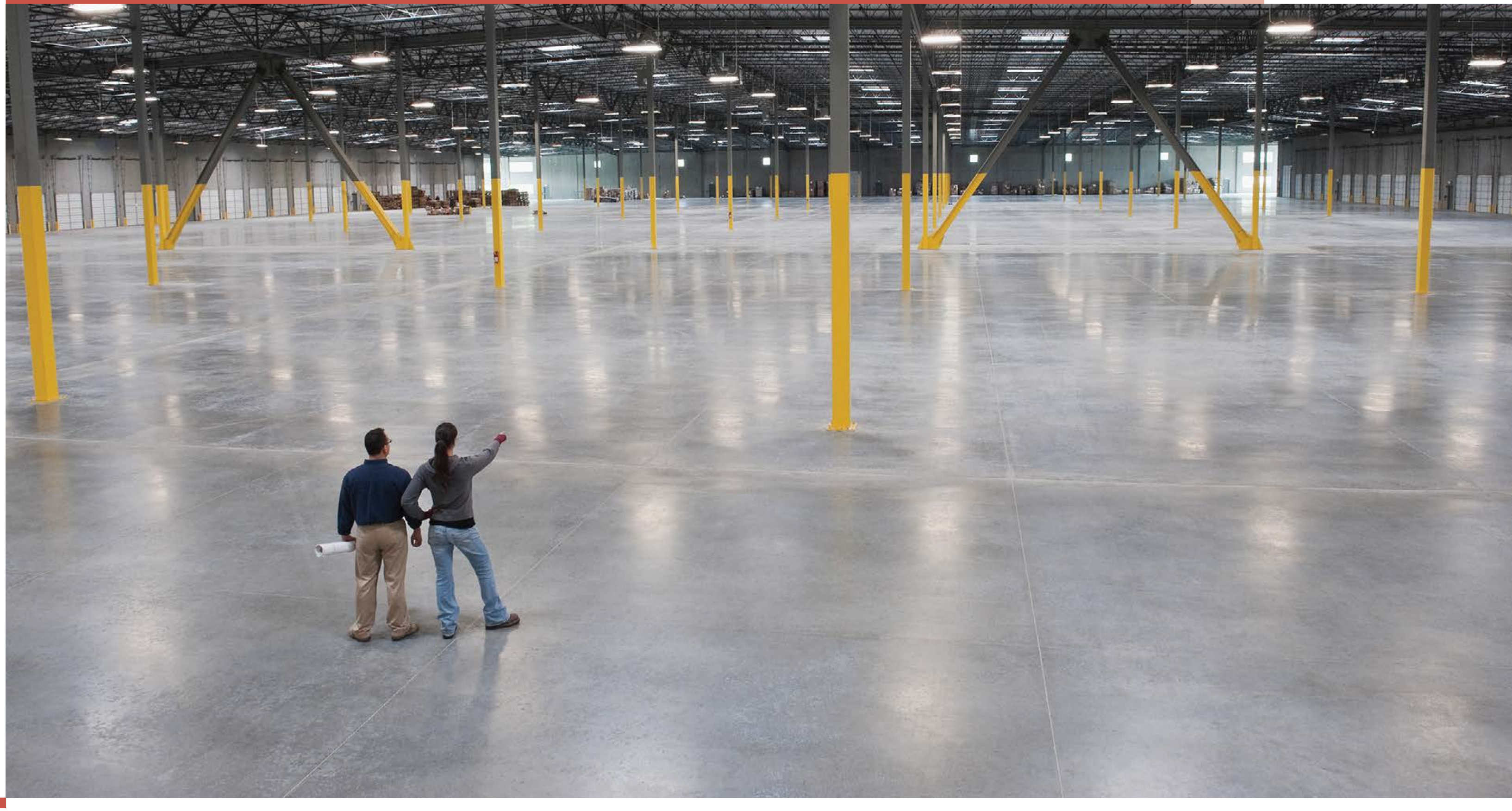
Good to grow
2014 US CEO Survey

17th Annual Global CEO Survey, 2014

US Report



US CEOs in our **17th Annual Global CEO Survey** *are finding reasons to be more confident in many places. At home, the outlook for the US economy is improving. For example, we saw momentum increase in the US deals market over 2013, and business investment is picking up.*

Internationally, US CEOs are quick to reassess where the opportunities are. These developments are somewhat comforting after some trying conditions over the past few years.

Yet uncertainty is still an overarching theme for all CEOs, with tax and regulatory policies among the top concerns. This uncertainty continues to make it difficult for businesses to manage costs, and thus to invest.

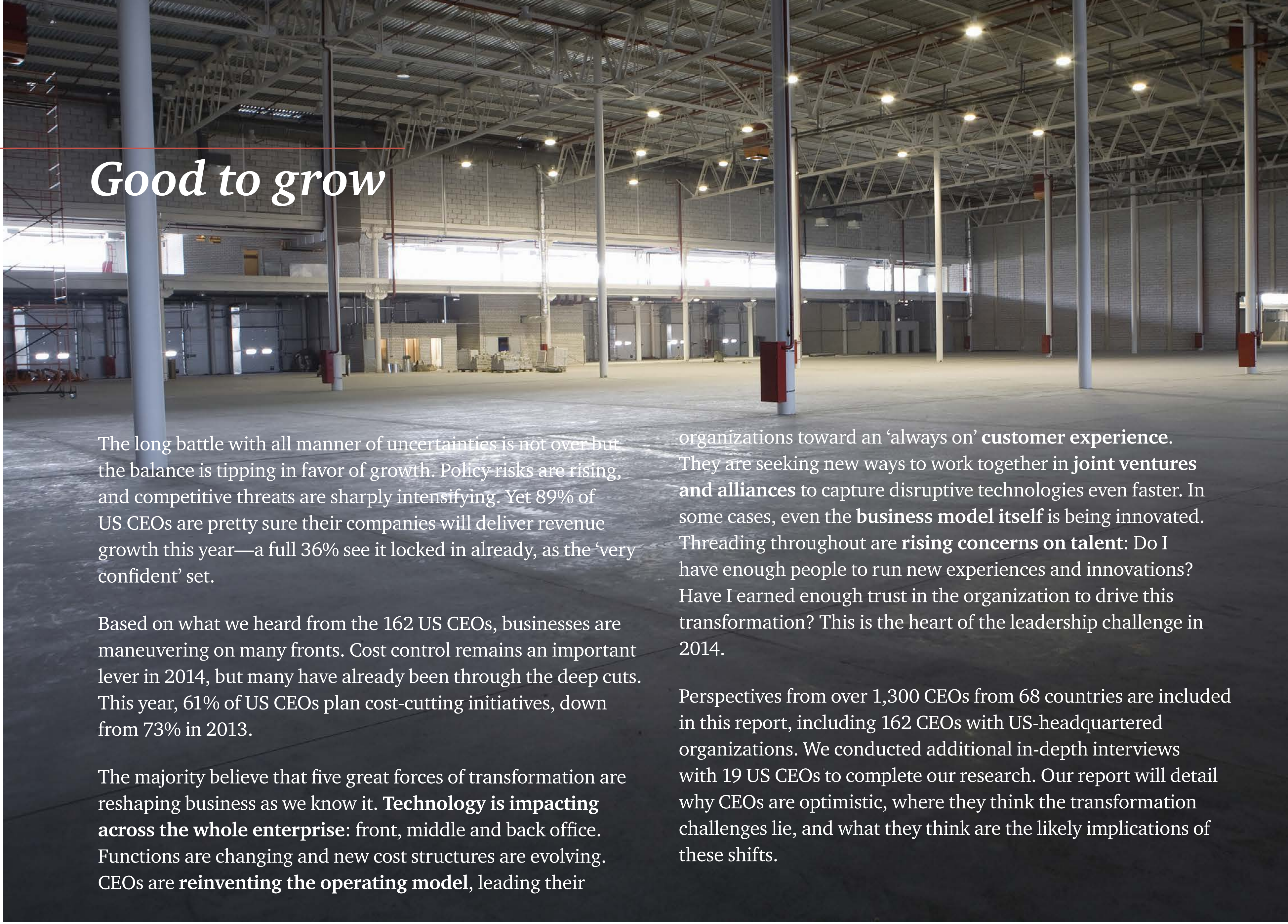
It's clear that CEOs see hard work ahead to capture the promise of growth from the many opportunities unfolding today. As a result, they are making a lot of changes—both inside the organization and out—in the way they collaborate with widening networks to make sure their companies are fit for a future that's going to be vastly different in important ways.

For example, 86% of US CEOs told us that advancing technologies are going to transform their businesses over the next five years. In the words of Ken Hicks, chairman and CEO, Foot Locker, Inc., new technologies will be the "game changers in what we do and how we do it." CEOs are especially mindful of how technology intersects with other industries, such as healthcare and retail, to create new hybrid industries.

Our findings also indicate CEOs are looking for, and finding, new sources of value in their own businesses and industries: 36% believe product and service innovation offers their main opportunity for growth this year.

I would like to thank all who participated in the survey, and particularly the CEOs who took the time to sit down with us to share their perspectives. Their insights greatly informed our survey, and you can view our interviews with them, along with the full report, at www.pwc.com/usceosurvey.

Bob Moritz
US Chairman, Senior Partner
PwC



Good to grow

The long battle with all manner of uncertainties is not over but the balance is tipping in favor of growth. Policy risks are rising, and competitive threats are sharply intensifying. Yet 89% of US CEOs are pretty sure their companies will deliver revenue growth this year—a full 36% see it locked in already, as the 'very confident' set.

Based on what we heard from the 162 US CEOs, businesses are maneuvering on many fronts. Cost control remains an important lever in 2014, but many have already been through the deep cuts. This year, 61% of US CEOs plan cost-cutting initiatives, down from 73% in 2013.

The majority believe that five great forces of transformation are reshaping business as we know it. **Technology is impacting across the whole enterprise**: front, middle and back office. Functions are changing and new cost structures are evolving. CEOs are **reinventing the operating model**, leading their organizations toward an 'always on' **customer experience**. They are seeking new ways to work together in **joint ventures and alliances** to capture disruptive technologies even faster. In some cases, even the **business model itself** is being innovated. Threading throughout are **rising concerns on talent**: Do I have enough people to run new experiences and innovations? Have I earned enough trust in the organization to drive this transformation? This is the heart of the leadership challenge in 2014.

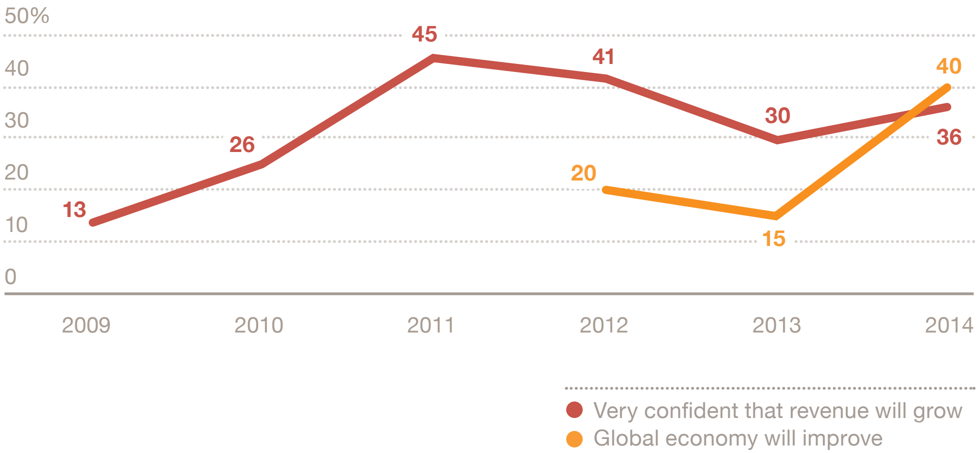
Perspectives from over 1,300 CEOs from 68 countries are included in this report, including 162 CEOs with US-headquartered organizations. We conducted additional in-depth interviews with 19 US CEOs to complete our research. Our report will detail why CEOs are optimistic, where they think the transformation challenges lie, and what they think are the likely implications of these shifts.

Confidence is improving. That more business leaders are shifting to a growth mode is unmistakable: 62% expect to hire more people this year. It is the highest level of anticipated headcount expansion in the past five years for US CEOs in PwC's annual Global CEO Survey.

Confidence may well be buoyed as much by an improving global economy as by a resolve to reconfigure their businesses for a world that's much changed—and changing still. Policy shifts in financial services and healthcare. Advancing technologies that disrupt traditional business models. The US energy boom. CEOs are maneuvering on many fronts to capitalize on these waves of change.

US CEOs upbeat on global economy in 2014, business confidence improves

How confident are you about your company prospects for revenue growth over the next 12 months? Do you believe the global economy will improve, stay the same or decline over the next 12 months?



Respondents who stated "improve" and "very confident." The global economic outlook question was included in 2012 for the first time.
Bases: 97 (2009); 100 (2010); 108 (2011); 161 (2012); 167 (2013); 162 (2014).
Source: PwC, *2014 US CEO Survey,* January 2014.

Decisions on where to allocate capital to fund growth will reverberate beyond 2014. A majority of US CEOs would like to or are already rolling out change initiatives across the organization, effectively reshaping the operating model.

CEOs sense a turn in global economic momentum—just 4% think the global economy is likely to decline in 2014 and 40% expect it to improve (up from just 15% last year). CEO confidence rose on the year—36% say they are 'very confident' in prospects for revenue growth in 2014 against 30% in 2013.

US fundamentals remain solid with inflation staying low, a housing market showing resilience, and business investment starting to pick up. But will this translate into more consumption, which the US relies on? That depends a lot on the labor market, where the participation rate dropped to a historic low of 63% in 2013. Government smoothly handling a series of tests early in the year—including debt-ceiling negotiations—can help give the confidence that's needed to boost consumers' pay and spending. If all goes well, the US is poised to achieve about 3% real GDP growth in 2014.

US, UK expected to come alive, emerging markets steady in 2014 (US$ trillions; based on 2005 prices and purchasing power parity exchange rates)

	2012	2013	2014	2015	2016
US	14.2 2.8%	14.5 1.7%	14.9 2.7%	15.4 3.3%	15.8 3.2%
Japan	3.99 1.4%	4.06 1.7%	4.13 1.7%	4.19 1.4%	4.23 0.9%
UK	2.02 0.1%	2.05 1.4%	2.10 2.4%	2.15 2.4%	2.21 2.7%
Eurozone	9.9 -0.6%	9.8 -0.5%	9.9 0.9%	10.0 1.4%	10.2 1.5%
Emerging markets	33.1 5.0%	34.7 4.7%	36.4 4.9%	38.4 5.3%	40.5 5.5%
World	**73.2** **3.0%**	**75.3** **2.9%**	**77.9** **3.5%**	**81.0** **3.9%**	**84.3** **4.0%**

Source: Oxford Economics, January 2014.

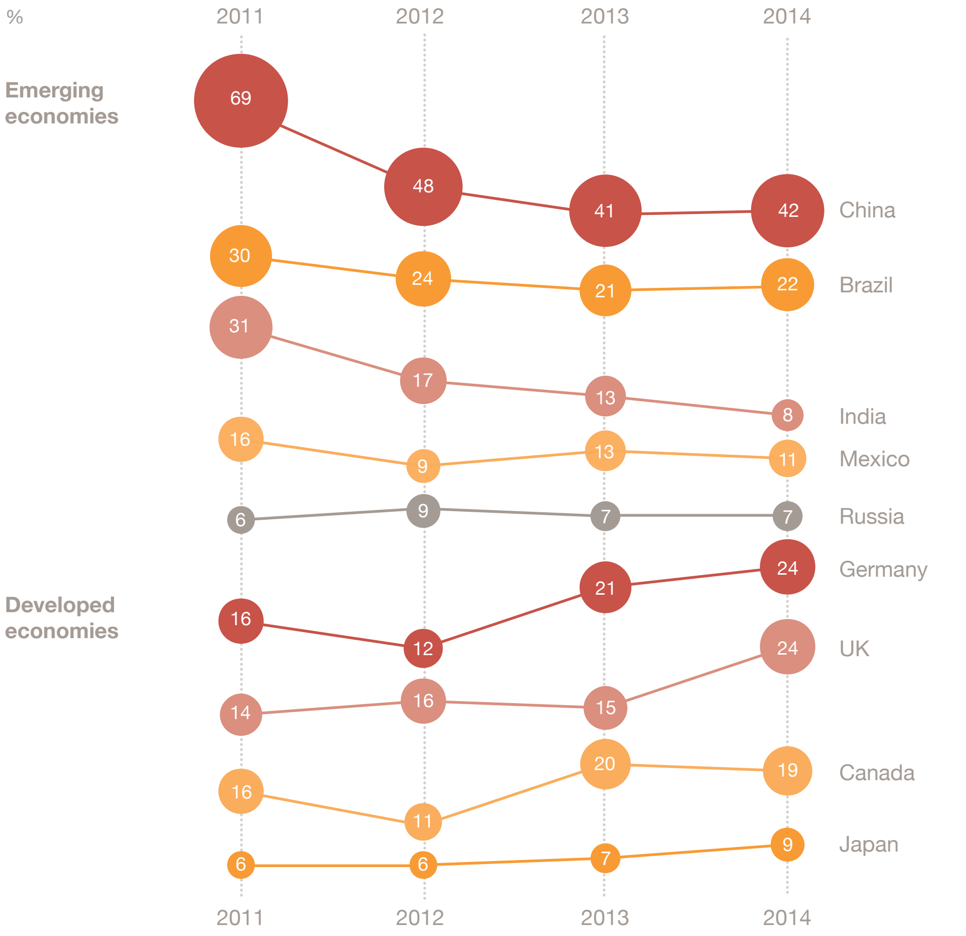
The geographic mix of US growth drivers is changing as volatility returned in emerging markets in 2013. Fewer US CEOs think China, India, or Brazil are most important for their company's growth this year, and there is greater expectation from investments in Europe amid prospects of a return to growth (of about 1%). As Ken Hicks, chairman and CEO, Foot Locker, Inc., told PwC, "A couple of years ago, people were saying, 'Ah, Europe, you know, boy, that's going to be really, really tough.' Now, Europe is one of our fastest growing businesses and people are saying, 'How can you build more stores there…Are there more things you can do in Europe?'"

> *"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 CEO, The Coca-Cola Company

> *"We see Asia as still a major growth area. China, in particular, is a country where we've had a lot of success in the last decade. Even though they've been through a little difficulty in the last year or so, we still see it as a fundamentally large growth area."*
>
> —John Haley, Chairman and CEO, Towers Watson

Fewer US CEOs rank China, India, or Brazil most important for their company's growth in 2014

Please rank the three countries, excluding the country in which you are based, that you consider most important for your overall growth prospects over the next 12 months.



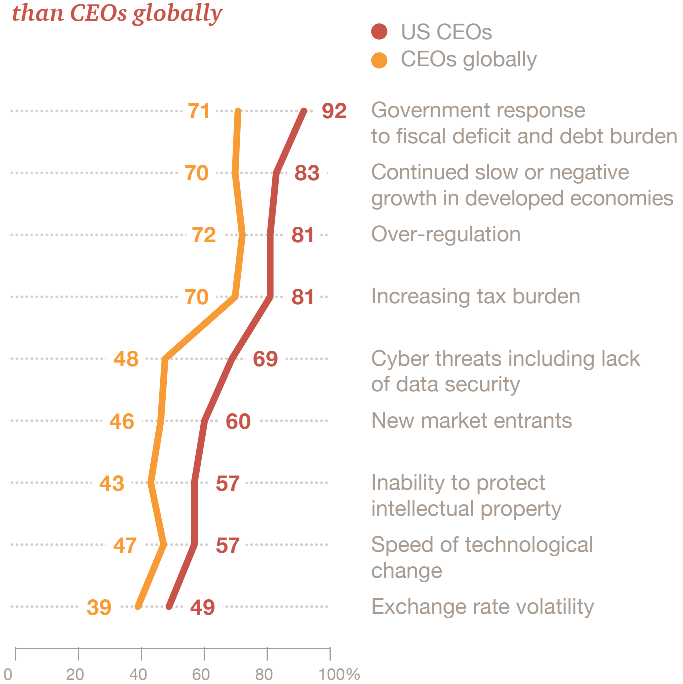
Base: 108 (2011); 161 (2012); 167 (2013); 162 (2014). Source: PwC, *2014 US CEO Survey*, January 2014.

Policy uncertainties are top threats to growth for US CEOs in 2014

How concerned are you, if at all, about the following economic and policy threats to your organization's growth prospects?

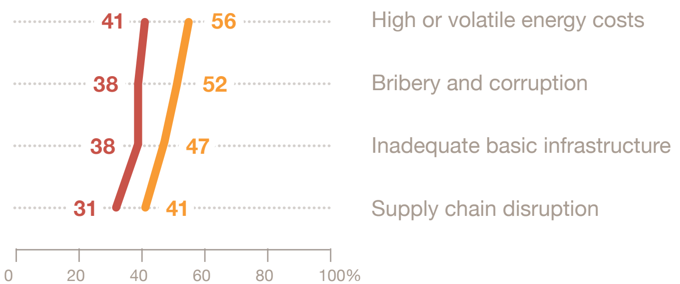
Threats to growth

US CEOs more concerned about policy threats than CEOs globally



US CEOs aligned with CEOs globally

US CEOs less concerned than CEOs globally



Respondents who stated "extremely concerned" and "somewhat concerned." Base: US: 162; Global: 1,344. Source: PwC, *2014 US CEO Survey,* January 2014.

Continued uncertainty around tax and regulatory policies, currency volatility, and slow growth in developed economies underscore how difficult it has become to predict costs and thus to manage capital to invest. At the same time, accelerating technology change is leveling the global field, raising the stakes to invest to stay relevant: 60% of US CEOs fret about the headway new entrants are making in their markets. That is up from 41% just a year ago.

"Many companies, including us, are sitting on tremendous access to low cost capital, but are not sure what crisis may be created in Washington that is far removed from the facts and circumstances of Main Street. Job growth prospects are good; wage growth prospects are good. Left to its own devices, I think the economy will be fine. It will be moderate. And moderation is okay, because companies, I think, have figured out how to run their business very effectively in a 1.75% to 2.5% GDP environment."

—Daniel B. Hurwitz, CEO, DDR Corp.

> *"We do have forward momentum in the economy. It's not what it should be. The reason it hasn't rebounded in a much more vigorous way is that we're bearing the burden of too much uncertainty in almost every area, whether it's in the financial area with banking regulations, Basel III and Volcker rules, uncertainty on tax reform, or healthcare uncertainties with the Affordable Care Act. It makes it more difficult to plan and to have general confidence with so many things still to be determined, five years after the onset of the financial crisis."*
>
> —Stephen A. Schwarzman, chairman and CEO, Blackstone

Gains through pains. By now, US business leaders have five years of experience on maintaining profitability under tough conditions for growth, and it shows. Net income rose 28% from 2009–2012 for companies in the S&P 500. Revenue rose 22% over the same period.[1] Balance sheets are stronger too, and while cost control remains an important lever for US CEOs in 2014, many have already been through the deep cuts. This year, 61% of US CEOs plan cost-cutting initiatives, down from 73% in 2013. Business leaders are evaluating their operating expenses in the context of the big picture, paying more attention to the complex interplay between customer demand, talent, innovations, technology, energy and transportation costs, and tax regimes.

Meanwhile, cash is accumulating on corporate balance sheets with some investors agitating for its release in a few high-profile clashes with boards. Stock buybacks authorized by companies indexed in the S&P 500 rose to $445.3 billion in the 12 months ending September 2013, the highest levels since 2007.[2] But investors are pressing for companies' growth story and looking beyond dividend payouts and stock buybacks.

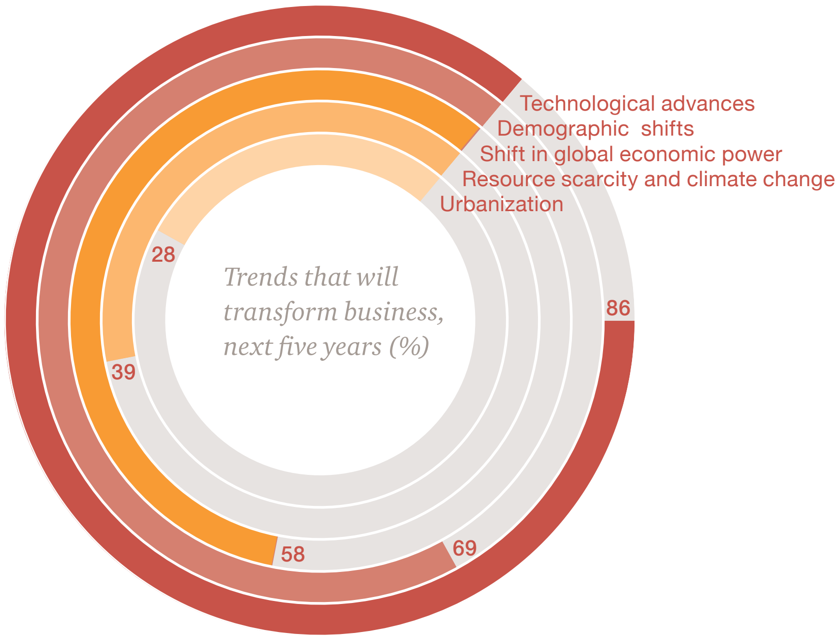
The following sections explore CEO approaches to growth in 2014 and beyond—and their perspectives on the transformation challenges—in six specific areas.

1 Thomson Reuters 2013.

2 S&P Dow Jones Indices, Dec. 23, 2013.

Trends US CEOs believe will transform their businesses

Please rank the top three global trends from the following list, which you believe will transform your business the most over the next five years.



Respondents ranking one, two, or three from five total options.
Base: 162.
Source: PwC, *2014 US CEO Survey*, January 2014.

For a view from outside the US on business growth prospects watch PwC video interview with Douglas Flint, chairman, HSBC Holdings Plc. Go to http://www.pwc.com/ceosurvey

Promise *and* peril—why all bets are on technology

When you ask more than 150 business leaders about anything, you're bound to get nearly as many different answers—informed by their unique experience, industry, and priorities. But this year, there was a singular focus US CEOs agreed upon: Technology is what propels business, now and in the future.

When business leaders considered the megatrends rocking our world, 86% cited technological advances as the global trend that will most transform business. Even those US CEOs who ranked other megatrends like urbanization or demographic shifts as more transformative agreed that disruptive technology would be a powerful change agent to their business in the next five years, ranking it as their second or third choice.

Their belief that technology leads the way is echoed in just about everything else they told us. Whether pursuing new business models, meeting new customer expectations, remaking their operating model, forging new alliances, or tackling talent challenges, technology was an essential part of strategy.

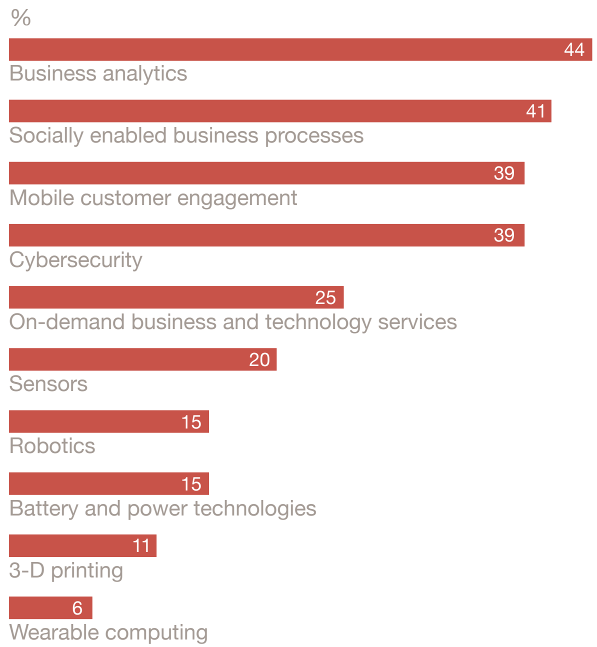
In part, "technology" is the watchword for 2014 because CEOs use the label when talking about both core innovation and information technology (IT). Both types of technology can transform business inside and out.

Technology is top of mind for US CEOs

Which global transformative trends do you believe will transform your business the most over the next five years? Which of the following technologies are you currently investing in?

86% of US CEOs say technological advances will transform their business over the next five years

Digital IQ: Where companies are investing to grow



Base: 162 (US CEOs); 1,393 (IT and business leaders globally).

Sources: PwC, *2014 US CEO Survey*, January 2014; PwC's *Digital IQ 2014 10 Technology Trends for Business*, January 2014.

Technology is everyone's business. Product and service innovation is seen as the primary opportunity for growth in 2014 by 36% of US CEOs. For many companies, the growth agenda will be centered on **new digital ecosystems**—the hardware, software, services, and communications infrastructure that make digitization possible. Digital products and services form the backbone of new business models that have different economics, operating models, and customer expectations. Businesses are embracing the complexity involved in going beyond current offerings.

US CEOs are coming to realize that no matter their industry, they must now think like technology companies. How can they—before competitors or new entrants—meet changing customer expectations and reimagine how to deliver a product or service in a new way, at a new price point, or in a new market? For example, consider how auto manufacturers can detect issues via embedded sensors and deliver service fixes automatically via software. Or how high-touch, local services like housecleaning and bike repair are being provisioned in a more efficient way through mobile devices and sophisticated logistics software.

Many new business models are taking root in hybrid industries—the combinations of technology and other industries—that are delivering new value propositions to consumers in health, retail, and finance. For example, Dr. Paul E. Jacobs, chairman and CEO of Qualcomm Incorporated, told us the company is evaluating partnerships with healthcare, automotive, and manufacturing companies: "The net effect will be this merging, blurring of cyberspace and real space, because the phone is giving you access, telling you what content, services, and people around you that you can interact with."

Many stalwart companies outside of the technology industry have established labs in innovation hubs like Silicon Valley expressly for that purpose. Explains Michael I. Roth, chairman and CEO, Interpublic Group, "Our industry has dramatically changed as a result of technology. We have an emerging media lab, for example, in New York and on the West Coast that focuses on innovative technologies available to our clients, particularly in the shopper market."

Inside the company. The consensus is that IT has firmly moved from the back office to the corner office. "Digital" is the rallying cry for many established companies looking to take advantage of social, mobile, analytics, and cloud, among other **transformative technologies** that businesses plan to invest in, according to early results from our forthcoming *6th Annual Digital IQ Survey*, which examines how business can extract more value from their technology investments.

Looking beyond the common hype and buzzwords, however, how these initiatives take shape can be very different: mobile apps that provide an always-on experience for customers; **enterprise apps that help knowledge workers more effectively do their jobs** and accessed via the company app store; HR analytics to evaluate the effectiveness of hiring or flexibility programs—and the list goes on.

The majority of companies have changed, or are in the process of changing, how they think about technology investments. "We've invested $200 million in the infrastructure of the IT system inside Tech Data that makes our company operate. Investing smartly internally to make sure we're flexible and adaptive allows us to take advantage of sea changes in the tech-spending world, and therefore the threat becomes a real opportunity for us," explained Robert M. Dutkowsky, CEO of Tech Data Corporation, a wholesale technology distributor.

Likewise Stephen A. Schwarzman, chairman, CEO, and co-founder of asset manager Blackstone, points to the competitive advantage they've realized, "We've invested heavily in technology. They [investors] can get information from us faster than virtually anybody in our field. We've cut the paper flows and time on things by over 70%."

Yet even as CEOs bet big on technology, there's a feeling of unease. Fifty-seven percent of CEOs are concerned about the speed of technological change—up from 43% last year.

And they're right to worry. The menu of emerging technologies that could become powerful disrupters to their business or industry is ever-growing: sensors, embedded computing, robotics, 3-D printing, and more.

Just as crucial is cybersecurity, which must address the new threats that are born of new ways of working and doing business. US CEOs say they are somewhat (47%) or extremely concerned (22%) about cyberthreats, including the lack of data security. In some industries, concerns from both consumers and businesses threaten growth, such as that for mobile banking adoption. For example, 71% of US CEOs in banking and capital markets cite cybersecurity concerns versus the global average of 48%.

In reaction, companies are beginning to change how they think about cybersecurity—viewing it as a business issue, not an IT one. Twenty-nine percent of respondents to the *Global State of Information Security Survey 2014* said their security investments were driven by change and business transformation.[3] As Robert M. Dutkowsky, CEO of Tech Data Corporation, reminded us, "Every CIO in the world lays awake at night worrying about cyberattacks they didn't even think about a few years ago. It's a massive opportunity and a massive threat, and one area in which there are billions of R&D dollars being spent."

CEOs also fret that their IT function is not able to deliver on their agendas, with 67% saying IT is only somewhat prepared or not prepared to make the changes needed to capitalize on megatrends. This disconnect often goes both ways: 39% of IT leaders do not rate their CEOs as active champions in using IT to achieve business strategy, according to our *5th Annual Digital IQ Survey*.

Without a cohesive approach inside the organization, CEOs realize there's little hope of creating an integrated view of their operations, customers, or ecosystems. This can translate in to dollars and cents: our Digital IQ study found that those organizations in which business and IT leaders closely collaborated were four times more likely to be top-performing companies[4] compared to those with less collaborative teams.

3 "Global State of Information Survey," CIO Magazine, CSO Magazine, PwC, 2014.

4 Top Performers are those companies that reported revenue growth of more than 5% and were in the top quartile for revenue, profitability, and innovation.

Implications

1. Digital means different things to different companies. Discern which technologies will have the biggest impact on your business. Look beyond your industry and embrace experimentation.

2. Harness a cross-functional team of both business and IT leaders to identify where and how technology investments support business goals and use your strategic roadmap to prioritize investments in innovation and infrastructure.

3. Every single one of your customers and employees has new expectations for the way they consume information and services driven largely by their use of personal technology. Just because your customer is not the end-consumer, doesn't mean digital strategy and execution is any less important.

4. Rethink—if you haven't already—the role of the CIO and IT organization in the context of building your digital enterprise. Revamp your IT organization to create a ***digital operating model*** that allows IT to be more agile and consultative to the business. Your technology leaders can add considerable value to your digital initiatives even when third-party IT services make the most sense.

5. Prioritize cybersecurity investments around the data that matters most to the business and its unique ecosystem. Proactively identify potential threats and prepare an effective response.

For a view from outside the US on technology, watch PwC's video interview with David Thodey, CEO, Telstra. Go to www.pwc.com/ceosurvey

Business models

How US CEOs are reshaping business models

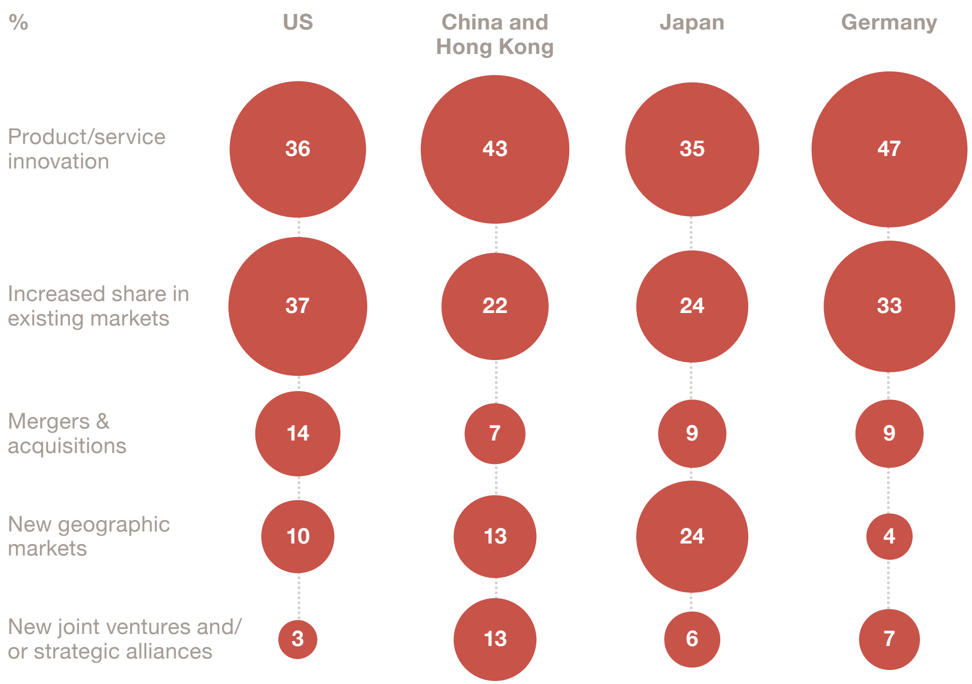
Many a business initiative launches with the call that "if we don't do it, someone else will." The central challenge for US CEOs today is the increased likelihood that "someone else" is no longer a well-understood competitor. That changes everything, signaling above all that the economics of the business are evolving.

How do you do it when a rising rival in an emerging market questions the entire cost structure? Or nimble digital players insert themselves between established companies and their customers, upending much more than reliable revenue streams? Or when regulation favors an entirely new way of business? John Haley, chairman and CEO of Towers Watson, a global professional services company, told us: "Among competitors, I worry mostly about organizations we've never heard of, that come in with new technology, a new way of doing things and a disruptive approach. Those are the things that cause me to lose sleep at night."

The answer is to innovate. More than a third of US CEOs say new products and services now offer the main opportunity for growth for their companies in 2014. The technology industry has shown the way. It has created enormous wealth for many participants in technology and other industries by generating value for customers in so many different ways. The app economy, the e-Bay economy, the sharing economy have broadened the view of just where and how all companies create value.

CEOs in the four largest economies banking on innovation for growth in 2014

Which one out of the following list of potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



Base: US: 162; China and Hong Kong: 134; Japan 127; Germany: 45.
Source: PwC, *2014 US CEO Survey*, January 2014.

Thus as companies seek more growth for what they spend, they're looking for new ways to monetize what they have, beyond incremental product innovation. Innovation can mean turning a product into a service, or the reverse: taking an experience and turning it into a product. It can also mean entirely different channels for existing products, even if that crowds out existing dealer networks or sales agents.

Everything is under review—including the business model. As Daniel B. Hurwitz, CEO of DDR, a real estate investment trust with holdings in major shopping centers, put it: "The thing we have prioritized now more than ever is making sure that we're not just doing deals with retailers… We used to just talk about space. Now we're getting a deep-dive look under the hood to understand where merchandise is going, where store planning is going, where design is going, and how we can adjust for the future."

New business models are the output of innovation. One of the clearest examples today comes with healthcare companies considering what they do for the ultimate patient as payment models in the industry shift toward wellness and away from quantity of care. Integrated healthcare solutions are emerging as a result. José E. (Joe) Almeida, chairman and CEO, Covidien, said the medical device maker has broadened its innovation focus to include solutions where their products are used. They're also using data as innovation. Considering the Affordable Care Act (ACA), the company has "to anticipate changes and make sure we do not take excessive risks in unknown areas. Understanding, testing, and studying models that may work in the future, so we can be a partner to hospitals in the US, will be critical to Covidien."

The ACA is significant for risk and benefits consultant Towers Watson, too. "Healthcare, particularly the changes that are coming in the US, is going to have a major effect, not just on the economy, but on our healthcare consulting business too, in particular, our exchanges," said John Haley, chairman and CEO. "It's the single largest business opportunity that I've seen in my lifetime."

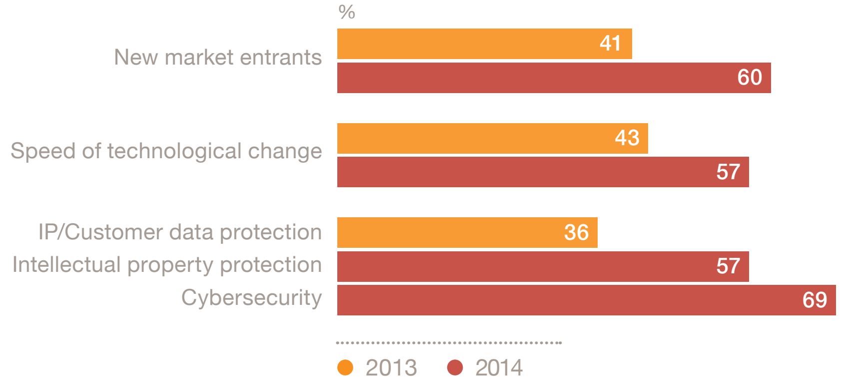
In fact, innovations are changing the economics of many industries. Consider how the growth in digital media continues to upend where entertainment and media businesses traditionally have profited from content. Creators are increasingly building direct relationships with consumers; distributors are increasingly looking to create their own content; and advertisers are looking beyond the traditional agency model.[5] Each of these businesses has had to respond to the disruptions and opportunities created by digital content. As Michael I. Roth, chairman and CEO, Interpublic Group, put it, "we just have to be ahead of our competition in new technology, in servicing and providing an integrated offering for clients that enables them to reach the consumer in ways they want to be reached. It's not the 30-second TV spot anymore. It's mobile, it's tablets, it's all the different ways the consumer communicates now in the marketplace."

Effective use of technology is going to be a crucial factor to spur greater innovation and differentiation as business models evolve. Applying digital technology in the life insurance markets, for example, is leading towards more flexible assisted and self-directed models for buying policies.[6] And making better use of the insights that the ensuing data can provide will support new rounds of innovations and market reach. As Dinos Iordanou, chairman and CEO of insurer Arch Capital Group Limited, said: "All these technological breakthroughs allow us to have not only the ability to assimilate information faster and analyze it faster, but also to have access to that information and distribute this knowledge-based product called 'insurance' to the customer. That's the new innovation, in my view, and companies who don't spend time and resources will be left behind."

5 "Game changer: A new kind of value chain for entertainment and media companies," December 2013, PwC.
6 "Life insurance 2020: Competing for a future," PwC, 2012.

US CEOs more watchful of tech-related threats

How concerned are you, if at all, about the following economic and policy threats to your organization's growth prospects?

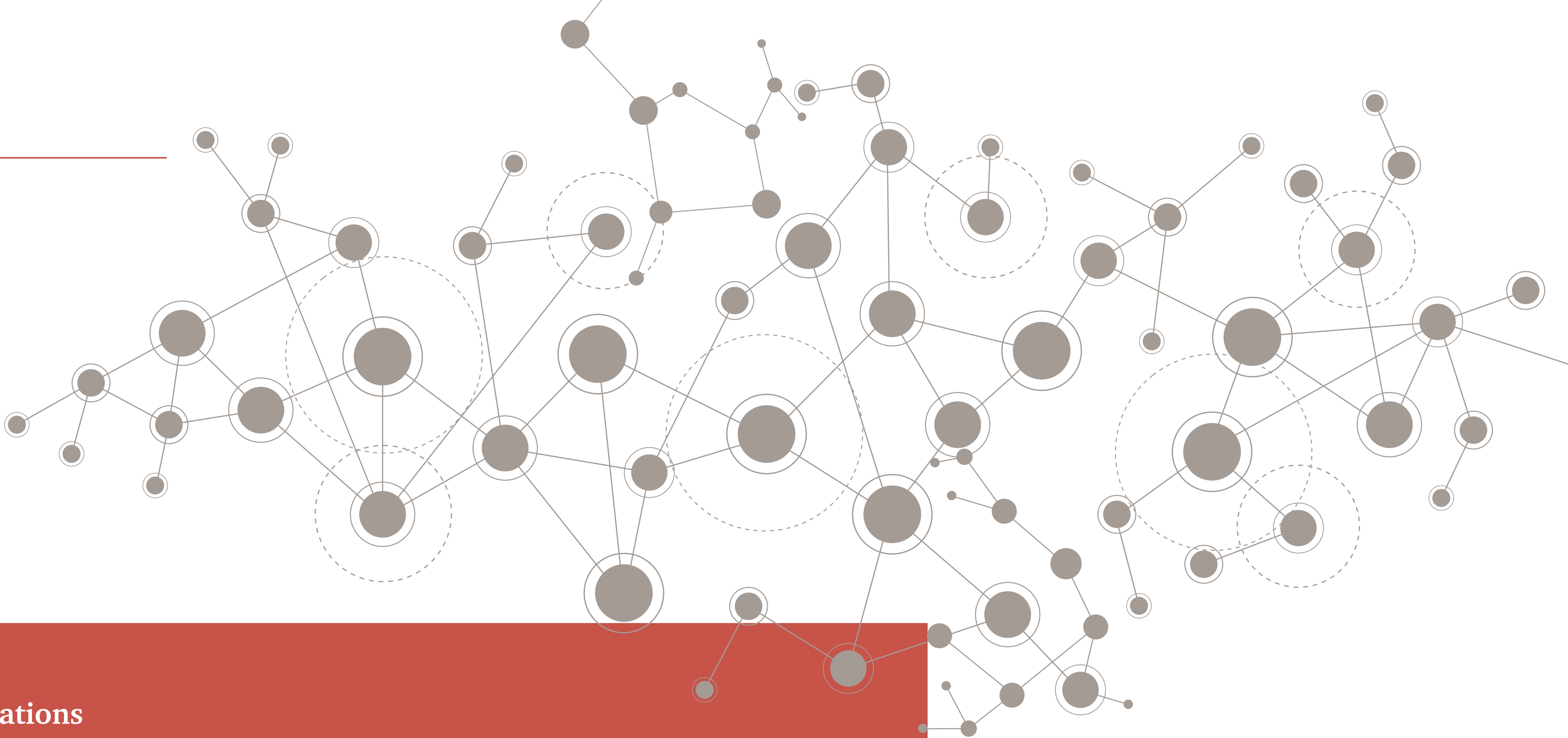


Respondents who stated "somewhat concerned "or "extremely concerned." The IP/customer data protection question was changed in 2014 to include options for IP and cybersecurity.
Base: 167 (2013); 162 (2014).
Source: PwC, *2014 US CEO Survey,* January 2014.

Mainstream US enterprises are scratching the surface on marketing and customer insight tools and where to take mobility technologies next. Their efforts will gain traction in 2014. Next up: ubiquitous sensors and embedded computing herald another wave of new products and services.

New approaches to innovation and R&D are part of a wider focus by many US CEOs in 2014 to change how their organizations are structured to capitalize on shifts in their industries and/or markets.

To accelerate innovation internally, some are funding innovation incubators to foster rapid prototyping of new ideas. The recent recovery in corporate venture capital—typically small equity investments in start-ups—underscores the innovation commitment to widen access to new technologies. Others are looking to join up with emerging market innovators who are developing low-cost products that can find their way into global markets. Innovation is taking place on many fronts. CEOs are changing the way they are investing in technologies to support innovation capacity. Customer interactions are triggering new approaches and CEOs are making broad changes to the way they operate to become more nimble and flexible.



Implications

1. Re-think how you participate in your industry, not just with the end customer but with suppliers and other participants too. Potential partners can crop up from different places.
2. Support new technologies and keep the end game on digital integration. Social, mobile, analytics, and cloud technologies are underpinning the creation of new business models. Customer-facing technologies will compete with internal IT projects, and thus risks increase that applications created by third parties and championed by marketing, sales, or other functional leaders will drive a wedge with the IT organization and create data assets that exist in silos. This can blunt the impact that a truly digitally integrated enterprise provides.
3. Look for emerging market partners who are leapfrogging the standard by innovating for local markets which aren't constrained by old technology but need performance at low cost.

For a view from outside the US on new business models, watch PwC's video interview with Brian Molefe, CEO, Transnet SOC. Go to www.pwc.com/ceosurvey

"Always on" for the connected customer

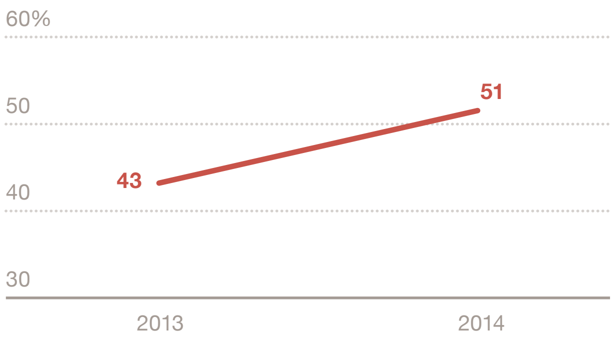
Customer strategies will get a makeover in 2014, with more than half of US CEOs tackling them with a new urgency in response to changing consumer spending patterns and behaviors.

Concerned about changing consumer behaviors, US CEOs are actively addressing their customer strategies

Can you tell me to what extent you are currently making changes, if any, to your customer growth and retention strategies? How concerned are you, if at all, about a shift in consumer spending to your organization's growth prospects?

52% of US CEOs are planning to change their customer growth and retention strategies

Concern about shift in consumer spending and behaviors rises



Respondents who stated "very concerned" or "somewhat concerned" and either "recognized the need to change" or "developed a plan to change."
Base: 167 (2013); 162 (2014).
Source: PwC, *2014 US CEO Survey*, January 2014.

Tech advances are eliminating barriers to entry and lowering distribution costs, leading new competitors to challenge—even upend—established players by offering customers value in new ways. Getting close to the customer and giving her a good experience has become table stakes in today's environment, and CEOs know that they need to do more than that to keep their customers happy.

The next few years will see CEOs leading their organizations toward a new kind of interaction with customers, one that shifts the focus away from stand-alone transactions to a more sustainable "always on" relationship with customers. That means really understanding whom your target customer is and giving her what she values most throughout her evolving customer journey. Muhtar Kent, chairman and CEO, The Coca-Cola Company, explained how the company's product portfolio targets different customer segments: "In terms of demographics, we see aging populations in much of the developed world except for the United States. As a result, we have to appeal to mature consumers with innovations like Caffeine Free Coke Zero, for example. And we have to make sure our brands are connecting strongly with teens and their moms, helping the next generation actually fall in love with our brands, starting with Coca-Cola."

It also means knowing how to balance technology with personal touch. "We know that Millennials and younger people like to go to stores. We also know they like to be online. How we hook that up with the stores is going to be important. It's how we train our associates and how we educate the customer to train for a marathon or prepare for the basketball game. So linking that technology and having the store people be as informed as the customer coming in with their smartphone is what's really going to be important," said Ken Hicks, chairman and CEO, Foot Locker, Inc. Business leaders know that customer journeys are evolving in different ways around the world. For example, shoppers in developing Asia are more than twice as likely as those in mature economies to base their purchasing decisions on word-of-mouth, peer feedback.[7]

Big Data and predictive analytics are helping companies engage their customers and even more fundamentally, helping them understand whom to engage. Companies are analyzing and segmenting customers and clients in more detail than traditional breakdowns by income levels, geographic location, and age groups suggest.

"The one thing I think is extraordinarily important, and that the retail community in general struggles with, is demographic shifts away from their bread and butter customer. We have increasing populations in the ethnic and minority populations in the United States and retailers don't do a particularly good job addressing that change. The winners are going to be companies that aggressively pursue that customer," said Daniel B. Hurwitz, CEO, DDR Corp.

Every target customer segment has its own experiential, behavioral, and attitudinal value set, or its own distinctive experience "recipe." CEOs know that understanding that recipe helps to predict customers' "willingness to pay" for attributes like quality and customer service and "willingness to stay" or loyalty to the brand. PwC's *Experience Radar research* tells us some ways in which companies are improving the experience of their target customers.

Changing their organizations' use and management of data and data analytics is the topmost priority for US CEOs in a year of big change; 62% are actively tackling this area.

7 "The rise of the affluent Asian shopper," PwC, 2013.

Give the right experience to your most profitable customers

What makes customers pay	What makes customers stay	What different customer segments may value
Quality	Performance and value received	• Product or service customization (e.g., organic lifestyle, home delivery)
Support	Friendliness and ease of obtaining help	• A focus on the front line staff to add the human touch (e.g., a single, dedicated mortgage loan officer) • Effective issue resolution (e.g., easy in-store returns, WiFi customer service hotspots)
Convenience	Anywhere, anytime access	• Anytime, anywhere access (e.g., mobile applications for checkout and coupons) • Priority service (e.g., same-day shipping) • The right channel mix (e.g., technology convenience and high-touch service)
Presentation	Aesthetics, arrangement, and pride in presentation	• Clear information (e.g., healthy product labels) • Clear fee structures (e.g., no hidden add-ons)
Community	Customer's personal brand and connection with others	• Community connection • Enabling vocal consumers (e.g., providing online forums and support groups)

Source: PwC, 2013 Customer Experience Radar Research. The Experience Radar Attribute Framework consists of five attributes that can be applied to a broad range of customer experiences across different industries and product/service offerings.

But CEOs know only too well that the real challenges lies in providing a single view of the customer and unifying frontline managers to act on the insights data generates. This is a problem that cannot be solved by organizational reshuffling. It requires a mindset and cultural shift. Consider how online shoe retailer Zappos merged its people and customer experiences, and retained that culture even after its acquisition by Amazon.[8] Zappos' motivated customer service reps have no prepared scripts or call-time metrics, just a singular focus on making customers happy.[9]

Across industries CEOs are finding that improving the people experience in their organizations goes a long way toward delivering the right customer experience. CEOs are breaking down hierarchies and pushing critical decision making to those closest to the customer in functions like marketing, sales, supply chain, and R&D.

John Hayes, chairman and CEO, Ball Corporation, which supplies product packaging and counts major food and beverage companies as its customers, said: "When we talk about being close to the customer, it starts with me and extends all the way down through the organization. I often wonder if our people are on their payroll. They're constantly working with them, and it's not just working with the procurement or supply chain people. They're working with their innovation teams, they're working with their marketing teams, their branding teams, their channel delivery teams to really understand the customer's need."

8 "Zappos Culture Survives Acquisition by Amazon", WSJ.com, September 13, 2012.
9 "Case Study: Zappos", Financial Times. Feb. 16, 2011.

Implications

1. Pay attention to how expectations are being set, not only in your industry but everywhere. Improved experiences in one industry are shaping customer expectations in another. For example, customers are pushing airlines to offer high-quality service (great staff interactions, refundable purchases, etc.) and act like trusted retailers—rather than just get them from point A to point B.[10]

2. Greater analytical precision is necessary, not only to grow revenues but also to manage costs by prioritizing investments on creating the right experience for the target customer. For example, an online retailer that stands out for its customer service experience wants to reduce its shipping costs. It can identify the customers that truly value frequent deliveries and continue to offer them that, while saving on costs with other customers.[11] It can also have a tiered pricing strategy or multiple price points for different service levels and charge its most valuable customers a premium for extra service.

3. Making operating models responsive to the ever-changing and always-demanding customer requires a cultural shift that challenges established functions and hierarchies. Ultimately, it's about empowering people closest to the customer to take decisions that matter.

For a view from outside the US on the connected customer, watch PwC's video interview with Chanda Kochhar, managing director and CEO, ICICI Bank, India. Go to www.pwc.com/ceosurvey

10 "Experience Radar: Lessons learned from the airline industry", PwC 2013.

11 10Minutes on Strategic Supply Chain Management, PwC 2013.

Operations

Remaking operations—responding to customers, orchestrated by technology

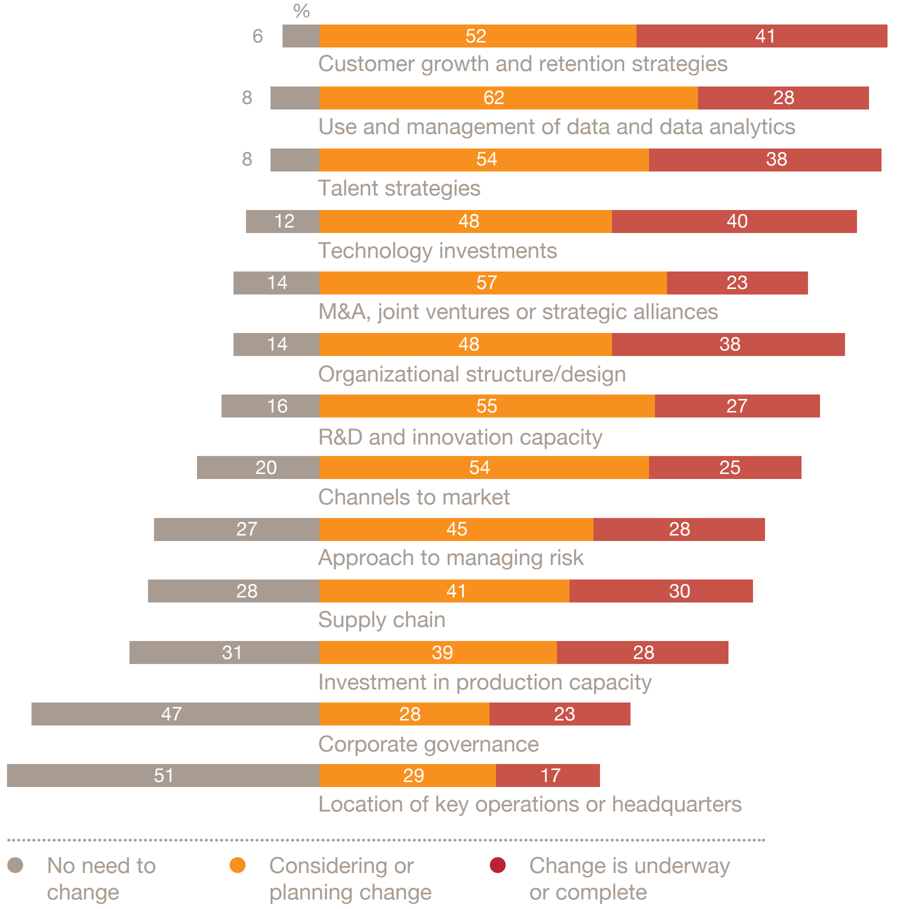
As CEOs plan their strategies to take advantage of transformational shifts, they are also assessing their current capabilities—and finding that everything is fair game for reinvention. A vast majority of CEOs intend to or are already rolling out a slew of change initiatives: from new approaches to engaging customers to making better use of Big Data and forging new strategic alliances.

This flurry of activity is not surprising. In the near-term, economic volatility is persisting, as is uncertainty about what's next, whether it relates to changing consumer preferences or an evolving regulatory environment. José E. (Joe) Almeida, chairman and CEO of Covidien, summed up the challenge facing business leaders: "Strategy is about 10% of the whole picture. Ninety percent is execution and doing what you said you're going to do. And being adaptable enough to understand that when assumptions are not being confirmed, we either cancel the initiatives and move on to something else or adjust the course."

In remaking their organizations, CEOs are moving away from locked-in rigid structures of the past toward more nimble operations. The goal is to make their businesses adept at harnessing disruptions, and building capabilities that can quickly respond to opportunities and threats as they arise, while keeping a handle on costs and risks.

US CEOs are reinventing operations to remain fit today and relevant tomorrow

In order to capitalize on transformative global trends, can you tell me to what extent you are currently making changes, if any, in the following areas?



"Considering or planning change" includes CEOs who told us they recognize need to change/are developing strategy to change/have concrete plans to implement change programs. "Started or completed change" includes CEOs who told us their change programs are underway or completed.

Base: 162.

Source: PwC, *2014 US CEO Survey*, January 2014.

Reinventing capabilities, from the customer in. These new operating models are in flux but they share one key characteristic. Companies are moving away from transactional interactions with customers towards building more sustainable "always on" relationships with them—and that's driving changes to all aspects of operations, like sales channels, R&D, and supply chains. CEOs acknowledge that there is a lot of work ahead in order to make the most of new opportunities. For example, only a fifth of CEOs believe that their R&D function is well prepared and about a third say that marketing/brand and sales are well prepared to capitalize on transformative global trends.

CEOs are implementing change on multiple fronts. "Before, innovation was more of a centralized function. We've tried to push it to the businesses because when you're working on a customer-focused strategy, those innovation folks have to be as close to the customer as anyone else. So it's a bit of a mind change, a bit of a structure change, and a bit of an investment change," said John Hayes, chairman, president, and CEO, Ball Corporation.

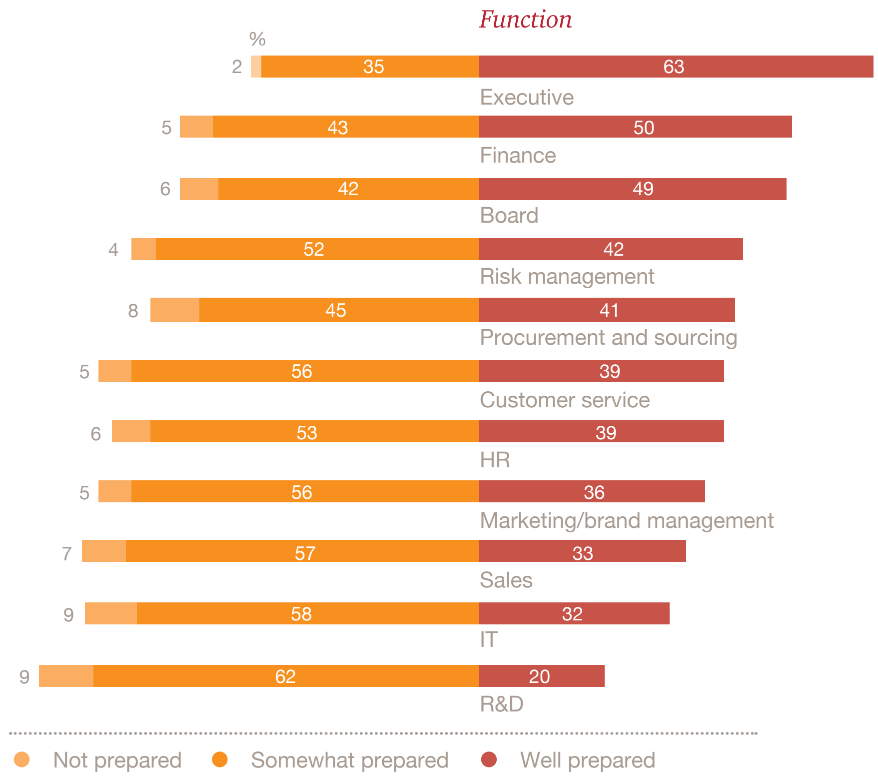
Across industries things are changing in fundamental ways, as companies encroach upon others' turf, offer entirely new services, and rewrite the rules of the game. US retailers, for example, are in a race to get their products to consumers cheaper and faster than their competitors. Online retailer Amazon has invested almost $14 billion to create an infrastructure of nearly 100 warehouses throughout the country to get closer to its goal of same-day delivery for online shoppers.[12] Meanwhile, Walmart is turning its formidable network of 4,000-plus brick-and-mortar stores into e-commerce assets. The company estimates that two-thirds of the US population is within five miles of a Walmart. It currently ships more than 10% of its online orders from these stores, and is testing same-day delivery in five markets.[13]

12 "In Amazon and Walmart's Battle for Dominance, Who Loses Out?", Knowledge@Wharton, Nov. 13, 2013.

13 "To Catch Up, Walmart Moves to Amazon Turf," The New York Times, October 19, 2013.

US CEOs are evaluating capabilities to succeed in a different world

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



Base: 161.

Source: PwC, *2014 US CEO Survey,* January 2014.

Operating models are at a tipping point. CEOs know that in this environment, operating models and associated cost structures too must evolve in order to deliver what the customer values most—and stand out from the competition. This is all the more important as US-headquartered global companies must also respond to a new kind of competitor less likely to be weighed down by legacy costs. "We see the global market becoming more competitive over the next five years. Entrants from other parts of the world will become significant and therefore we have to have a cost structure that meets their forecasted cost structure," said Tom Casey, chairman and CEO of chemical major Tronox.

What is the operating model of the future? There is no one-size-fits-all answer, but business leaders are evaluating their operating expenses in the context of the big picture. Cost reduction remains a priority and more than 60% of US CEOs expect to restructure operations this year to contain costs. But numbers don't tell the full story. Rather than continuing with cost cutting in isolated areas like procurement and distribution, many CEOs are now paying more attention to the complex interplay between factors such as customer demand, talent, innovations, technology, energy and transportation costs, and tax regimes.[14]

Roger Wood, president and CEO, Dana Holding, a major supplier of components and technologies to the global automotive industry, described the challenge of balancing short-term performance with investing in sustainable profitable growth. "Being flexible and agile, ready for a market uptick and downtick, and at the same time targeting our investments for long-term profitable growth is the tremendous challenge that we face every single day," he said.

Bold new experiments are underway. General Electric, for example, has established a new country structure for India, and is applying learnings from it in other markets. All of GE's India business units report directly to the country CEO instead of to US-based business unit heads. On paper, India's tremendous need for healthcare, energy, and transportation infrastructure should have been enough to ensure the company's rapid growth in the country. In reality, GE found that India demanded both more focus and agility than a traditional reporting structure provides.[15]

As both emerging and mature markets go through their own structural shifts, businesses want to be able to enter and exit new segments—and put in place flexible processes that can scale up and down with fluctuating demand. "One distinct advantage is that we are already a very local business in 200-plus countries—to be exact, 207 nations. We source locally, market and produce locally, and hire and distribute locally, and that gives us a tremendous insight into the markets we serve," said Muhtar Kent, chairman and CEO, The Coca-Cola Company.

One way to pursue opportunities while managing costs and risks is forging new types of alliances to benefit from new consumers, talent, and innovators in Asia, Africa, and elsewhere. Tom Linebarger, chairman and CEO, Cummins, explained the logic of these relationships: "By forming partnerships, they can rely on Cummins and we can rely on them to push technologies with each other that will serve customers better—and both of us grow as a result. That was fundamental to our strategy in many emerging markets."

Technology is a catalyst for change. At a time when social networks and mobile technologies are reshaping business models, companies are also reinventing their IT platforms to drive their new operating models. Gone are the days of IT being a back-office service provider. With companies shifting to more flexible approaches such as software leasing and as-a-service models, IT is becoming an orchestrator of business services. It is also what connects today's multi-layered organization, for example, by facilitating employee mobility; integrating third-party systems; and interpreting data from multiple sources to provide real insight.

"We've built real-time knowledge management systems. We've automated our operations with new controls," said Bob Heinemann, former CEO, president, and director of Berry Petroleum, which he describes as a "technology-driven oil company." He added, "But the real key is making them work together. So any one of those by themselves are not that important, but collectively all 25 of them in an integrated package make a difference."

14 "Profitability 2.0: a bigger vision than cost cutting", PwC 2014.

15 "Through the looking glass: What successful businesses find in India," PwC 2013.

Implications

1. Align operations around distinct customer segments, keeping a pulse on their changing expectations. All aspects of operations should be geared toward creating customer value and differentiating oneself in a tough market.

2. Challenge the arithmetic behind old decisions and re-evaluate your operating footprint. Manufacturing, logistics, and service delivery costs are changing dramatically. For example, wages in emerging markets are rising while new technologies, such as robotics and 3-D printing, are presenting new production possibilities. Conduct forward-looking assessments and explore alternatives with an eye on customer needs and future revenue opportunities.

3. In order to respond better to sudden and frequent shifts, build operational flexibility while emphasizing collaboration and innovation over entrenched power structures and established processes.

4. Accelerate change by putting technology at the heart of these new operations. Technology investments are on the rise, and IT must take on a more strategic role, as an advisor and orchestrator of services, to meet business needs.

For a view from outside the US on new operating models, watch PwC's video interview with Arif Naqvi, founder and group chief executive, The Abraaj Group. Go to www.pwc.com/ceosurvey

Deal and alliances

More open to business alliances, ways to work together

Joint ventures and business alliances are becoming more prevalent, in the US as well as internationally, as businesses seek new ways of collaboration to accelerate growth and to capture innovative technologies even faster.

US CEOs are seeking more of these types of strategic alliances in 2014, and most want to hang onto the ones they have: 42% plan to enter one this year; only 4% expect they'll exit an existing relationship. They are also looking at acquisitions: 39% of US CEOs plan to complete a domestic acquisition this year and 28% are planning on a cross-border deal.

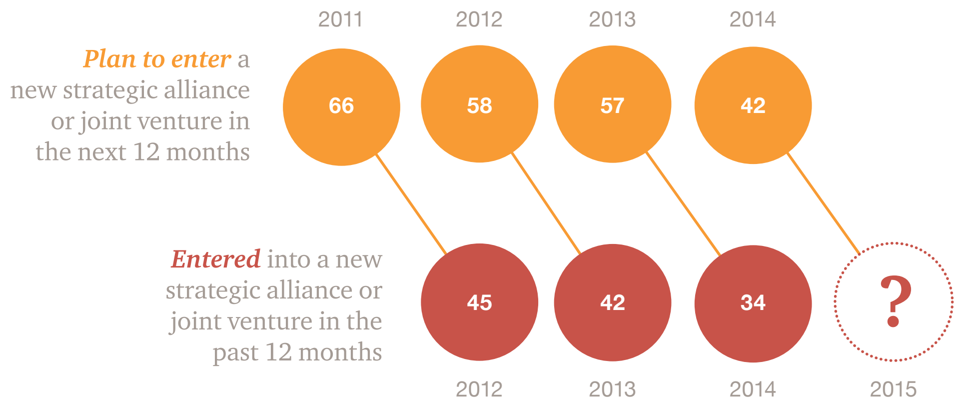
Alliances are becoming core to strategy in a time when innovation capacity will determine future growth prospects and even relevance for many of today's mainstream businesses. Attractions include access to new technologies, highly desired skills and exposure to diverse and innovative corporate cultures as much as lower cost structures and new market access.

"We have to understand what is happening. And in many cases we can work together to provide an optimum solution that neither of the parties could provide alone. That is the collaborative environment that we have to play in," said Roger Wood, CEO of automotive supplier Dana Holding Corporation.

Intent is one thing, ability to come through with a successful partnership that goes beyond a traditional joint venture is another. Over the past four years, an average of 56% of US CEOs said they intended to enter a strategic alliance or joint venture. Looking back, only an average of 40% managed to complete an alliance over the prior year. The gap has not budged even as the need to become more operationally flexible and strategically innovative becomes clearer with each passing year.

More US CEOs seek strategic alliances than are able to find them

Which, if any, of the following restructuring activities do you plan to initiate in the next 12 months? Which have you initiated in the past 12 months?



Base: 108 (2011); 161 (2012); 167 (2013); 162 (2014).
Source: PwC, *2014 US CEO Survey*, January 2014.

CEOs are focused on bridging this "wanting" versus "willing" gap, where the impediments are navigable. So what specifically can make an alliance today hard to do, or at least harder than some CEOs expected?

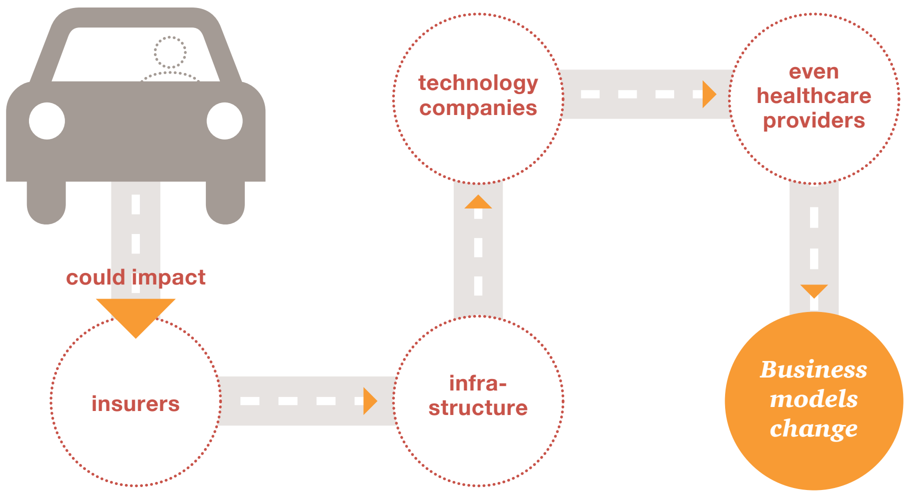
The usual rules of engagement don't apply when the outcome—by design—is less certain. This is what separates today's forms of collaboration apart from vendor-type relationships. Typically, contracts in alliances are effective in establishing the terms for entry. But they are less likely to adequately guide how partners can work together, particularly in emerging industries where experimentation is an important part of the learning curve, and contracts often do not contemplate an eventual exit.

Finding new partners takes time. US healthcare and financial services industries offer two examples where regulatory changes and rapid adaptation of new technologies are forcing companies to alter the value proposition to customers today. Thus an effective alliance in an emerging industry—consider mobile healthcare solutions—requires people on both sides of the partnership to understand where the value is going to come from.

Dr. Paul E. Jacobs, chairman and CEO, Qualcomm Incorporated, said it took a few years to build up the expertise needed to advance wireless technology solutions for the healthcare industry. "We've created a whole set of people who understand both wireless and healthcare and now those are the people that are going to create the progress," he said. "Convergence is an overused word, but when you have convergence of industries, everybody thinks that means that everybody in both industries gets to play. Really, the progress is made by the overlap. It's the people who can understand both industries. And when you start out, there are few of those people."

While this convergence is more obvious in industries such as US healthcare today, other industries are also undergoing transition. Tomorrow, the driverless car could well do the same in the US auto industry. To take just one potential implication for the industry,

How the driverless car could change everything



For sector impact analysis, go to pwc.com/driverlesscar

Source: PwC, *The future of mobility*, October 2013.

consider how the technology, which aims to cut down on accidents resulting from human error, could alter the business economics for insurers or emergency care facilities.

Finding new ways to work with existing partners takes creativity. Long-established alliances between suppliers and their customers are also candidates for a re-look. The scope today can encompass joint development all the way to channel delivery teams, as suppliers add their heft towards a better understanding of the end-customer.

As more business leaders grow comfortable with their positioning for changing markets, deal flow could well follow. In contrast to the global market, where M&A activity remained restrained in 2013, the US deals market improved over the course of the year. Over $1 trillion in US M&A was announced last year, and the US remains the strongest M&A market.

In 2014, industry sectors most dependent on technology-driven convergence continue to be ripe for acquisition activity, especially as organizations look beyond their core competencies in adjacent markets to drive profitability, foster innovation, and meet customer demand. Notable industries that PwC expects to present opportunities for deal activity in 2014 include healthcare, retail and consumer, technology, real estate, and telecommunications.[16]

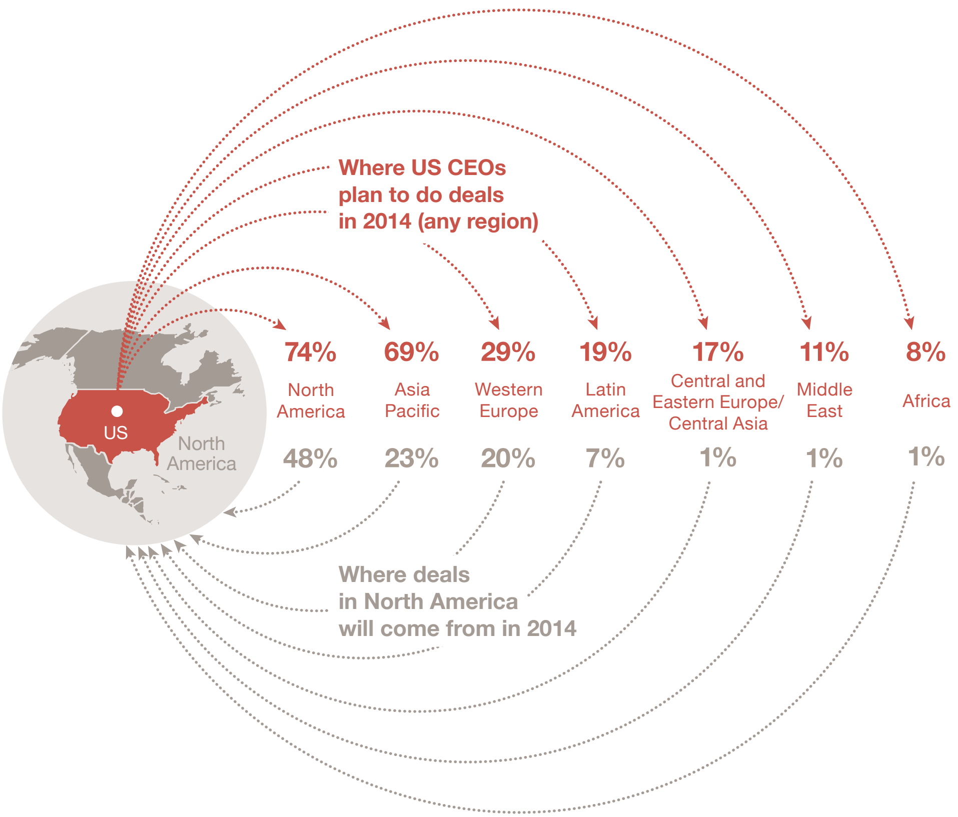
Bringing in technology and growth are the focus for M&A for automotive supplier BorgWarner Inc. "We're very open if it's drivetrain or engine and wherever it may be in the world. That gives us some flexibility," said CEO James R. Verrier. "We have about 30 possible target companies that we're evaluating. Some are very preliminary; some are getting much closer toward potential transaction."

Acquisition strategies are ripe for change: 57% of US CEOs would like to or have plans to change M&A approaches as they look to reinvent capabilities across a number of functions. Appetites for acquisitions are far more prevalent in North America, followed by Southeast Asia and Western Europe. Joint ventures could be a good alternative in emerging markets in the Middle East and Africa, where there is less expectation for acquisitions. But either route, M&A or JV, the focus is on increasing the success of outcome to deliver on the potential value of the deal.

16 PwC's Year-end M&A outlook, December 2013

North America favored deals market in 2014, particularly with US CEOs

In which regions are you planning to carry out an M&A, joint venture or strategic alliance?



Base: 219 CEOs globally selecting "North America" to carry out a merger, acquisition, joint venture, or strategic alliance out of 725 selecting any or all regions; 93 US CEOs planning to carry out a merger, acquisition, joint venture, or strategic alliance in 2014 in any region.
Source: PwC, *2014 US CEO Survey,* January 2014.

Implications

1. Empower the front line. Business alliances can be initiated far from the center by business managers closer to customers or suppliers. Front lines are where a lot of innovation is happening today, and as a result, these alliances can mushroom quickly into strategic importance for a business, even if the capital commitments are relatively small.

2. Be prepared to balance the shift in control to act upon the opportunities that new forms of alliances may help unfold. When all parties to a JV or business alliance partake in the respective strategic rationale, i.e., how the value can be shared and the framework for the ongoing monitoring and management of the alliance, there is a far greater likelihood that the participants will be able to build a sense of mutual trust.

3. Become a partner of choice. As more US companies look toward alliances as a way to access different markets and technologies, it's becoming more important to be the company that start-ups and established companies in other industries want to work with. Communicating the capabilities that your company can bring to the partnership is key—and so are CEOs who are willing to step in and protect the alliance when cultures start to clash.

4. Be prepared to move with agility on a target. Deal makers can do their homework on their internal metrics and the external opportunities earlier in the process, to help meet expected investment returns within tight timeframes while addressing the issues that could be impediments. Many sellers are better prepared today, a result of the tough M&A market since 2007.

For a view from outside the US on business alliances, watch PwC's video interview with Alexei Yakovitsky, CEO, VTB Capital. Go to www.pwc.com/ceosurvey

Building a bridge between today's talent and tomorrow's skills

As US companies return to growth mode, anxiety over skills needs intensifies: 70% of US business leaders are concerned about the availability of key skills, a sharp increase over 54% that said so in 2013.

Sixty-two percent of US CEOs plan to increase headcount this year, reflecting an expected pick-up in the US economy in 2014 and certainly contributing to the concerns over talent shortages.

But there's more at work here. New business models that companies are contemplating require talent with different skills than the ones they currently have. The need is acute for technology-savvy talent: 86% of US CEOs believe technology advances will transform their businesses over the next five years.

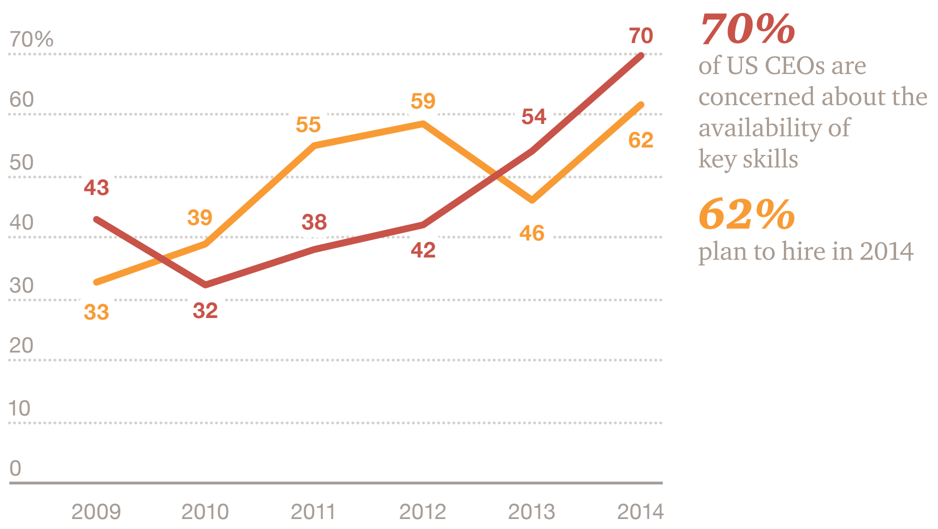
CEOs are very focused on ensuring that the skills are in place—or will be in place—to capitalize on investments they are making into mobile technologies, data analytics, and other strategic capabilities. To be sure, this means bringing in new people with the needed skills and experience. However, as CEOs know, that's not easy to do. Demand for highly valued skills is strong; the "war for talent" is as fierce as ever.

Thus addressing the skills shortage is about much more than hiring fresh talent. It means taking a fresh look at the talent within. Businesses that have been able to build up intellectual capital by continuously cultivating the next generation can experience a distinct advantage.

As Stephen A. Schwarzman, chairman and CEO of asset manager Blackstone, puts it: "Most service organizations have a problem with the people who are ahead of somebody who's coming up, which in effect, forms a glass ceiling. Because we've grown over the years, 27% to 29% a year, we're always starting new parts of our business, which gives younger people a chance to be promoted and grow a new business for us. That sense of being in charge of things, of ownership, entrepreneurship, self-actualization, that's really important."

Will skills gaps confound US CEO plans to expand in 2014?

How concerned are you about the availability of key skills? What do you expect to happen to headcount in your company globally over the next 12 months?



Respondents who stated "extremely concerned" and "somewhat concerned" about the availability of key skills; respondents who stated increase by "less than 5%" or "by 5–8%" or by "more than 8%."
Base: 97 (2009); 100 (2010); 108 (2011); 161 (2012); 167 (2013); 162 (2014).
Source: PwC, *2014 US CEO Survey*, January 2014.

A new kind of talent engagement strategy is needed in this period of rebuilding and preparing for the future. "Do more with less" has taken its toll on morale. Business leaders recognize this: just 32% of US CEOs agree that the level of trust with employees has improved in their industry over the last five years. That's not encouraging at a time when business leaders need employees excited about the strategy and willing to take necessary risks to get there.

A business has always had a "brand" with employees and the communities it operates in as much as with its customers. This is even more so today. "When you look at employees and local communities, the big change I've seen in the last five to 10 years is how interconnected they are," noted Gary J. Goldberg, CEO, Newmont Mining Corporation. "We can do one thing in Ghana and it shows up in Indonesia right away. People know what's going on. It drives the industry to be very transparent about what you're doing, to explain why you do certain things the way you do them along the way, because the whole world is very well connected."

Business leaders recognize that the people currently in place will drive transformation in the near term. This is different than the view that the skills of the people in place now will be irrelevant in 10 years.

Alignment begins with strong communications and employee engagement about the journey and the destination. Roger Wood, CEO of automotive supplier Dana Holding Corporation, put it this way: "Having a company with everybody aligned and pulling in the same direction, with a very innovative and open culture, is the recipe for our success."

Encouraging innovative thinking across the organization is important for NCR Corporation. "Quote-to-cash (the sales process management), some might argue, is a mundane process enterprise-wide, but I would argue that you can be disruptive in thinking about how you handle that long-term, and I want every employee to feel empowered to think that way," said Chairman and CEO William Nuti.

Upgrading skills supports innovation—and thus transformation. Most employees know their skills likely have a shelf life in this economy. So do their employers.

The significance of training—and retraining—programs continues to rise to the top to bridge transitions from old to new business models. For example, to prepare for smart grid jobs, some workers, including electrical engineers and operations research analysts, will require training in addition to their core skills, to use new technologies. Other workers, such as meter readers or power-line installers and repairers, will require extensive retraining to acquire more diverse, higher level skills.[17]

Many are embracing the opportunities to upgrade skills on their own. Most of the people who enroll and complete Massive Open Online Courses, or MOOCs, are already employed.[18]

Revamping talent assessment frameworks is critical. CEOs tell PwC that they are more focused on creating the right environment and being transparent about what success in the company looks like. They're also seeking to better nurture leaders throughout the organization. "It's important to identify leaders at the operating levels and they become your advocate, your megaphone for cultural change. It's very difficult if you don't find them or they don't identify themselves. If they don't volunteer, you're going to have to identify them," explained Tom Casey, chairman and CEO of Tronox Limited, a mining and chemicals group.

17 Bureau of Labor Statistics, "Powering the nation: smart grid careers", Fall 2013.
18 "Who takes MOOCs? For online higher education, the devil is in the details", New Republic, Jan. 4, 2014.

Advanced workforce analytics is part of moving beyond the annual performance review to better identify those individual contributors most likely to be successful as managers or future leaders. Combining workforce data from internal systems with survey, macroeconomic, and socio-demographic data, companies can cut turnover in pivotal roles.[19]

Developing a pipeline of business-ready talent in new ways. US CEOs are also talking about how to step up what they see as much-needed collaboration with the educational system. They can't wait for the government to make more meaningful progress in creating a skilled workforce.

For example, IT distributor Tech Data Corporation is now offering an MBA program at night inside their building. The company worked with a university in Tampa, Florida, to create the program. "It's a never-ending process to find the right people," said CEO Robert M. Dutkowsky. "We've changed our recruiting techniques. We use all the tools in the online social sites, and we network like crazy."

Some US CEOs (14%) say they are prioritizing creating jobs for young people (16–24 years old). These are the 'digital natives' who will drive many of the changes in the way businesses are managed and led in the not-too-distant future.

Chemicals group LyondellBasell Industries N.V. is working on many educational levels to prepare the next generation. The company is working with universities, particularly in engineering skills. "We're working with some community colleges, two-year technical degree people to be operators at our plants," CEO Jim Gallogly told PwC. "We're working in high schools, trying to get shop programs again to make sure we have young people interested in welding, pipefitting, and other important skills. And even going into lower levels in the school system—people in seventh, eighth, and ninth grades, before they start to make career choices—and educating them about the great jobs our industry has."

19 "Big Data for HR-Getting up to speed with predictive analytics", PwC's HR Innovation, 2013.

Implications

1. Getting people excited and connected to the strategy matters when CEOs make changes in their business model. Being transparent about what it will take to be successful and where the company is headed is important.
2. Equally, being clear about expectations about employee behavior, for example, in how to interact with customers or collaborate together with other people helps change the corporate culture. Leaders need to create the environment and back their employees as they go through the changes to improve employee engagement and raise the levels of trust.
3. Support your employees' desires for new skills. Be clear around what skills are needed in the future, what are the technical and managerial skills that employees need to develop. Many employees recognize they will need continuous training as technology changes what they do and how they do it. The enthusiasm generated by MOOCs offer a path; they indicate demand for non-traditional and self-directed learning.
4. Look beyond the hype around data analytics for HR. Apply analytics to answer specific questions. For example, what schools yield successful recruits? When are employees likely to leave the organization? How effective is a specific flexibility program?

For a view from outside the US on talent, watch PwC's video interview with Preetha Reddy, managing director, Apollo Hospitals. Go to www.pwc.com/ceosurvey

Ready, set, grow

The number of US CEOs who believe that global growth is returning has more than doubled since last year. And, despite continued economic volatility and regulatory uncertainty at home and in other markets, these CEOs have found the path forward. It is paved by transformative trends such as technology advances, changing demographics, global economic shifts, demands on resources, and rapid urbanization. CEOs worry that their business models may come under attack from companies they haven't heard of or a competitor from an entirely new industry.

Technology is transforming everything, from the way healthcare is delivered today to how cars will be driven tomorrow. The customer's journey doesn't end with a transaction and CEOs are reinventing their organizations to be always on to serve these customers. That means remaking operating models to increase responsiveness while lowering costs. CEOs know that business managers close to customers and suppliers can create new innovations or forge new alliances—which can quickly become the next driver of growth.

The leadership challenge is to make sure they have the talent that can transform the organization. Does the management team have enough people who know how to craft and run new experiences and innovations—or is it overpopulated with those who know how to optimize the old? Both are vital, but the CEO's job is to strike the right balance between running the business today and creating the business for tomorrow.

In-depth, videotaped interviews were conducted with the following US CEOs

José E. (Joe) Almeida
Chairman, President and Chief Executive Officer
Covidien

Tom Casey
Chairman and Chief Executive Officer
Tronox Limited

Robert M. Dutkowsky
Chief Executive Officer
Tech Data Corporation

James L. Gallogly
Chief Executive Officer
LyondellBasell Industries N.V.

Gary J. Goldberg
President and Chief Executive Officer
Newmont Mining Corporation

John Hayes
Chairman, President and Chief Executive Officer
Ball Corporation

John Haley
Chairman and Chief Executive Officer
Towers Watson

Ken Hicks
Chairman, Chief Executive Officer and President
Foot Locker, Inc.

Daniel B. Hurwitz
Chief Executive Officer
DDR Corp.

Robert F. Heinemann
Former Chief Executive Officer, President and Director
Berry Petroleum Company

Dinos Iordanou
Chairman, Chief Executive Officer and President
Arch Capital Group Limited

Dr. Paul E. Jacobs
Chairman and Chief Executive Officer
Qualcomm Incorporated

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

Tom Linebarger
Chairman and Chief Executive Officer
Cummins Inc.

William Nuti
Chairman, Chief Executive Officer and President
NCR Corporation

Michael I. Roth
Chairman and Chief Executive Officer
Interpublic Group

Stephen A. Schwarzman
Chairman, Chief Executive Officer and
Co-Founder
Blackstone

James R. Verrier
President and Chief Executive Officer
BorgWarner Inc.

Roger Wood
President and Chief Executive Officer
Dana Holding Corporation

The following CEOs based outside the US are also referenced in this report

Douglas Flint
Chairman, HSBC Holdings Plc
UK

Chanda Kochhar
Managing Director and Chief Executive Officer
ICICI Bank
India

Brian Molefe
Group Chief Executive, Transnet SOC Ltd,
South Africa

Arif Naqvi
Founder and Group Chief Executive
The Abraaj Group

Preetha Reddy
Managing Director
Apollo Hospitals
India

David Thodey
Chief Executive Officer, Telstra
Australia

Alexei Yakovitsky
Chief Executive Officer, VTB Capital
Russia

About the 2014 US CEO Survey

PwC conducted 162 interviews with CEOs from US-headquartered organizations as part of our 17th Annual PwC Global CEO Survey. In all, PwC conducted a total of 1,344 interviews with CEOs in 68 countries worldwide between September 9 and December 6, 2013. The interviews were spread across a range of industries with further details by region and industries available on request.

All interviews were conducted on a confidential basis. Fifty-four percent of the interviews were conducted by telephone; 38% online; and 8% by post.

For this US report, PwC conducted in-depth interviews with 19 US-based CEOs. Their interviews are quoted in this report, and video selections as well as the transcripts from the interviews can be found at *www.pwc.com/usceosurvey*

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