

What's on the minds of CEOs in Australia

Thriving in a slow-growth world

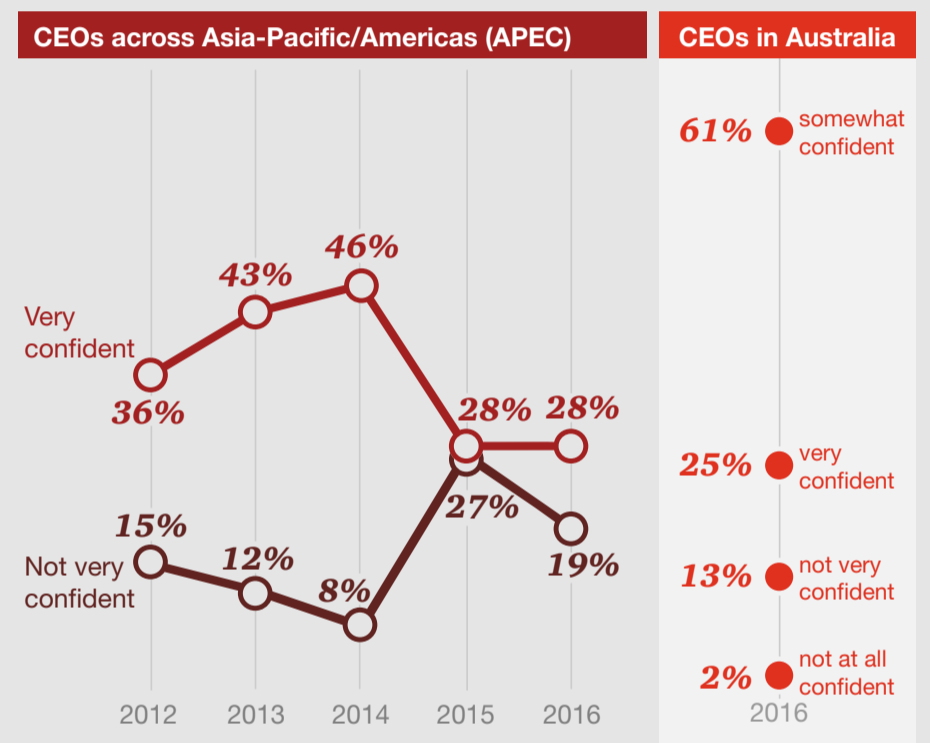
For the first time in 15 years, the growth rate of global trade volume could lag that of global GDP. Fragile CEO confidence underscores the challenges ahead—just 28% of all APEC business leaders remain 'very confident' about revenue growth over the next 12 months.

CEOs are asking how to thrive in a slow-growth world and how to compete in this new economy. We highlight two trends.

This report reflects the perspectives of 56 business leaders in Australia compared with all 1,154 business leaders (APEC CEOs), surveyed from May-July 2016. For seven years, as Knowledge Partner to APEC CEO Summit, PwC has conducted this survey to sharpen understanding of what's driving business growth and investment in the region. This year, over half of all respondents are in organisations with over US\$1bln in annual revenue.

APEC CEO confidence fragile

Prospects for revenue growth in 2016-17



Q: How confident are you about your organisation's prospects for revenue growth ... over the next 12 months?
Base: 2016: 1,154, 56 (Australia), 2015: 800, 2014: 635, 2013: 467, 2012: 362
Source: PwC's APEC CEO Survey, 2016-17

Challenges for 2016-2017: Generating returns from innovation and overseas business

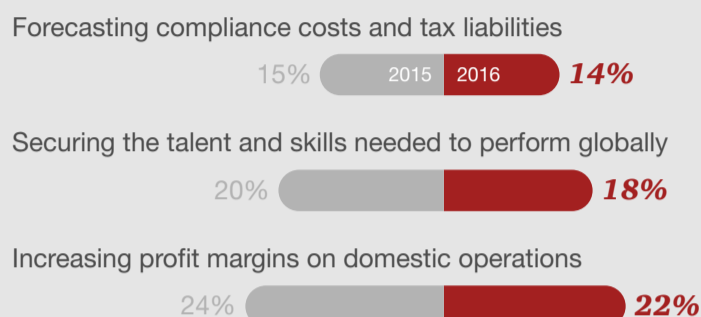
APEC CEOs today see greater challenges in increasing profits from overseas business in this slow global growth environment, and with innovating to meet the demands of global markets. Only 15% are 'more confident' today that margins from international operations will increase compared with 22% at this time last year.

CEOs are also experiencing rising competition in many APEC economies. Technology is enabling new rivals to make inroads in established industries. At the same time, companies such as Haier Group and Huawei Technologies Co. from China, Grupo Bimbo from Mexico, and Hon Hai Precision Industry Co. from Chinese Taipei are competing to become global leaders in industries dominated by multinationals from mature economies.

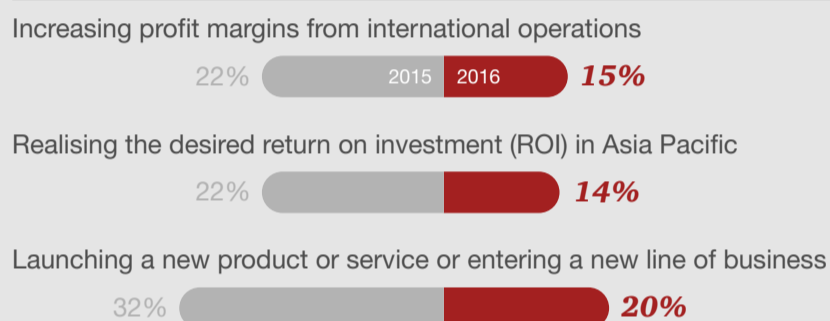
What's changed with APEC CEO confidence?

Comparing % CEOs 'more confident' in 2016 with 2015

Where conditions are about the same



What's become more challenging



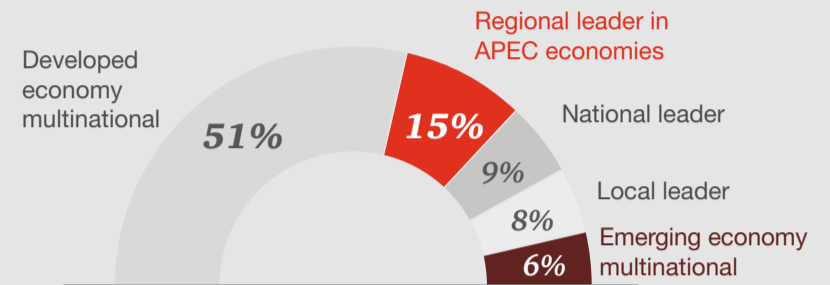
Q: Compared to a year ago, how has your confidence changed about ...?
Base: 2016: 1,154, 2015: 800
Source: PwC's APEC CEO Survey, 2016-17

Investing for future business growth

APEC CEOs continue to invest in their businesses and into economies across the region to seed future growth. Among those with oversight for markets in Australia, 45% expect to increase investments over the next year. This compares with 53% of CEOs across APEC, unchanged from plans a year ago.

Regional capabilities are becoming the benchmark for APEC CEOs: 38% identify a regional leader in APEC or a multinational company from an emerging economy as their leading rival. This signals a changed competitive arena that's underlying the investment flows. Only two years ago, 41% of APEC CEOs identified a multinational company from a developed economy as their leading rival.

For Australia CEOs, leading rivals are more likely multinationals based in a developed economy



Q: Thinking about your competition over the next 3-5 years, which would you characterise as the leading company in your competitive set?
Base: 53, not showing 'Don't Know' or 'None of the above' responses.

We note two investment trends that indicate expectations for future drivers of business growth.

1) Expand across borders with targeted investment

On average, APEC business leaders are investing in seven other APEC economies. This is the competitive arena that matters most, reflected in the rise of global foreign direct investment (FDI) flows in 2015. Business investment capital is pushing across borders to accelerate growth and as a result, often bumping into fresh regulatory matters. CEOs today say they balance policy and market factors in cross-border decisions. These perspectives suggest cross-border business investment will increasingly flow to the right regulatory conditions for business expansion.

Top 5 factors for CEOs investing across APEC economies



Q: What matters the most in your business decisions to invest in APEC economies outside of your principal economy?
 Base: 52, 1,052.
 Source: PwC's APEC CEO Survey, 2016-17

Will regulatory conditions matter more in the future?

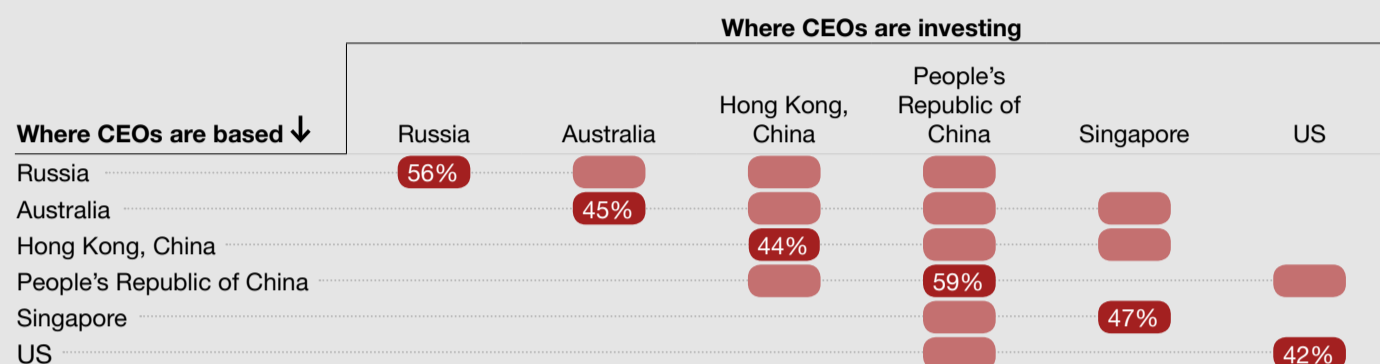


Q: What influence do you expect the regulatory environment (transparent rules, lack of corruption) to have on your investment decision making in APEC economies over the next 3-5 years compared to now?
 Base: 1,118 (APEC), 55 (Australia), showing 'More influence' responses only.
 Source: PwC's APEC CEO Survey, 2016-17

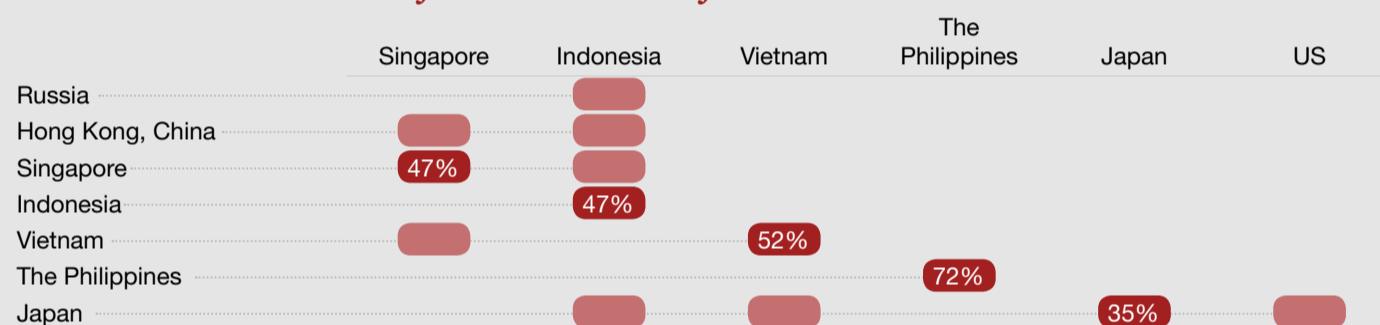
Most APEC CEOs plan to raise investment at home, but diversification is also apparent for 2016-2017

- % of CEOs surveyed who will increase investment in own economy
- Select APEC destinations drawing investment increases from at least 20% of origin CEOs

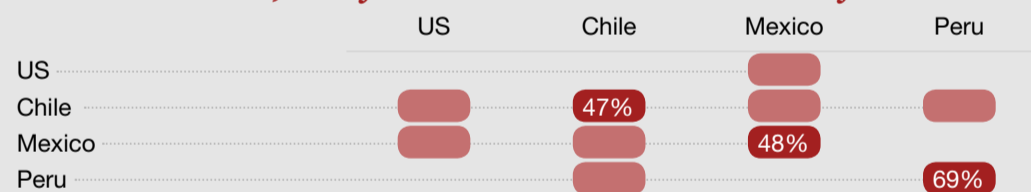
China, US remain top destinations for more APEC CEOs increasing investment



ASEAN is next to attract fresh investment from more APEC CEOs



In the Americas, Pacific Alliance cross-investment flows are taking shape

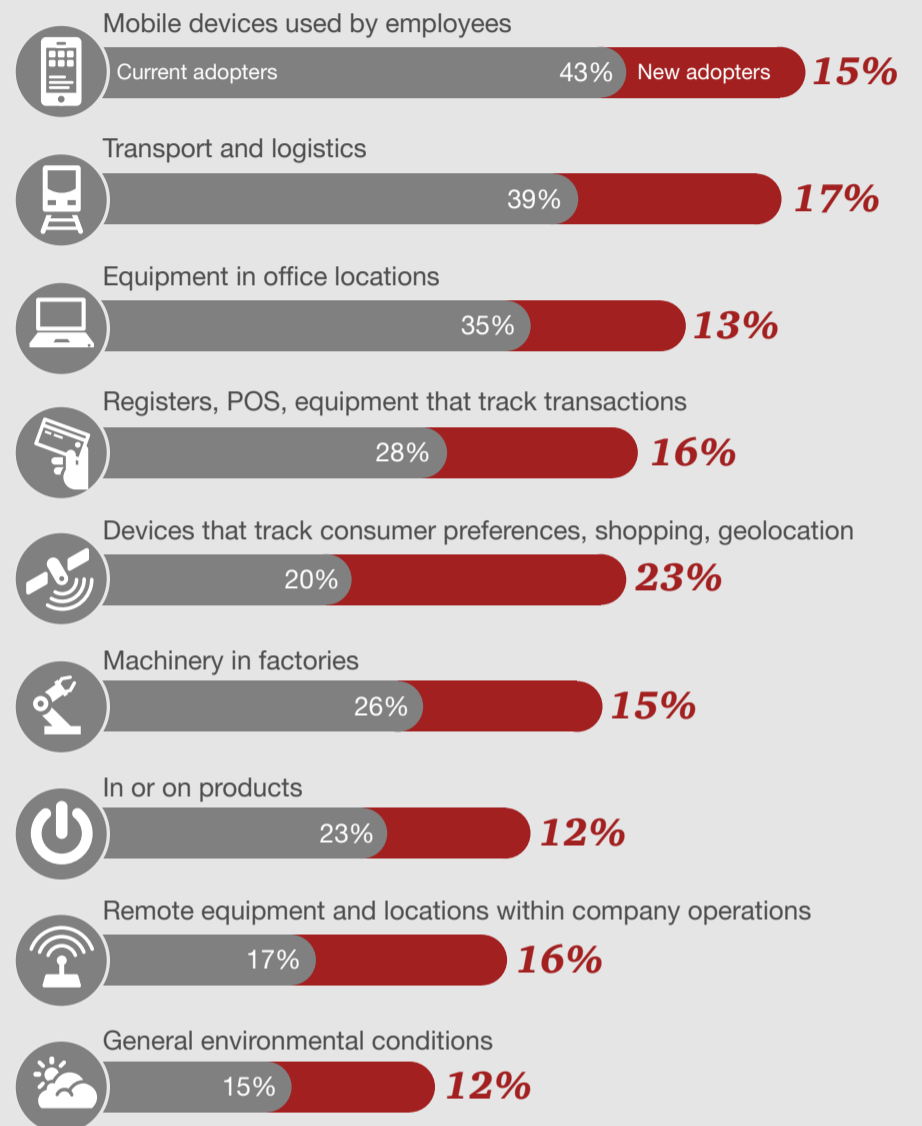


Q: Now thinking of your footprint in APEC economies, will your business investments increase, stay the same or decrease over the next 12 months?
 Base: 172-517, includes those currently investing in the economy with plans to increase AND those planning to invest in the economy for the first time.
 Source: PwC's APEC CEO Survey, 2016-17

2) Expand data touchpoints inside and outside the business

The Internet of Things (IoT) is opening up new business models and forging new and closer relationships with customers and supply-chain partners. A first wave of this connectivity, largely driven by industrial and utility industries, was the digitization of operations (e.g., smart meters for electric utilities, sensors and robotics and smart fleets for industrials). Now, we're seeing the applications of IoT proliferate in other sectors from agriculture (tracking cattle with sensors) to smart homes (thermostats that know you're in the room) to retail (athletic clothing that sends biometric data to the cloud for real-time analysis) as well as banking and insurance. IoT technology adoption has reached a tipping point.

Data-collecting devices will be ubiquitous throughout the enterprise in next three years



Q13 In what parts of your operation have you embedded real time or near-real time data and information collection today And in the next three years?
Base: Current adopters 1,081, New adopters 1,040. New adopters – not currently using it but plan to in the next 3 years
Source: PwC's APEC CEO Survey, 2016-17

Our survey of APEC CEOs indicates that, over the next three years, there will be more APEC companies deploying IoT technology than those which aren't. Emerging data-based services and products crossing APEC's borders will continue to change the idea of trade, as servers become the new ports. The twin aims of facilitating free trade of data—and keeping that data secure—will likely persist as jurisdictions grapple with keeping laws and regulations on cross-border data transfers in step with, or ahead of, IoT advancements and wider adoption of the technology.

Expect faster growth for connected devices in these areas in Australia



Transport and logistics



Devices that track consumer preferences, shopping, geolocation



In or on products

Base: 51, showing respondents in Australia who are not currently embedding connected devices in these areas but plan to do so over the next three years.
Source: PwC's APEC CEO Survey, 2016-17

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