



Horváth

CxO Priorities 2023

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Rebuild your business in a multipolar world

Stuttgart, June 2023

General Study Information

>430 global CxOs

in dialogue with
Horváth



10 weeks

of conversations between
April and June 2023



35% CEOs

other C-levels also strongly
represented



>200 h

Personal discussion time
with top decision makers



13 strategic priorities

to manage business sustainably
in the mid- and long term



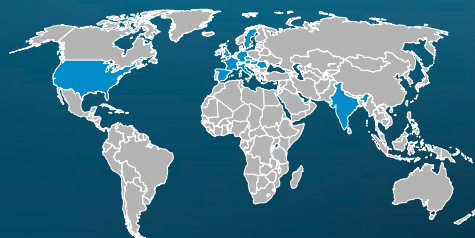
>360 revenue forecasts



**Discussion on strategic priorities and
relevance of industry-specific trends**



**Headquarters in
19 countries**



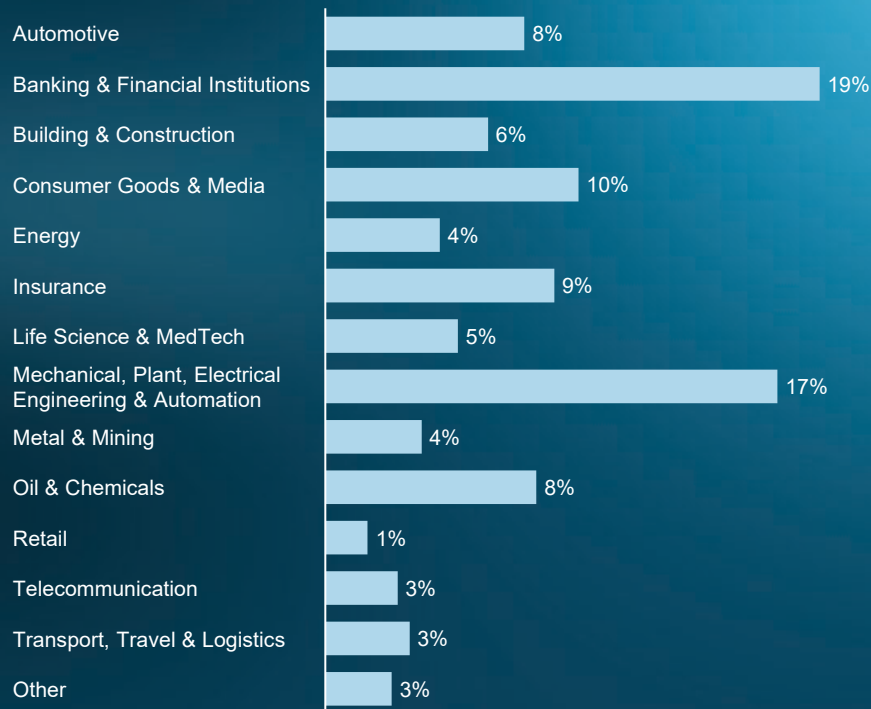
13 industries

reporting on industry trends

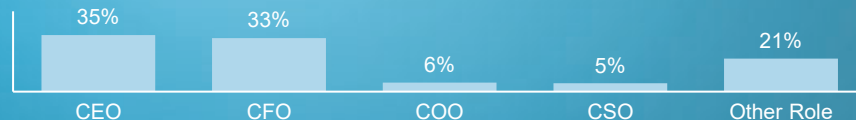


General Study Statistics

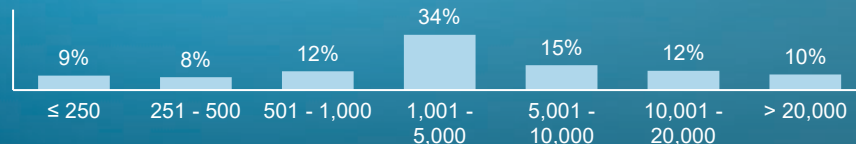
Participants per industry N = 433



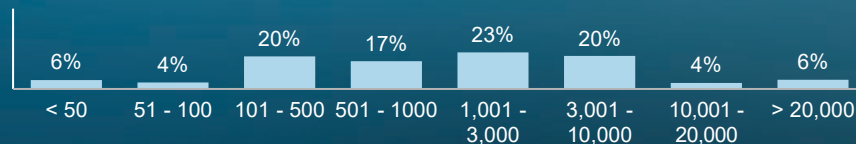
Participants per role



Number of employees (of participants' companies)



Revenue in MEUR (of participants' companies)



Countries



CxO Priorities 2023 – Rebuild your business in a multipolar world

Management Summary (1/3)



Overall Results



Impact on CxO Agenda

CxOs are facing multipolar challenges

- **Geopolitical development**
Strengthen regionalization and relocation of workforce on a global scale due to protectionism, labor costs and proximity to customers
- **Transformation**
Implement transformation driven by digitalization, sustainability requirements and profitability management
- **Future Capabilities**
Put people first to ensure employer attractiveness, gain and retain the right talents in all regions and thereby secure the competencies required in the future

CxO Priorities 2023 – Rebuild your business in a multipolar world

Management Summary (2/3)



Overall Results



Strategic Priorities

- **Top priority are people-driven topics**, such as shortage of skilled labor, new collaboration models, new competencies, employer branding and flexible work
- **Profit-related topics and liquidity** gain in importance compared to previous years
- **Digitalization and sustainability** are pushed aside and have lost in importance. However, they remain at the top of the management agenda



Revenue Development

- **Companies still expect revenue growth**: half of which is driven by inflation / price increase
- **The economy is not in a crisis**, but a profit-driven tailwind will turn into a headwind

CxO Priorities 2023 – Rebuild your business in a multipolar world

Management Summary (3/3)



Results – Manufacturing Industries

- **Value creation is regionalized** and shifts to North America, China and the rest of Asia
- The workforce will increase in **North America, China, the rest of Asia and Eastern Europe**, while one-third of companies will **reduce the workforce in Western and Southern Europe**
- **China** especially gains importance as a **sales market**
- **Liquidity** as well as **cost and profit structure improvements** are back in the focus




Results – Service Industries

- **Digitalization** remains the **top priority** to address the labor shortage and profitability in core processes
- **Cyber-security is not as important as in manufacturing industries**, as many companies have worked on this topic for years
- Realignment of group **strategy and business model** has **more relevance** than in manufacturing industries

Across all industries people-driven topics are the C-levels' top priority in 2023

Key findings



Rank (2023)	Rank (2022)	Priority	Score (2022)	Score ¹ (2023)
1	4	 People-driven topics	3.27	3.50
2	2	 Cyber security	3.51	3.48
3	1	 Digital transformation	3.59	3.47
4	5	 Structural improvement of cost and profit structures	3.33	3.28
5	3	 Ecological sustainability orientation of business strategy and activities	3.07	3.28
6	12	 Sustainable improvement of liquidity range	2.57	3.04
7	6	 Supply chain / production footprint adjustments	2.90	2.92
8	7	 Realignment of pricing and revenue models	2.80	2.87
9	8	 Improvement of corporate performance management and risk management	2.80	2.87
10	9	 Reorganization of organizational structures and processes	2.72	2.86
11	10	 Realignment of group strategy and business model	2.66	2.81
12	11	 Corporate diversity & inclusion	2.65	2.58
13	13	 M&A or divestments of business areas	2.38	2.42




C-Level's priorities state the broad range of challenges to be solved:

- People-driven topics gained importance due to labor shortage and the relevance of transformational topics
- Cyber security and digital transformation are long-term tasks that need to be pursued over the years
- Due to limited growth expectations, EBIT pressure and rising interest rates, profitability and liquidity gains importance
- Sustainability has been slightly pushed aside by other topics but is still a key issue

N = 415

¹ Importance of priorities on a scale of 1-4: 4-very important, 3-important, 2-less important, 1-not important, 0-not applicable

Cyber security, as well as people-driven topics are the top priorities in manufacturing industries

Rank (2023)	Rank (2022)	Rank (service ind.)	Priority	Score (2022)	Score ¹ (2023)
1	1	3	 Cyber security	3.51	3.46
2	5	2	 People-driven topics	3.17	3.46
3	6	5	 Structural improvement of cost and profit structures	3.10	3.40
4	3	4	 Ecological sustainability orientation of business strategy and activities	3.35	3.32
5	2	1	 Digital transformation	3.46	3.31
6	10	10	 Sustainable improvement of liquidity range	2.64	3.25
7	4	12	 Supply chain / production footprint adjustments	3.27	3.17
8	7	9	 Realignment of pricing and revenue models	2.85	2.96
9	8	8	 Reorganization of organizational structures and processes	2.83	2.94
10	9	6	 Improvement of corporate performance management and risk management	2.81	2.88
11	11	7	 Realignment of group strategy and business model	2.62	2.83
12	13	11	 Corporate diversity & inclusion	2.50	2.56
13	12	13	 M&A or divestments of business areas	2.53	2.52

Key findings



- Cyber Security is the top priority in manufacturing industries: companies are permanently under attack. Especially in the field of operations IT, there is a need to catch up
- Furthermore, the skilled labor shortage is one of the top growth barriers for manufacturing companies
- Lowered growth expectations, high inflation, and refinancing costs push the need for structural improvements of cost and profit structures
- Liquidity with a focus on working capital (esp. inventory build up during the crisis) is becoming more important

N = 237

¹ Importance of priorities on a scale of 1-4: 4-very important, 3-important, 2-less important, 1-not important, 0-not applicable

Digital transformation remains on top of the management agenda in service industries

Rank (2023)	Rank (2022)	Rank (manuf. ind.)	Priority	Score (2022)	Score ¹ (2023)
1	1	5	 Digital transformation	3.72	3.69
2	3	2	 People-driven topics	3.32	3.55
3	2	1	 Cyber security	3.50	3.51
4	4	4	 Ecological sustainability orientation of business strategy and activities	3.28	3.22
5	5	3	 Structural improvement of cost and profit structures	3.03	3.12
6	6	10	 Improvement of corporate performance management and risk management	2.79	2.85
7	8	11	 Realignment of group strategy and business model	2.71	2.78
8	10	9	 Reorganization of organizational structures and processes	2.68	2.76
9	9	8	 Realignment of pricing and revenue models	2.71	2.74
10	11	6	 Sustainable improvement of liquidity range	2.52	2.70
11	7	12	 Corporate diversity & inclusion	2.78	2.61
12	12	7	 Supply chain / production footprint adjustments	2.16	2.32
13	13	13	 M&A or divestments of business areas	2.06	2.26

Key findings



- For service industries, digital transformation has a very high impact on core processes and services portfolios
- Therefore, it is again ranked as the top priority, even though internal efficiency projects are already in the maturity phase
- People-driven topics are a top priority fueled by technology development (AI) and reduced workforce when baby boomers will exit the labor market
- Cost and profit structure improvements are slightly less important than in the manufacturing industry

N = 179

¹ Importance of priorities on a scale of 1-4: 4-very important, 3-important, 2-less important, 1-not important, 0-not applicable

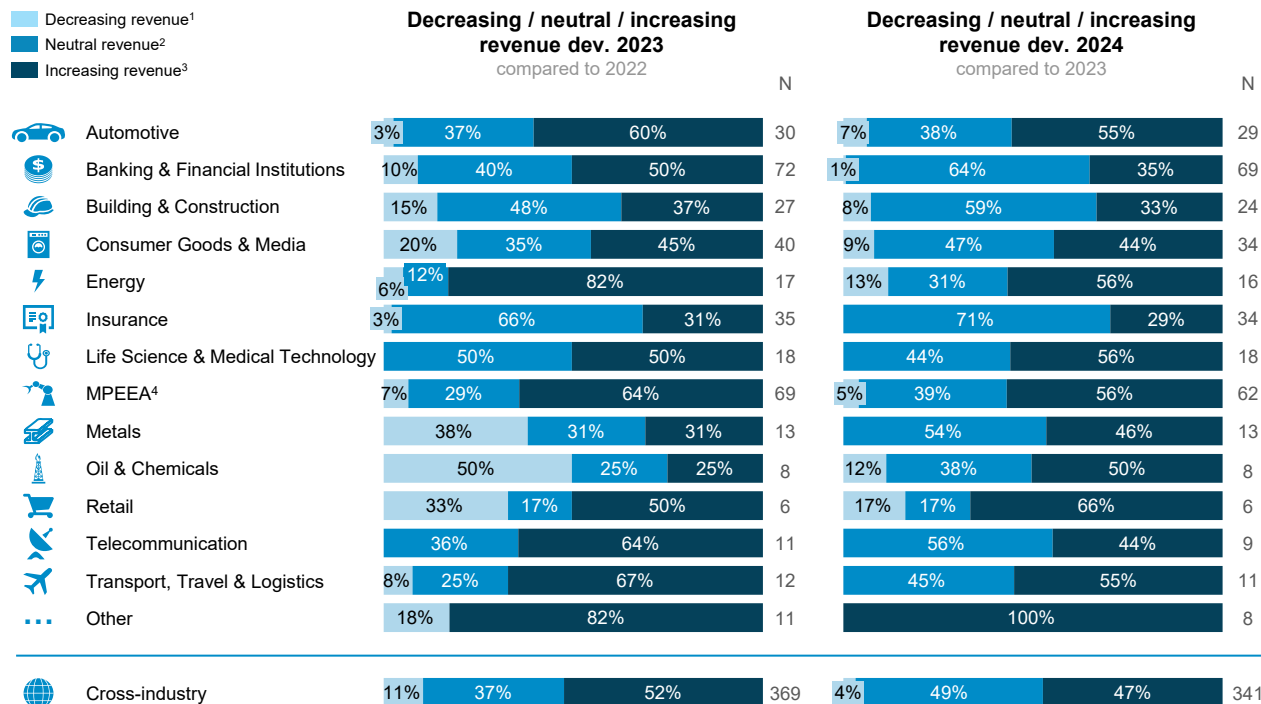
Only half of the companies expect a real revenue growth after inflation adjustments



Key findings

- After inflation adjustments, only about half of the companies expect real revenue growth
- Approximately 37% expect to grow on a nominal level between 0% and 5% in 2023
- The forecast for 2024 is more cautious: Almost half of the companies expect only nominal growth

Estimated revenue development compared to the previous year in different industries

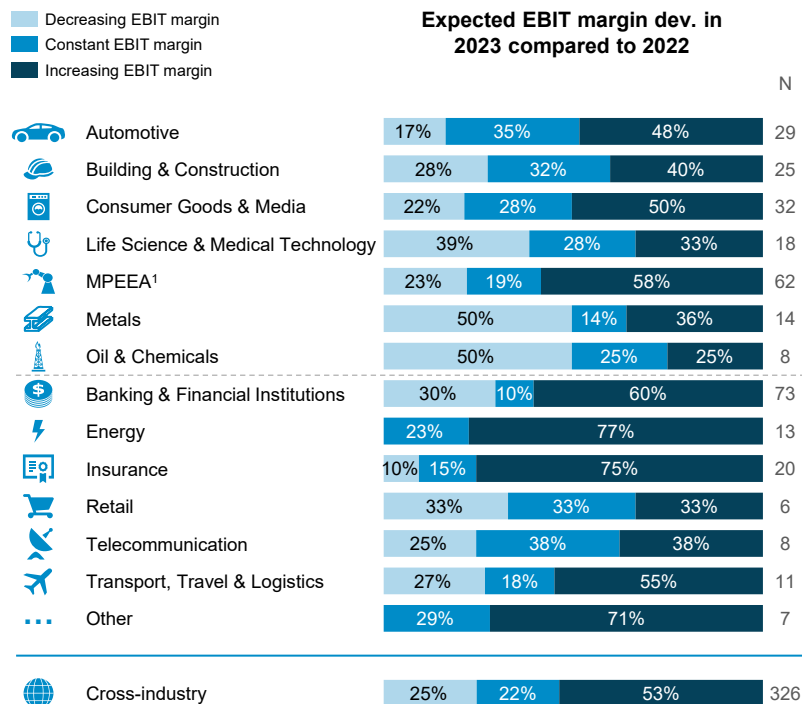


N = 369

¹ < 0% ; ² 0% ≤ & ≤ 5% ; ³ > 5%⁴ Mechanical, Plant & Electrical Engineering, Automation
Round differences may occur

Only about 50% of the companies expect their EBIT margin to increase in 2023

Estimated development of the EBIT margin in 2023 compared to 2022



Results across all industries



47.1%

of **manufacturing companies** expect an increasing EBIT margin in 2023 compared to 2022



61.5%

of **service companies** expect an increasing EBIT margin in 2023 compared to 2022

Key findings





- Half of the companies surveyed are expecting a stagnating or declining EBIT margin in 2023, compared to 2022
- Even though the revenue outlook is rather optimistic, companies continue to struggle with rising costs
- Some industries still observe post-covid catch-up effects, e.g., automotive and travel
- Service industries are more optimistic that they will be able to manage their EBIT compared to manufacturing industries

N = 326

¹ Mechanical, Plant, Electrical Engineering & Automation
Round differences may occur

Many companies intensify their regionalization strategy

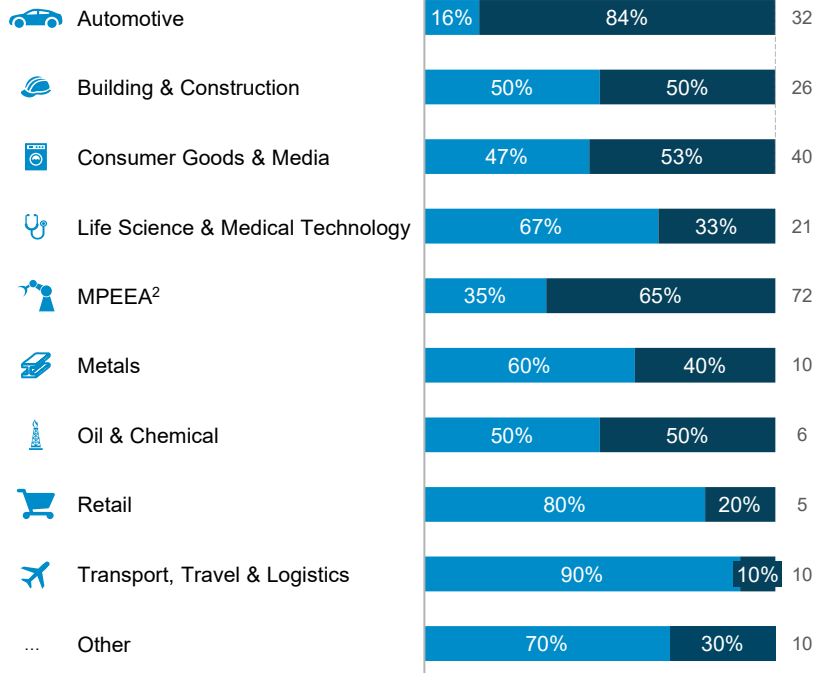
Regionalization ambitions of companies from different industries¹

 Stronger regionalization pursued
 No stronger regionalization pursued

55% of the companies surveyed **pursue a stronger regionalization**



45% of the companies surveyed **do not pursue a stronger regionalization**



Key findings



- In the tension of a multipolar world, with challenges in the supply chains, high labor costs and geopolitics, most companies position themselves more regionally in the sense of local-for-local
- The regionalization aspirations are especially strong in the automotive industry: Car manufacturers move where their customers are, and suppliers are following
- Furthermore, China and the USA are strong drivers for regionalization with their current protectionist efforts

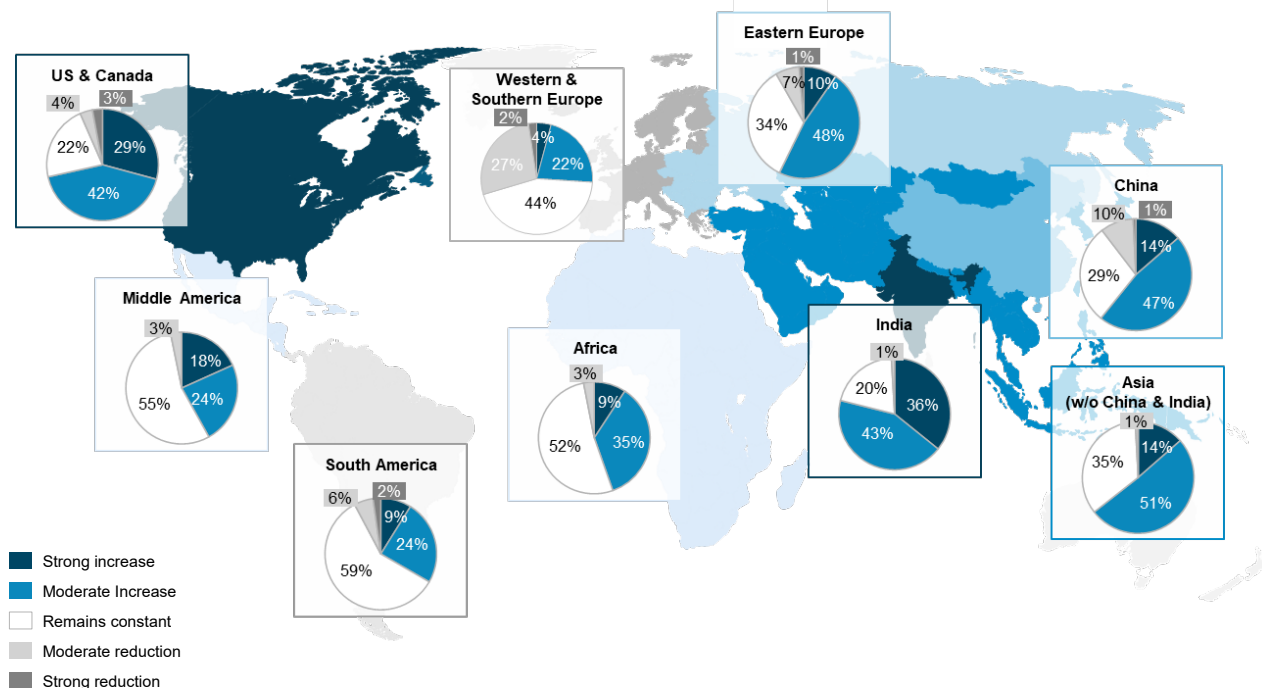
N = 232

¹ Only refers to manufacturing industries

² Mechanical, Plant, Electrical Engineering & Automation

Globally, workforce will grow in the next 5 years, but Western and Southern Europe will fall behind

Change of global workforce distribution in the next 5 years¹



Key findings



A battle of regions for future workforce is visible, causing a global multipolarity:

- India and North America as prosperity regions. India contains a huge market potential, and North America, especially the USA, is being pushed by protectionist activities
- China is showing two effects: Additional growth due to intensified local-for-local activities, but losing investments to other Asian regions due to de-risking
- Southern and Western Europe as a counter pole to the rest of the world: The increase in the workforce will take place globally but not in Western or Southern Europe

N = 232

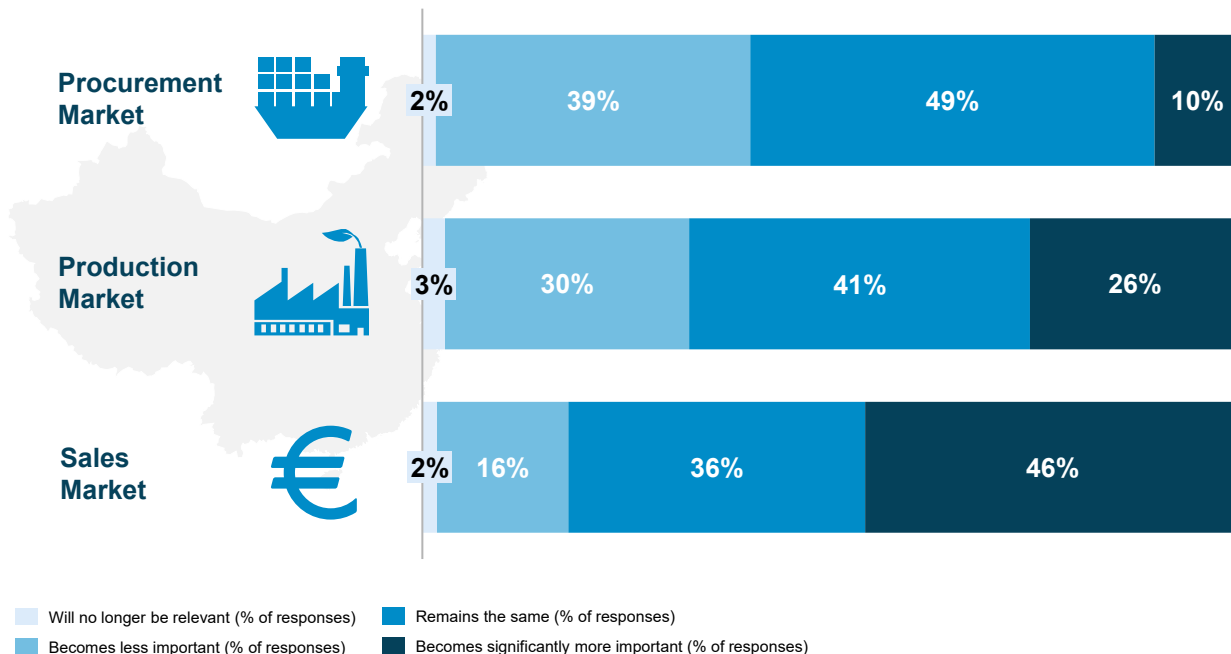
¹ Only refers to manufacturing industries
Round differences may occur

The Chinese market will still play a central role, but the role itself will change from what it is today

Key findings



Importance of China as one of the following markets in the next ten years¹



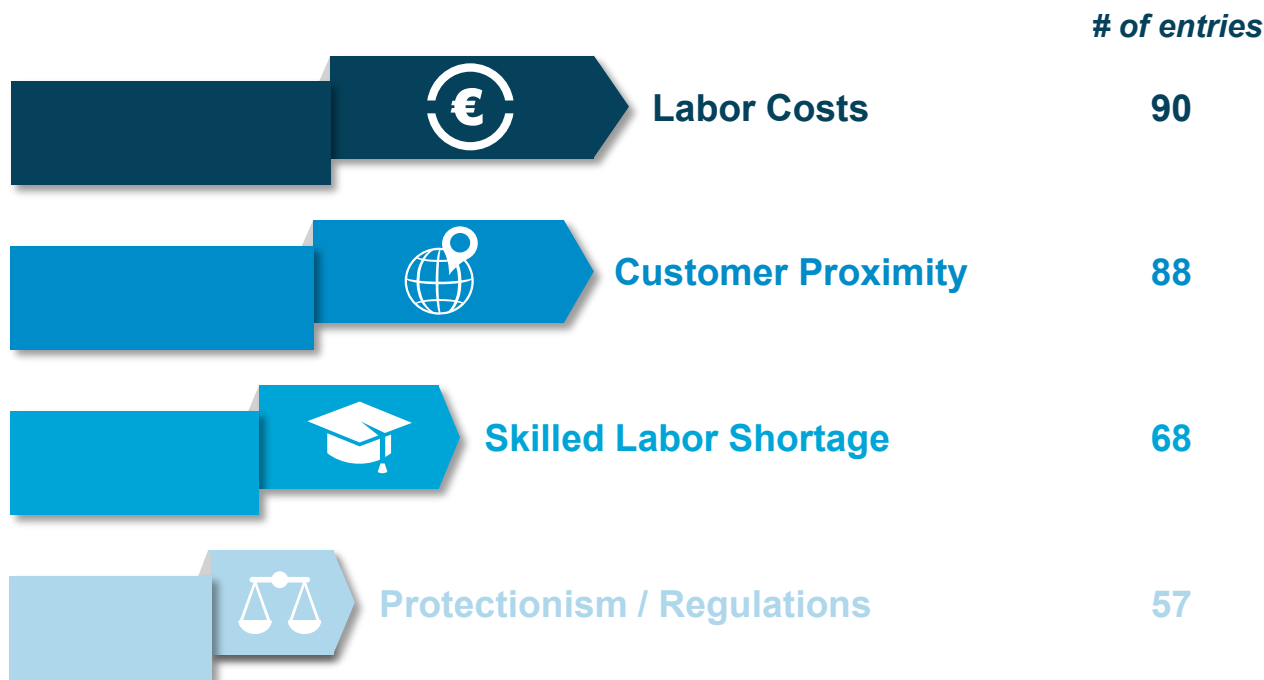
- As a sales market, China continues to grow due to its huge population and the increasing wealth
- Consequently, companies will still produce there locally to serve the Chinese market
- However, only 10% of companies expect China to become more important as a procurement market
- Whereas today China is the world's export champion, the role of the global workbench will shift to other Asian countries in the next 10 years

N = 199

¹ Only refers to manufacturing industries

Labor costs & customer proximity – the main reasons why companies relocate their workforce

The main drivers for the relocation of workforce¹



Key findings



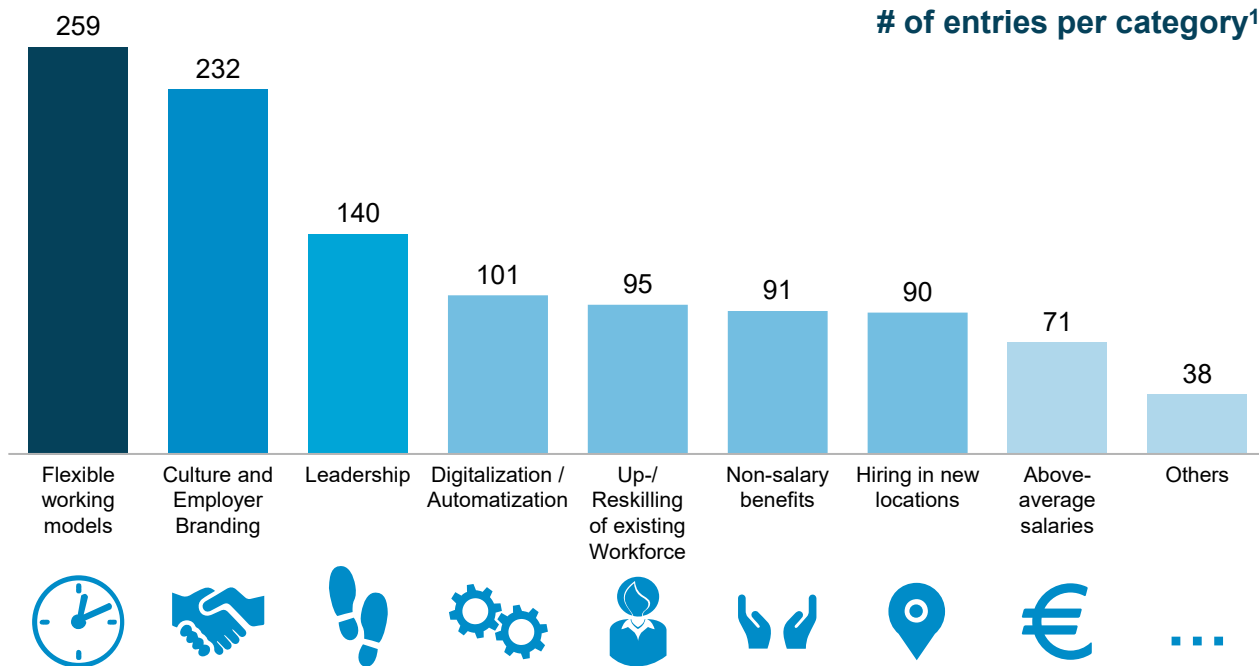
- The importance of labor costs as a driver for relocation explains why the workforce will be shifted from Western and Southern Europe to other regions with lower labor costs
- Customer-proximity strategies lead to decentral investment in workforce and capabilities
- Skilled labor shortage leads to the relocation of the workforce to countries like North America and Asia
- Furthermore, in countries like the USA and China, protectionist activities ensure a future growth

N = 178

¹ Only refers to manufacturing industries

To address labor shortage, companies use two main levers: flexible working models and culture

Relevance of different approaches to counteract the labor shortage



Key findings



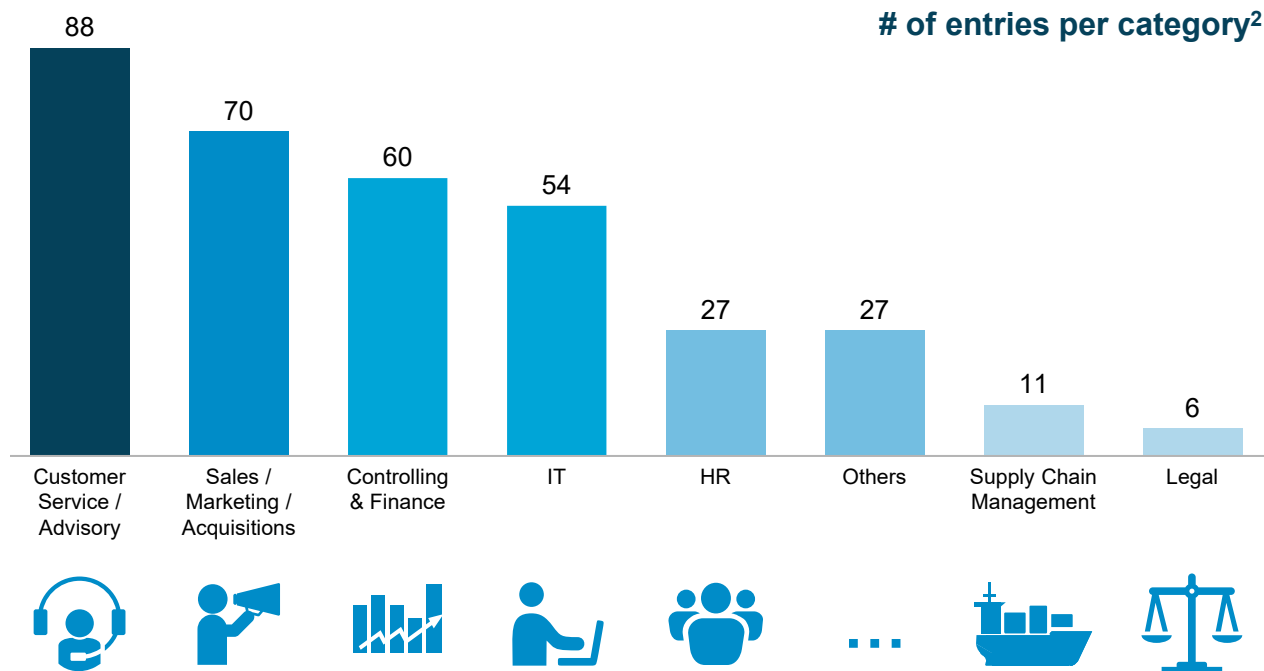
- Employer attractiveness is a key issue in gaining and retaining employees in the future
- Companies try to avoid above-average salaries
- The main levers are flexible working models, culture, employer branding, and leadership

N = 389

¹ Each participant was allowed to select up to 3 categories

Client-facing functions offer the highest potential for automatization and digitalization

Potential of different areas for automatization / digitalization¹



Key findings



- Digitalization offers many opportunities in the service industry and reaches deep into core processes
- Especially in the areas close to the customer, like sales and customer service, automatization potentials are seen, e.g., using chatbots or digital customer interaction models
- But also, in functions like controlling & finance, IT, or general back-offices, the use of digital tools or AI offers a high potential for automatization

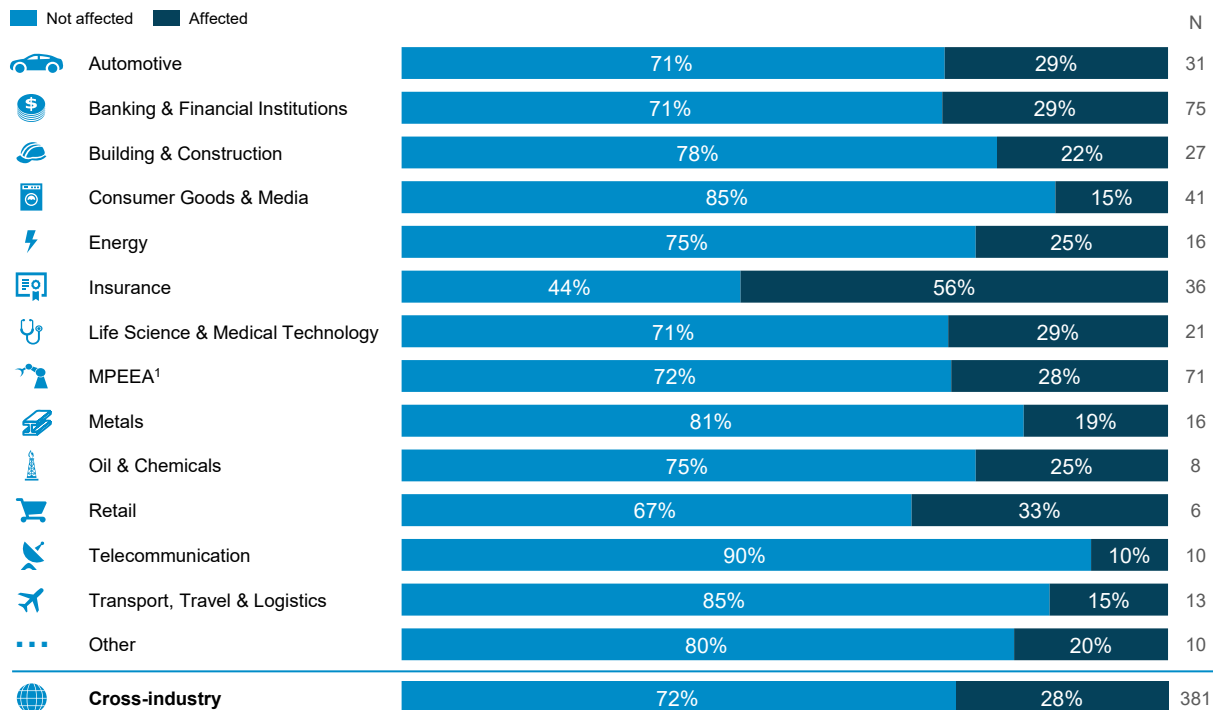
N = 144

¹ Only refers to service industries

² Each participant was allowed to select up to 3 categories

Insurance had way more impacting cyber attacks in the past 12 months than other industries

Proportion of companies affected by cyber attacks with significant impact in the last 12 months



Key findings



- Companies are experiencing cyber attacks regularly, one-third had a cyber attack with a significant impact in the past 12 months
- However, the main part of the attacks are not successful, as companies made huge investments in cyber security in recent years
- Especially companies from the insurance industry experienced cyber attacks with significant impact within the last 12 months
- Additionally, indirect consequences are visible, e.g., suppliers being hacked, resulting in a lack of production material or hackers being able to access OEM data via hacked suppliers

N = 381

¹ Mechanical, Plant, Electrical Engineering & Automation



We asked CxOs which strategic initiatives need to be prioritized to ensure steady mid- and long-term growth

Explanation of the different strategic priorities



Sustainable improvement of liquidity range

E.g., working capital, financing structure, operating cash flow



Structural improvement of cost and profit structures

E.g., adjustment of overhead structures, SG&A, portfolio optimization, purchasing, break-even optimization



Reorganization of organizational structures and processes

E.g., centralization vs. decentralization, role of HQ, regions, functions, and business units, shared services, span of control



Realignment of group strategy and business model

E.g., sales and profitability targets, product- and service portfolio, target customers, target markets, internationalization strategy, digital business models



Improvement of corporate performance management and risk management

E.g., steering concept, operative performance management, data integration, scenario modeling, early warning systems, real-time reporting



Ecological sustainability orientation of business strategy and activities

E.g., climate neutrality / net zero, decarbonization, circular economy, sustainability strategy / measures / business models, anchoring in performance measurement



Digital transformation

E.g., digitalization of business models, products / services, customer interaction, value chain, agile organization, data & algorithms, ecosystem partners



People-driven topics

E.g., shortage of skilled labor, new collaboration models, necessary / new competencies, leadership, employee motivation, employee health, employer branding, flexible work



Corporate diversity & inclusion

E.g., cultural diversity, women in the workplace / leadership, gender equality, equal pay, well-being, social responsibility



Supply chain / production footprint adjustments

E.g., dual / multi-sourcing, regional sourcing, increased storage capacities, production footprint, production network



Realignment of pricing and revenue models

E.g., positioning, pricing, subscription-models, product-services bundling



M&A or divestments of business areas

E.g., Carve-outs, acquisition of subsidiaries, product extension mergers

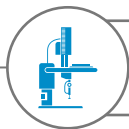


Cyber security

E.g., building competencies, policies, industry's role, efforts to improve cyber security, server location

We differentiated between manufacturing and service industries

Explanation of manufacturing & service industries



Manufacturing Industries



Automotive



Building & Construction



Consumer Goods & Media



Life Science & Medical Technology



Mechanical, Plant, Electrical Engineering & Automation



Oil & Chemicals



Metals

N = 252



Service Industries



Banking & Financial Institutions



Energy



Insurance



Telecommunication



Travel, Transport & Logistics



Retail

N = 181