HORVÁTH

Horváth

5th Annual CxO Priorities Study

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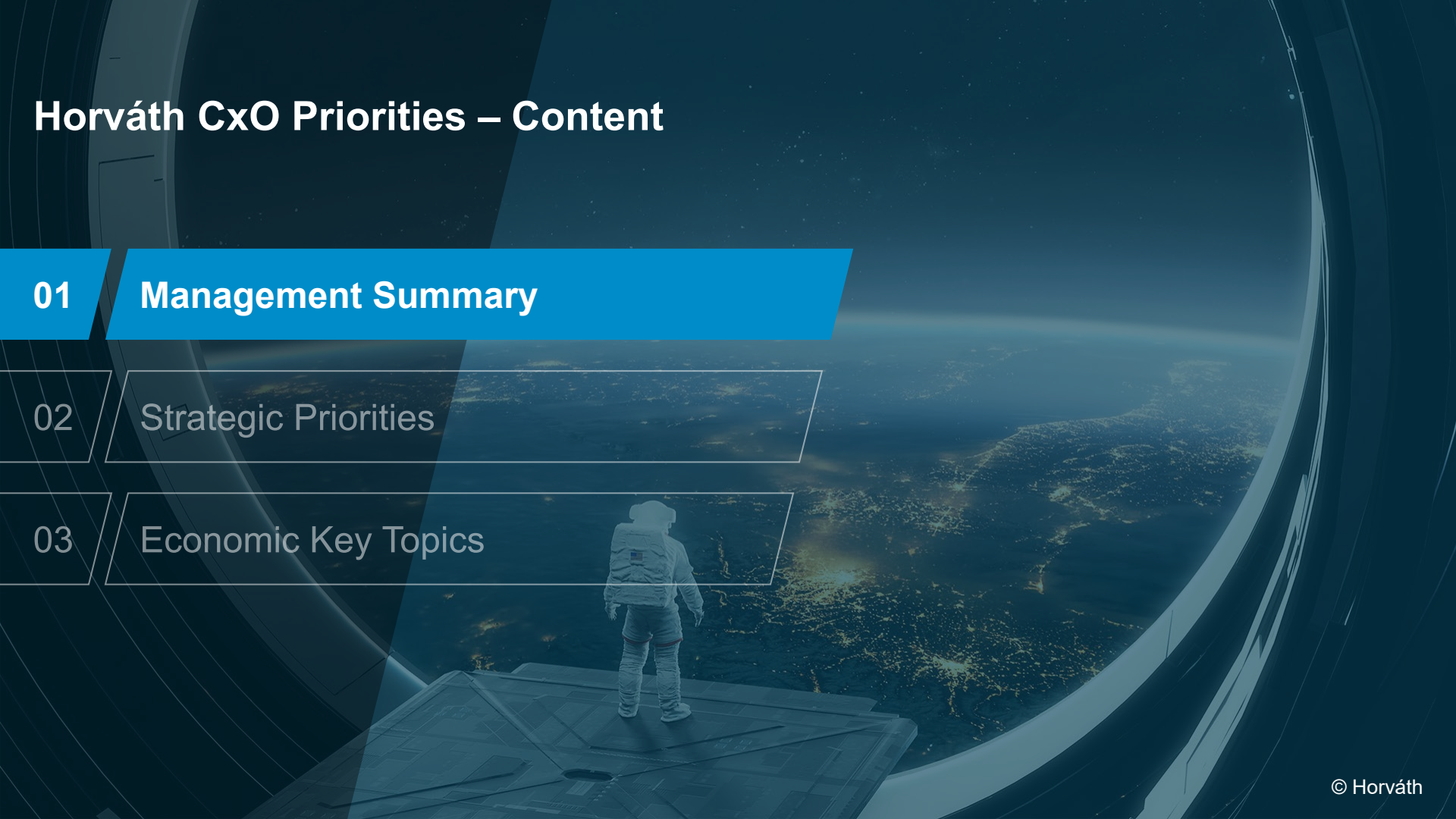
Rebalance your Organization towards a Digital, Deglobalized and Dynamic World

Horváth CxO Priorities – Content

01 **Management Summary**

02 Strategic Priorities

03 Economic Key Topics



5th Annual Horváth CxO Priorities Study: Rebalance your Organization towards a Digital, Deglobalized and Dynamic World

DIGITAL

Digital transformation has returned to be the top management priority, driven by advancements in AI and ongoing long-term projects. To fully capitalize on the technological potentials, companies must define a clear AI strategy, establish a structured AI target operating model and cultivate the necessary skills within their organizations.

DEGLOBALIZED

Companies are developing transnational structures. Value creation including product development is shifting to the growth markets. Key driving factors include streamlined supply chains, favorable location conditions and cost efficiencies. Successful transformations require redefined governance and collaboration models between the headquarter and regional organizations, as well as new competencies.

DYNAMIC

To navigate through the dynamic world, companies must identify an optimal setup to ensure resilience. This involves fostering agile organizational structures, defining new leadership approaches, promoting a culture of rapid innovation and continuous adaptability, implementing highly secure IT infrastructure and establishing robust supply chains.

5th Annual Horváth CxO Priorities Study: Management Summary for manufacturing and service industries

Manufacturing industries

- For the first time, improvement of cost and profit structures is the top management priority in the manufacturing industry
- However, companies are performing adequately, with stable revenue development and a reasonable EBIT outlook for the upcoming year
- Concurrently, companies worldwide are expanding their workforce and creating jobs – except in Germany. The main growth is occurring in North America, Asia and Eastern Europe
- The long-term reconfiguration of value chains towards resilience and in-the-region-for-the-region footprints drive the reorganization of structures and processes

Service industries

- Digital transformation remains the top priority for service industries. This is particularly driven by advancements in AI, which will play a crucial role in both internal operations and customer interactions
- However, nearly 50% of the surveyed companies are still at the beginning of their AI adoption process. Achieving the target state remains a longer endeavor
- The overall outlook on market development ranges from conservative to slightly positive, depending on the sub-industry
- Sustainability and people-driven topics both are experiencing a decline in importance, due to a slightly eased situation on the labor market

5th Annual Horváth CxO Priorities Study: General study information

>770 global CxOs
in personal dialogue

8 weeks
of conversations between March and May 2024

~40% CEOs
out of all participants - other c-levels also strongly represented

HQs in 29 countries

5 focus topics

- Strategic priorities
- Revenue & EBIT development
- Trends & market positioning
- Global value chains & workforce
- Cyber security & AI

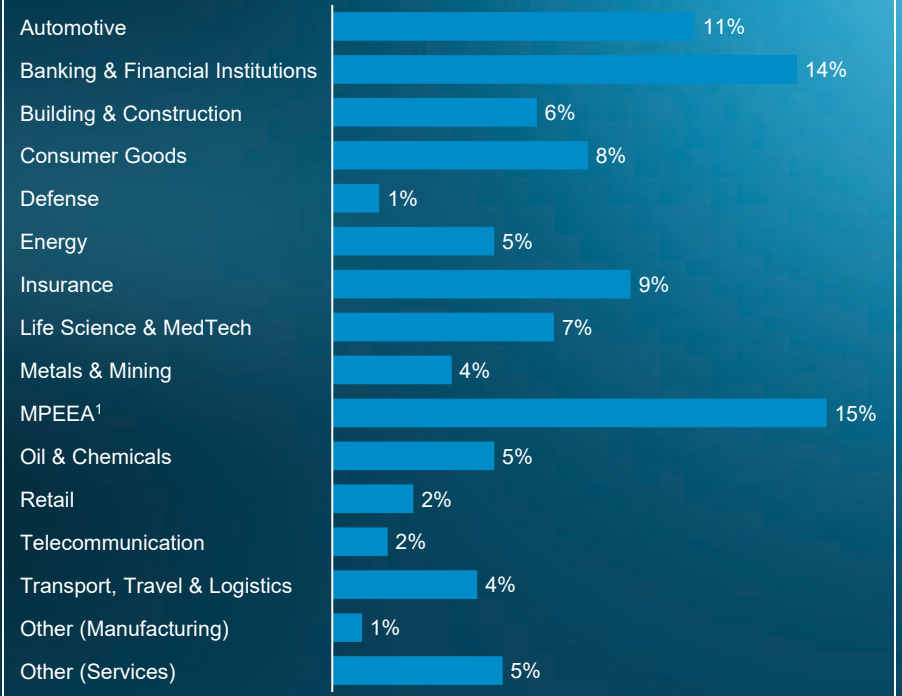
>550h
personal discussion time with top decision-makers

>30% family-owned
businesses shared their priorities

14 industries
reporting on industry trends

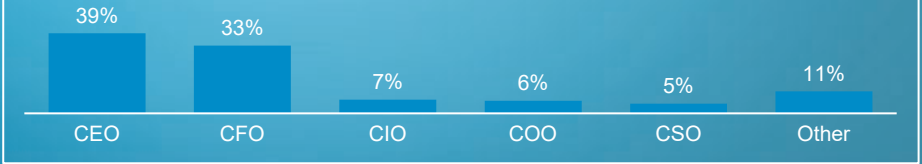
5th Annual Horváth CxO Priorities Study: General study statistics

Distribution of industries N = 771

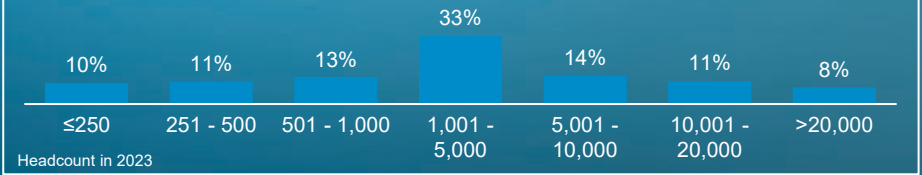


[1] Mechanical, Plant, Electrical Engineering & Automation

Distribution of participants' positions



Distribution of company size

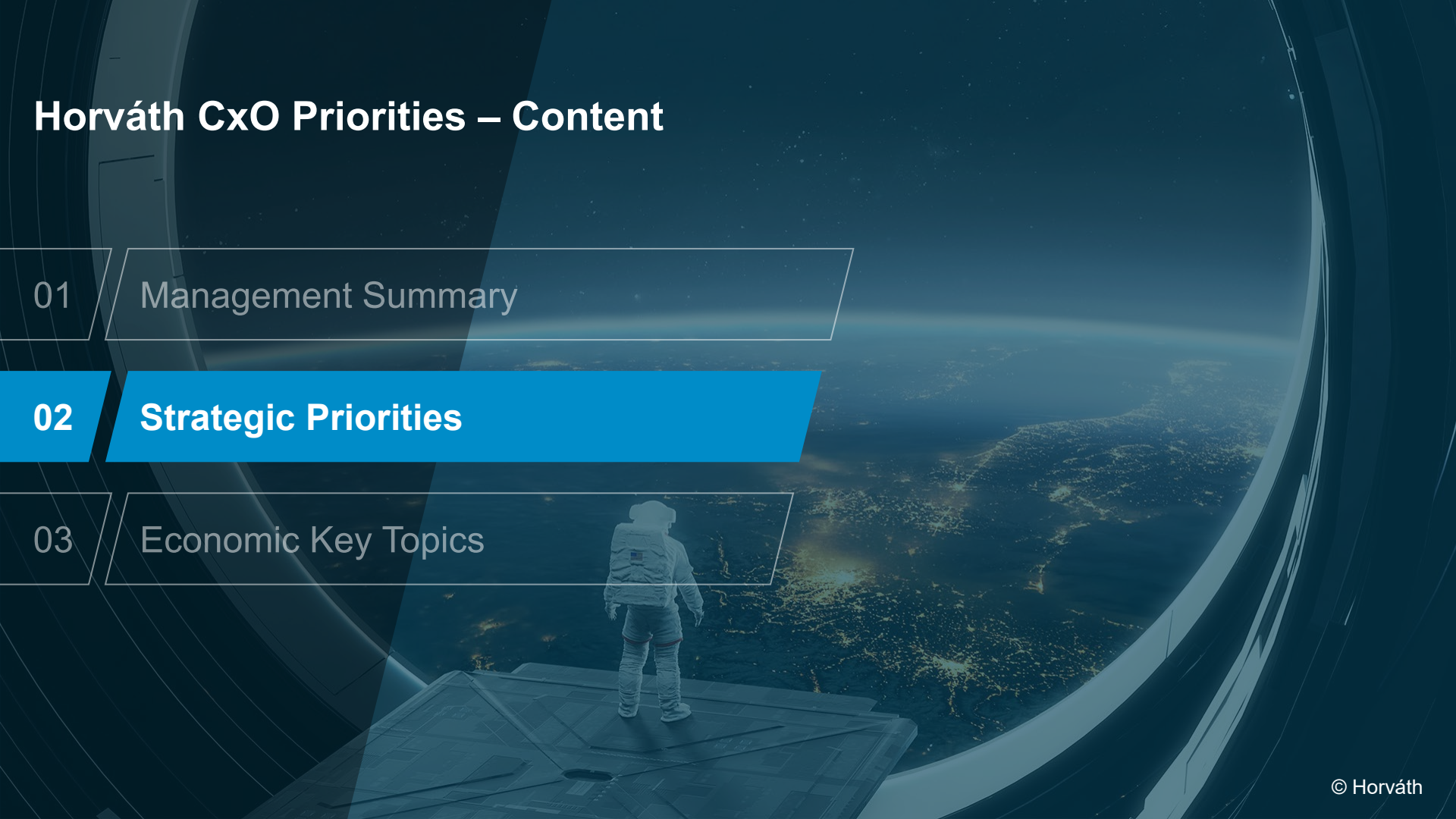


Headcount in 2023

Distribution of revenue

Revenue in MEUR

Horváth CxO Priorities – Content



01 Management Summary

02 Strategic Priorities

03 Economic Key Topics

Across all industries digital transformation is the top priority to ensure mid- and long-term growth

Strategic priorities | All industries	Rank (2024)	Rank (2023)		Score[1] (2024)	Score (2023)
Digital transformation	1	3	↑	3.48	3.47
Improvement of cost & profit structures	2	4	↑	3.42	3.28
Cyber security	3	2	↓	3.41	3.48
People-driven topics	4	1	↓	3.32	3.50
Sustainable improvement of liquidity range	5	6	↑	3.09	3.04
Ecological sustainability orientation	6	5	↓	3.07	3.28
Reorganization of structures & processes	7	10	↑	3.04	2.86
Improvement of financial performance & risk management	8	9	↑	2.91	2.87
Supply chain / production footprint adjustments	9	7	↓	2.83	2.92
Realignment of pricing & revenue models	10	8	↓	2.78	2.87
Realignment of group strategy & business model	11	11	→	2.77	2.81
M&A or divestments of business areas	12	13	↑	2.52	2.42
Corporate diversity & inclusion	13	12	↓	2.51	2.58

↑ Rank increased ↓ Rank decreased → Rank remains constant

Key findings

- The rise of AI has made digital transformation once again the top priority for enhancing efficiency, improving customer experiences and driving new business models
- Meanwhile, industries are struggling with cost and liquidity pressures from moderate top-line developments and overcapacities combined with rising raw material prices, high inventories and supply chain disruptions
- The possibility to pass on price increases is limited due to the mentioned overcapacities and intensified competition
- In response, businesses are revising structural issues and focusing on streamlining operations

N = 743

[1] Importance of priorities on a scale of 1-4:
4-very important, 3-important, 2-slightly important, 1-not important

Improving cost & profit structures is by far the top priority for manufacturing industries

Strategic priorities | Manufacturing industries	Rank (2024)	Rank (2023)		Score[1] (2024)	Score (2023)
Improvement of cost & profit structures	1	3	↑	3.58	3.40
Cyber security	2	1	↓	3.40	3.46
Digital transformation	3	5	↑	3.38	3.31
People-driven topics	4	2	↓	3.32	3.46
Sustainable improvement of liquidity range	5	6	↑	3.24	3.25
Ecological sustainability orientation	6	4	↓	3.18	3.32
Reorganization of structures & processes	7	9	↑	3.14	2.94
Supply chain / production footprint adjustments	8	7	↓	3.13	3.17
Improvement of financial performance & risk management	9	10	↑	2.92	2.88
Realignment of group strategy & business model	10	11	↑	2.86	2.83
Realignment of pricing & revenue models	11	8	↓	2.81	2.96
M&A or divestments of business areas	12	13	↑	2.69	2.52
Corporate diversity & inclusion	13	12	↓	2.49	2.56

↑ Rank increased ↓ Rank decreased → Rank remains constant

Key findings

- Economic conditions have made improving cost and profit structures the top priority in manufacturing industries
- In parallel, liquidity improvement also gained importance due to high inventories and interest rates
- The long-term reconfiguration of value chains towards resilience and in-the-region-for-the-region footprints drives the reorganization of structures and processes
- In response to these developments, companies are focusing on skill development and redistributing responsibilities to decentralize decision-making

N = 420

[1] Importance of priorities on a scale of 1-4: 4-very important, 3-important, 2-slightly important, 1-not important

AI is driving digital transformation in service industries both internally and customer-facing

Strategic priorities | Service industries	Rank (2024)	Rank (2023)		Score[1] (2024)	Score (2023)
Digital transformation	1	1	→	3.62	3.69
Cyber security	2	3	↑	3.42	3.51
People-driven topics	3	2	↓	3.32	3.55
Improvement of cost & profit structures	4	5	↑	3.18	3.12
Ecological sustainability orientation	5	4	↓	2.93	3.22
Reorganization of structures & processes	6	8	↑	2.91	2.76
Improvement of financial performance & risk management	7	6	↓	2.89	2.85
Sustainable improvement of liquidity range	8	10	↑	2.84	2.70
Realignment of pricing & revenue models	9	9	→	2.74	2.74
Realignment of group strategy & business model	10	7	↓	2.65	2.78
Corporate diversity & inclusion	11	11	→	2.53	2.61
M&A or divestments of business areas	12	13	↑	2.28	2.26
Supply chain / production footprint adjustments	13	12	↓	2.24	2.32

↑ Rank increased ↓ Rank decreased → Rank remains constant

Key findings

- Digital transformation remains the top priority for service industries, driven significantly by AI, reflecting its crucial role in both internal operations and customer interactions
- Cyber security continues to capture management attention, not only for threat mitigation but also due to regulatory requirements, particularly in finance industries
- Skill development and employee engagement are maintaining high importance, even though the labor market situation has slightly eased
- Sustainability has become more of a baseline requirement rather than a central component of the business model for many companies, leading to a decline in its importance

N = 323

[1] Importance of priorities on a scale of 1-4:
4-very important, 3-important, 2-slightly important, 1-not important

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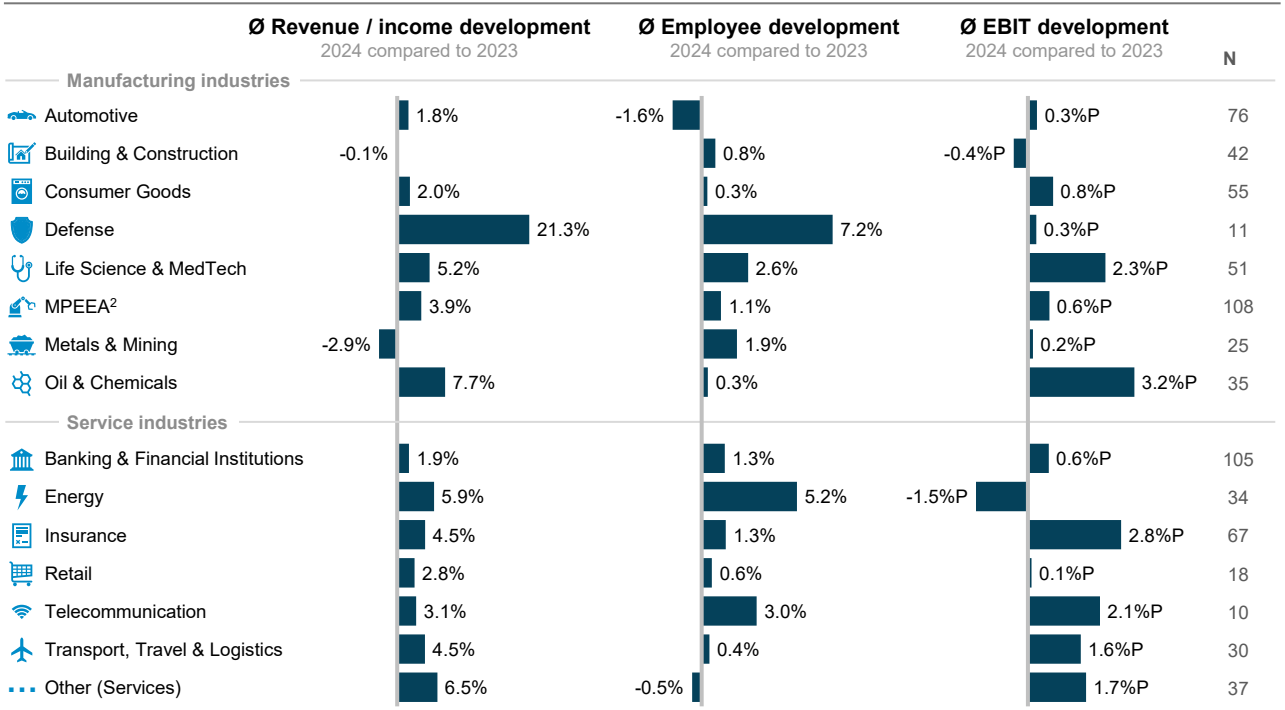
Industries expect 2024 to be a transition year after recent times of crisis

Development of revenue / income, employees and EBIT[1]



Key findings

- The outlook on revenue growth for 2024 varies significantly across different industries
- The Defense industry, for example, stands out due to the current geopolitical situation leading to increased governmental spending in military. In contrast, the Building & Construction industry continues to struggle with a persistent lack of demand
- Despite a clear emphasis on improving cost and profit structures, companies generally plan to moderately increase their personnel. The use of AI as a replacement for human workers is not yet visible

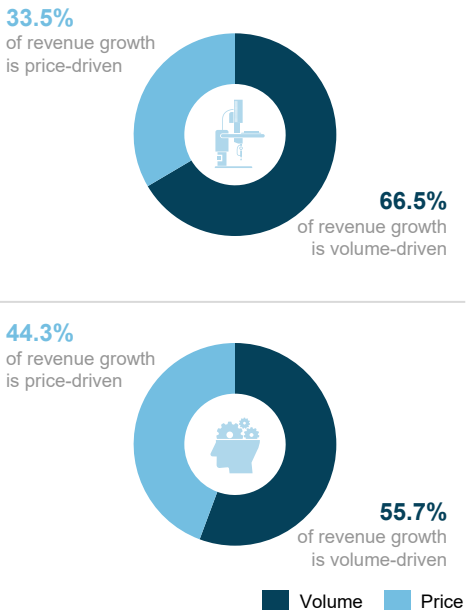
[1] Estimated average of all companies within a specific industry, weighted by revenue
[2] Mechanical, Plant, Electrical Engineering & Automation
Rounding differences may occur

Revenue growth is primarily driven by volume rather than price increases

Share of volume- and price-driven revenue increase

	Volume- / price-driven growth in 2024 for increasing revenue		N
Manufacturing industries			
Automotive	63%	37%	49
Building & Construction	62%	38%	27
Consumer Goods	73%	27%	47
Defense	90%	10%	11
Life Science & MedTech	72%	28%	24
MPEEA[1]	64%	36%	86
Metals & Mining	46%	54%	14
Oil & Chemicals	71%	29%	15
Service industries			
Banking & Financial Institutions	61%	39%	49
Energy	58%	42%	18
Insurance	45%	55%	66
Retail	59%	41%	15
Telecommunication	59%	41%	7
Transport, Travel & Logistics	67%	33%	24
Other (Services)	58%	42%	30

Comparison manufacturing vs. service industries overall



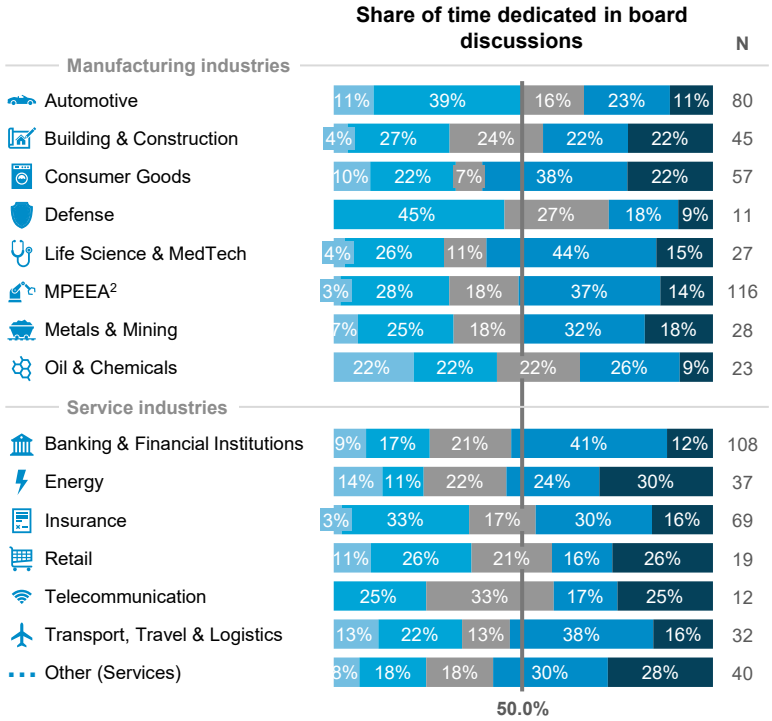
Key findings

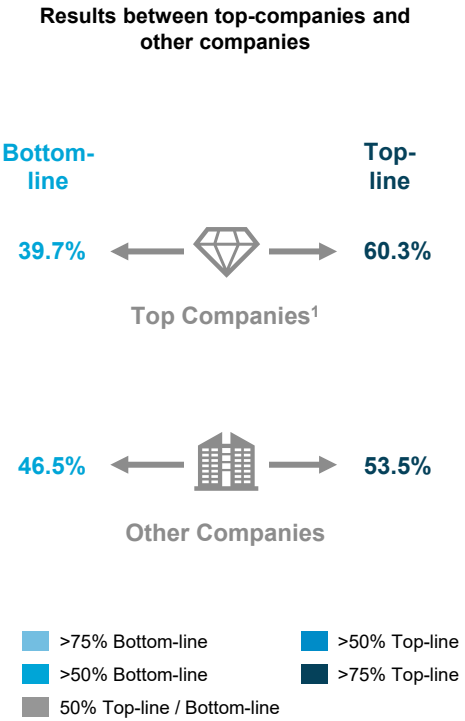
- Last year, pricing played a significant role due to inflation, post-COVID demand surge and supply chain disruptions. This year's reduced focus on pricing aligns with the gradual economic stabilization
- Growth in Defense industry is almost exclusively volume-driven, reflecting the substantial increases in demand
- Companies in the Automotive industry cannot easily pass on production cost and raw material price increases, making volume the key lever for growth

[1] Mechanical, Plant, Electrical Engineering & Automation
Rounding differences may occur

The time in board meetings is rather dedicated to top-line than to bottom-line topics

Share of time spent in board discussions on top- and bottom-line improvement





Key findings

- Based on recent years, companies have become skilled at cost optimization. Now, the focus is shifting back to steering mechanisms that drive top-line growth. However, the short-term pressure for cost optimization slows these efforts
- Companies with high revenue and EBIT growth allocate a larger portion of their board meeting discussions to top-line improvement

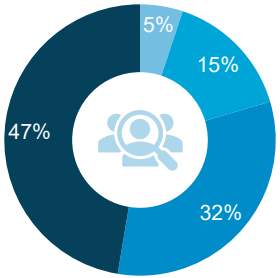
[1] Top companies were selected based on a significantly positive EBIT and revenue growth
[2] Mechanical, Plant, Electrical Engineering & Automation
Rounding differences may occur

Market penetration is the key top-line growth driver, followed closely by offering new solutions

Levers for top-line / strategic growth | All industries

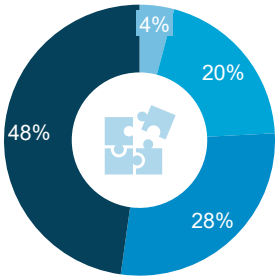
Acquiring of new customers via market penetration

Score[1]: 3.22
N = 646



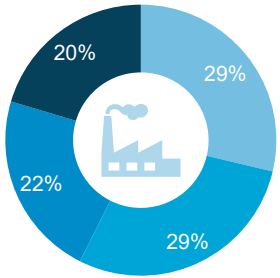
Development of new products / services for existing customers

Score[1]: 3.19
N = 653



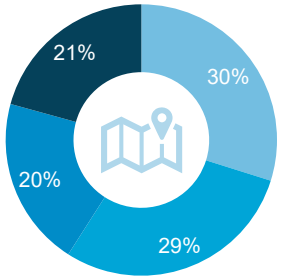
Entering new markets (applications & industries) with existing products

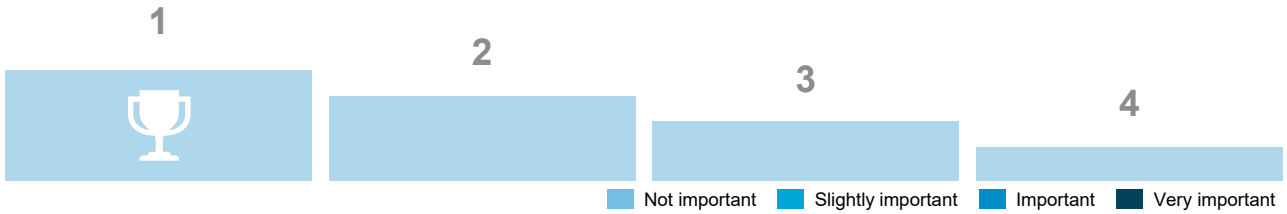
Score[1]: 2.34
N = 613



Expansion of existing business in new regions

Score[1]: 2.32
N = 613





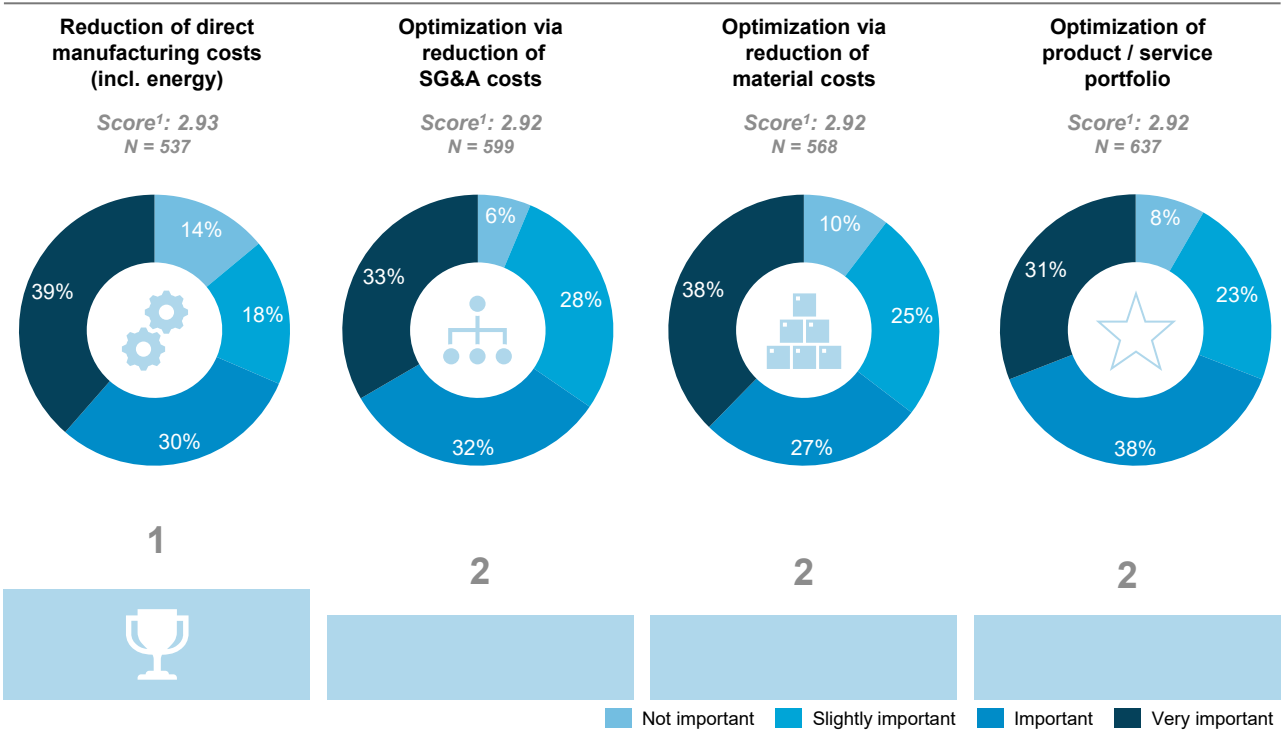
Key findings

- To drive top-line growth, the emphasis is set on penetrating existing markets and developing new products / services
- The latter is particularly relevant in the Automotive industry, facilitating the advancement of new electric vehicle development and the further enhancement of current generations of combustion and hybrid vehicles
- Expansion into new regions or markets is not a primary focus, either because companies already have a global presence or operate exclusively on a national level, as observed in the Banking and Financial Institutions, Energy, Insurance and Retail industries

[1] Importance of priorities on a scale of 1-4:
4-very important, 3-important, 2-slightly important, 1-not important
Rounding differences may occur

All possible levers for bottom-line optimization should be considered

Levers for bottom-line / cost optimization | All industries



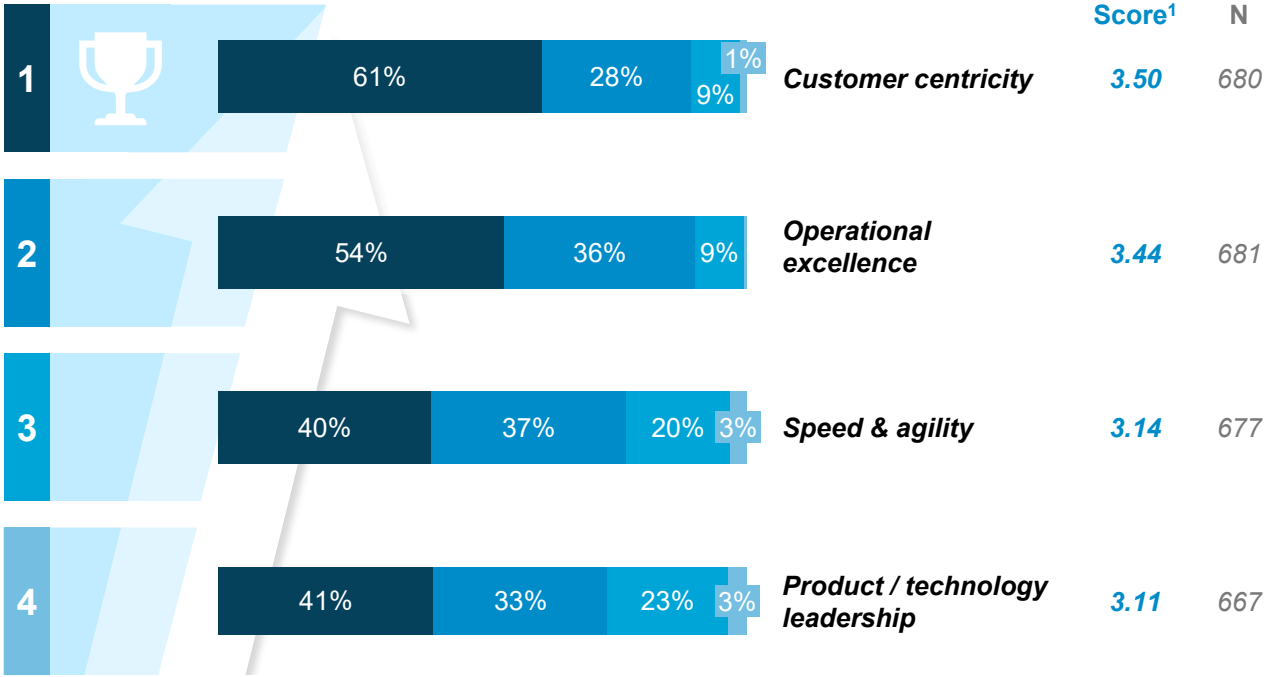
Key findings

- The limited difference between the scores of the overarching bottom-line levers generally shows that all of them should be considered
- However, when examining manufacturing and service industries separately, a different picture emerges
- Due to persistently high raw material and energy prices, manufacturing companies focus on reducing production and material costs
- In contrast, service industries prioritize optimizing product and service portfolios and reducing SG&A expenses. This can be achieved through increased use of AI and consolidating activities within Shared Service Centers

¹ Importance of priorities on a scale of 1-4:
4-very important, 3-important, 2-slightly important, 1-not important
Rounding differences may occur

Customer centricity and operational excellence are the main levers for competitiveness

Levers for competitiveness | All industries



Key findings

- Customer centricity is the pivotal lever for enhancing competitiveness across all industries
- The traditional pillars of technological leadership and quality, which among others once fueled Germany's success, no longer appear to be the central drivers. Instead, understanding and addressing the locally differentiated needs of customers has become increasingly important

[1] Importance of priorities on a scale of 1-4: 4-very important, 3-important, 2-slightly important, 1-not important
Rounding differences may occur

The focus areas for speed improvements differ between manufacturing and service industries

Ambition level for processing time reduction

	Research & Development	Supply Chain & Operations	Sales & Distribution	Support Functions	N
Manufacturing industries					
Automotive	18%	13%	11%	12%	29
Building & Construction	10%	11%	9%	11%	23
Consumer Goods	14%	12%	11%	10%	30
Defense	23%	16%	9%	13%	4
Life Science & MedTech	18%	19%	14%	12%	13
MPEEA[1]	19%	16%	12%	12%	66
Metals & Mining	7%	13%	11%	6%	8
Oil & Chemicals	24%	16%	13%	21%	12
Average of manufacturing	**17%**	**14%**	**12%**	**12%**	185
Service industries					
Banking & FI	8%	9%	12%	14%	9
Energy	9%	13%	15%	19%	11
Insurance	12%	11%	12%	13%	16
Retail	6%	16%	7%	9%	8
Telecommunication	23%	31%	18%	19%	4
Transport, Travel & Logistics	6%	20%	19%	7%	5
Average of service	**10%**	**14%**	**13%**	**14%**	53

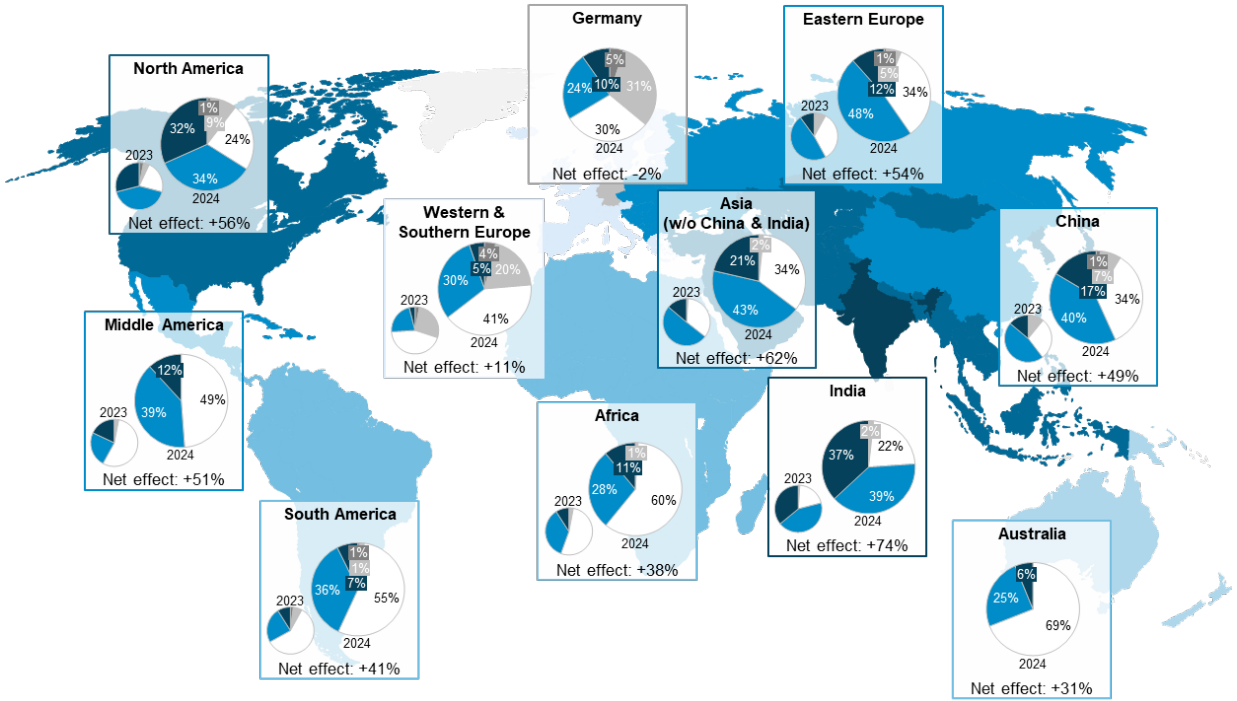
Key findings

- A general disparity is observed between manufacturing and service industries when talking about ambitions to reduce processing times
- Manufacturing companies primarily aim at accelerating their R&D processes to introduce product innovations faster. There is a need to catch up with the “China speed” of competitors
- Moreover, they strive to enhance speed and agility in their supply chain and operations to drive excellence and customer centricity
- In service industries, speed improvement is focused primarily on operations, sales and support functions

[1] Mechanical, Plant, Electrical Engineering & Automation
Rounding differences may occur

Workforce primarily grows in North America, Asia and Eastern Europe, but not in Germany

Reallocation of global workforce over the next five years[1]



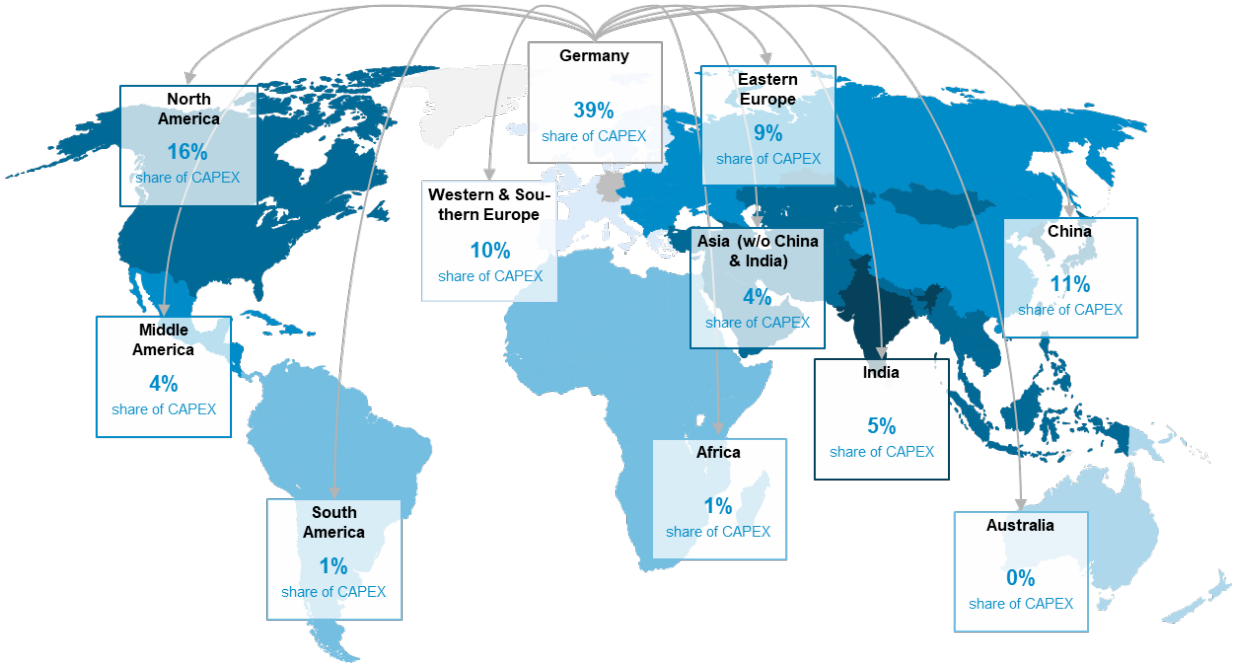
Key findings

- Germany is the only country where companies plan a net reduction in jobs over the next five years
- India is the growth leader – three out of four companies plan to increase their workforce there
- Despite widely announced decoupling efforts, only 8% of companies plan to reduce personnel in China, primarily because they cannot afford to forego the Chinese market
- One major management challenge in operating globally is organizational decentralization and thereby providing room for regions to act more autonomously

N = 286
[1] Does not include Banking & Financial Institutions, Insurance, Telecommunication and Energy industries
Rounding differences may occur

61% of CAPEX investments made by German companies are channeled into foreign markets

Distribution of CAPEX investments over the next five years[1] | Headquarters in Germany



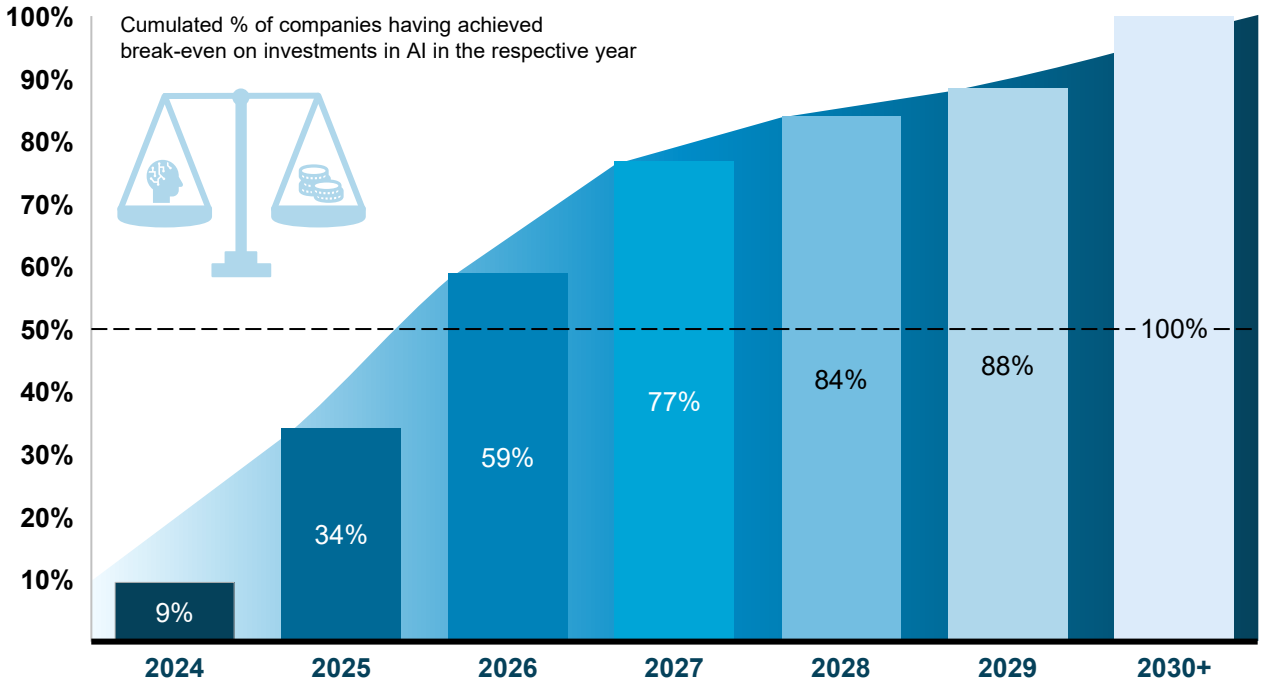
Key findings

- Although companies plan to invest nearly 39% of their CAPEX volume within Germany over the next five years, this conversely means that 61% of their investments are directed towards other global regions
- The investments made in Germany are predominantly for maintenance purposes
- The factories of the future are being constructed in the growth regions outside of Germany
- To establish transnational in-the-region-for-the-region structures, companies must reshape governance and collaboration models between headquarters and local subsidiaries

N = 162
[1] Does not include Banking & Financial Institutions, Insurance, Telecommunication and Energy industries; weighted by revenue
Rounding differences may occur

More than half of the companies will achieve break-even on their AI investments until 2026

Break-even for AI Investments | All industries



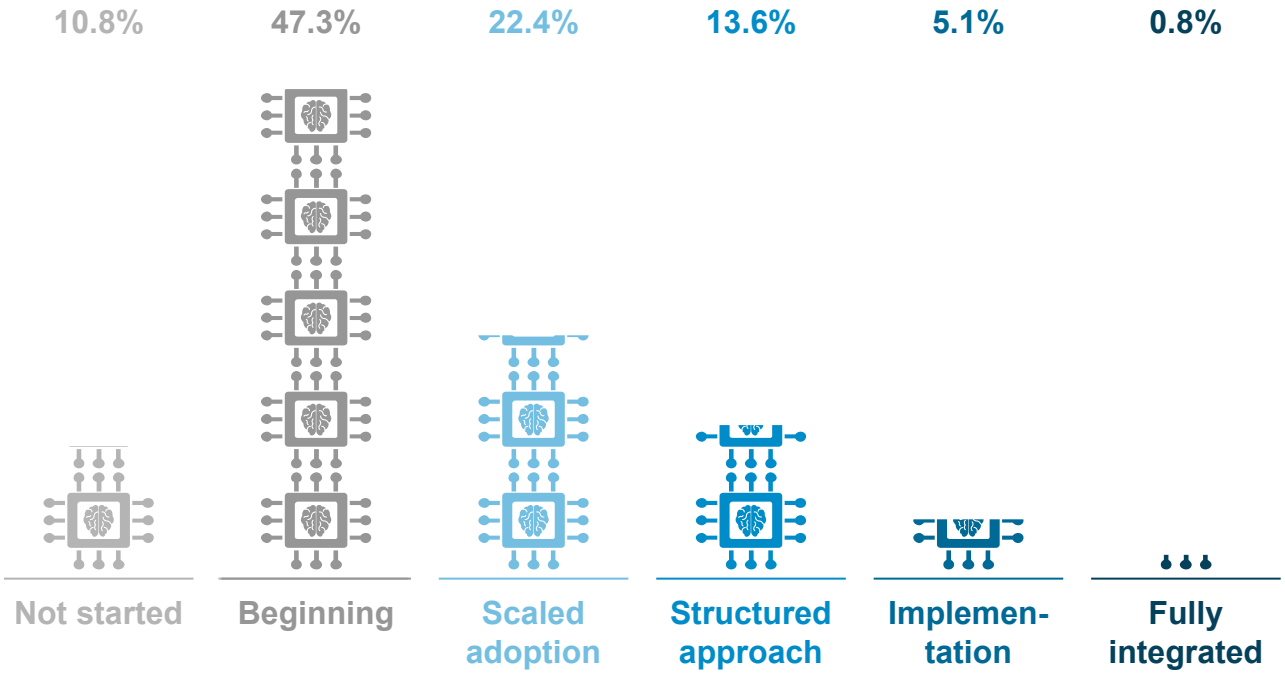
Key findings

- The vast majority of the surveyed c-levels conclude that AI is a game changer set to bring significant transformation and cannot be ignored
- The results show that current investments in AI are paying off quickly, with a rapid return on investment
- To ensure optimal investments, companies need a clear AI strategy, a structured AI target operating model and a well-defined framework for determining when and where to invest to maximize effectiveness and value

N = 380

The majority of companies find themselves at the initial stages of their AI journey

AI maturity level within the companies and their products or services | All industries



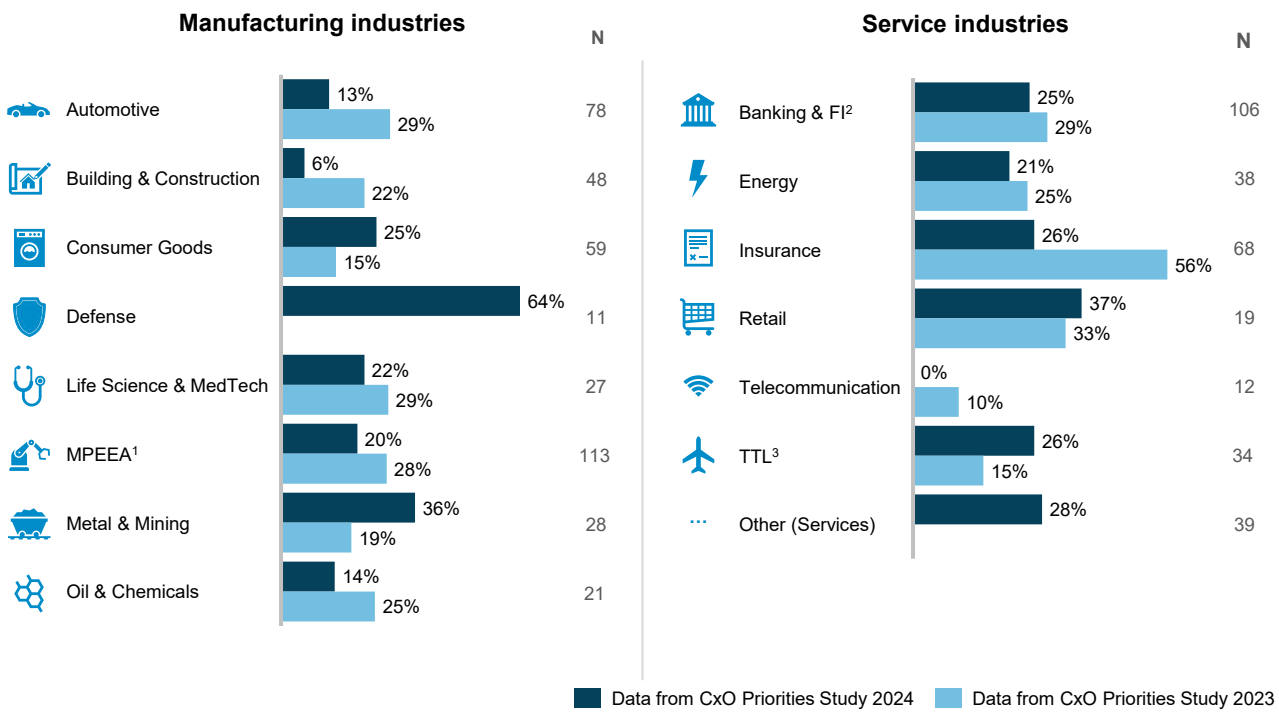
Key findings

- Even though the break-even point for current AI investments can be reached quickly, many companies consider themselves to be at the early stages of their AI implementation. Reaching the target state remains a long and challenging endeavor
- There is often a deficiency in fundamental elements for AI implementation, such as the requisite IT architecture
- Furthermore, it is crucial not only to embed AI in the organization, products and services but also to cultivate the necessary skills

N = 723
Rounding differences may occur

Cyber attacks continue to occur, yet many companies have successfully defended them

Proportion of companies affected by cyber attacks with significant impact



Key findings

- Overall, companies have recorded a high number of cyber attacks over the past 12 months
- Particularly the Defense industry has struggled with cyber attacks and their consequences
- However, the issue has become highly prominent, enabling many companies to successfully fend off the majority of these attacks
- Nevertheless, it is essential to develop scenarios and strategies for contingency planning, as cyber attacks with significant impact cannot be entirely ruled out, even with well-functioning countermeasures in place

[1] Mechanical, Plant, Electrical Engineering & Automation
[2] Banking & Financial Institutions
[3] Travel, Transport & Logistics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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

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

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

Realignment of group strategy & business model
E.g., sales and profitability targets, product / service portfolio, target customers, target markets, internationalization strategy, ecosystems, digital business models

Improvement of financial performance & risk management
E.g., steering concept, operative performance management, data integration, scenario modelling, early warning systems, real-time reporting

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

Digital transformation
E.g., utilization of Gen AI technology, business models, products / services, customer interaction, value chain, agile organization, data & algorithms, use of technology, 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 / in leadership, gender equality, equal pay, wellbeing, social responsibility

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

Realignment of pricing & revenue models
E.g., positioning, pricing, subscription models, product / service bundling

M&A or divestments of business areas
E.g., horizontal or vertical M&A transactions, strategic alliances, joint ventures, divest of business areas and subsidiaries

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

We differentiated between manufacturing and service industries

Sub-industries of the manufacturing and service industry clusters

Manufacturing industries

- Automotive
- Building & Construction
- Consumer Goods
- Defense
- Life Science & Medical Technology
- Mechanical, Plant, Electrical Engineering & Automation
- Metals & Mining
- Oil & Chemicals

N = 445

Service industries

- Banking & Financial Institutions
- Energy
- Insurance
- Telecommunication
- Travel, Transport & Logistics
- Retail

N = 326