

Slovak CEO Survey 2015

PwC and Forbes magazine surveyed how CEOs view prospects for the business environment in Slovakia

Redefining the way of competing

121

CEOs expressed their opinion

80%

expect their revenues to grow next year

47%

started or considered doing business in a new sector



Forbes

www.pwc.com/sk/ceo-survey

Redefining the way of competing



Todd Bradshaw
Country Managing Partner, PwC Slovakia

I am pleased to present you the results of our Slovak CEO Survey which we have now run for six consecutive years. PwC has conducted the same survey worldwide for 18 years. The findings from the survey represent the "voice of CEOs" in the world, and it maps the trends that are happening in business. It has been an inspiration for us to create the same initiative in Slovakia and thus present a market study which aims to act as a sort of a compass for executive managers in Slovakia and can help them mould their strategic direction.

The main message of this year's CEO survey is cooperation and collaborative partnerships. It's a trend that we witness in the world as well as in Slovakia. Companies have begun to realise that their energy should be focused primarily on those areas where they are good at and where they are the top performers. They are supporting the non-core parts of their business through partnerships with various groups of business partners - from suppliers and customers through academia to start-ups. This happens for several reasons: to gain access to new technologies, new customers, new geographic markets, and not least to strengthen innovation and brand reputation.

It is also fascinating to watch the 'disruptors' and their impact on traditional industries. The traditional business models are being turned upside down and failure to be flexible and adapt can cost you your market share. We see a continual fierce fight for customers whose behaviour in today's digital age is changing dramatically. Innovation and the desire for growth are driving companies into sectors they previously did not operate in. Some examples from the market are Google selling smart phones; retailers offering telecommunication services or/and financial services; energy distributors offering home insurance; automotive companies offering financial services; gas distributors selling energy and vice versa; etc.

My sincere thanks go to all 121 CEOs who participated in the survey this year and devoted their time in order to help us to obtain their valuable insights. The findings we present to you in this report. I firmly believe that our survey will provide some inspiring reading that can help you stay ahead of the pack.

New business models



Juraj Porubský
Editor-in-chief, Forbes Slovensko

Slovak CEOs trust in themselves. Despite the global economic situation becoming more complex and a war conflict bursting East to our border, CEOs expect that their firms will do well and revenues will grow. However, at the same time they recognise that the global economy will not take them onto the wave of growth. So how to be successful?

The recent Slovak CEO Survey offers several recipes. After years of relative standstill, the share of CEOs considering mergers or acquisitions grows. Similarly, the growth has been recorded in the percentage of CEOs who consider collaboration either with suppliers or customers. At the same time, business leaders in Slovakia are aware of the competition may also emerge from non-traditional industries.

Business is changing not only in Slovakia but also anywhere in the world. Thanks to digital and mobile technologies, customers discover new hidden opportunities. Now, a car parking somewhere for 22 hours can be changed into an easily usable asset provided that someone can simply find it and borrow it. An apartment that is free during weekends can be easily used as a hotel room. And many other assets that you previously had to own can now be borrowed easily - films, music, books.

Customers can make better use out of their limited resources and, at the same time, satisfy their own needs. Their behaviour is changing.

Some goods and services have become a mass commodity where only the price and volume decide. Others are changing to become premium personal items offering experience, for the sake of which people are willing to give up really much.

How can a business be successful at such time? CEOs understand that they must continue controlling the costs. Even though they do not focus on this to the extent they did during the deepest economic crisis, costs saving still remains number one priority in taking restructuring actions. At the same time, CEOs understand that distinctive quality can be offered only by skilled people and that is why CEOs notify the government of the skill shortage.

The battle in the market will be sharpening. The doors that globalisation opens increase in number and even the industries that used to be protected are not safe now. Who would believe that some taxi service will be able to surpass the number of yellow cabs in New York within just a few months? And that happened.

If CEOs wish that their businesses to be successful, they will have to be creative and look for opportunities wherever they might occur. They should use any help and collaborate also with competitors because it is more often to be true in business that 1 + 1 not only equals two, but also equals three, ten or even a hundred, only depending on a proper combination.

Welcome to 2015

The global economy is a greater threat to business than it was last year. Compared to last year, increasingly more business leaders in Slovakia expect that the global economy will deteriorate over the next 12 months.

Therefore, collaboration of firms and focus on transition between industries has become increasingly important. While suppressed by the crisis, firms have focused on their core business and continually sought ways to further streamline their costs, but CEOs are now looking for new space for business growth, which includes looking outside their traditional industries.

More often we will see businesses trying to leverage their distribution networks for the provision of new services (such as retailers involved in finance, power businesses in telecommunications). Convincing traditional customers that their recognised brand can also offer new services will be a big challenge.

Adopting new technologies remain a major trend that changes each business sphere. Whilst in the past they mostly supported the development of the IT sector, they are now fundamentally changing traditional industries such as healthcare, education, or taxi services. Get ready for further disruption.

Cross-sector collaboration

More than quarter of CEOs stated that in recent years their firms have started business in a new sector.

Technologies will dominate

Two-thirds of CEOs believe that higher operating efficiency is one of three mayor benefits of digital technologies.

Low trust in global economy, trust in themselves

Compared to last year, **three-times more CEOs** think that the global economic situation will deteriorate.

Concerns about global development and trust in own powers

Whilst last year optimism was ruling among CEOs in their view of global development, the situation is different these days. This could be either due to development in the Ukraine, drop in oil markets or new uncertainty in the Eurozone. However, the share of those who expect improvements in the global economy within the next 12 months and those who expect its deterioration has flattened (25% and 26% respectively). Last year, the number of optimists was five times higher. Those who are the most pessimistic are the CEOs from CEE countries: as much as 30% of business leaders in the region believe that the global economy will deteriorate.

80%

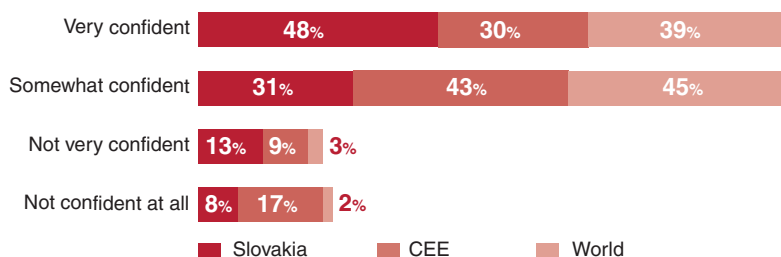
of surveyed business leaders are expecting revenue growth in the next 12 months

On the other hand, CEOs in Slovakia still trust in their businesses. Almost 80% of surveyed business leaders are expecting revenue growth in the next 12 months and the percentage of those who expect the growth in three-year term is even slightly higher (85%).

Optimism is reflected in the fact that only less than one-tenth of the survey participants intend to reduce headcount and almost a half of respondents intend to recruit new staff. On one hand, CEOs in Slovakia do not expect the global economic situation will support them, but they have faith in the success of their own businesses.

Figure 1: CEOs in Slovakia trust their business

Question: *How confident are you about your company's prospects for revenue growth over the next 12 months?*



"In general, it holds true that the economic and business environment do not offer CEOs big reasons to celebrate. In spite of this, CEOs show a big deal of courage. Possibly because in today's environment of one-digit growth, firms tend to create opportunities rather than rely on the market-towed growth. If we have learnt something from 2014, then it is the fact that in this world, increasingly governed by technologies, none of the firms remains immune against the impact of changes."

Alica Pavúková
Partner, PwC

Mergers, acquisitions and strategic partnerships are on the increase

The struggle with in existing markets has already been so strong that CEOs have become aware of their limits for growth. Although increasing their market share in markets where they have traditionally been operating still remains an important priority for growth, it has dropped down compared to last year and CEOs have ranked innovation of services and products first.

The middle-term prospective for economic growth and the state of competition show that CEOs will have to reach for a different arsenal in order to achieve dynamic growth. Mergers and acquisitions ranked third, whilst the percentage of respondents who cited this option doubled on a year-to-year basis. Even though this option is still behind innovations and the struggle for market share; it is not off the table as an opportunity.

As was the case last year, CEOs are aware that they must invest in enhancing customer services, growing their customer base and improve operational efficiency. However, the restructuring changes have resulted in several shifts. Outsourcing efforts dropped significantly, but on the other hand, the desire for local mergers and acquisitions increased. Cost reduction initiatives remain priority No. 1 followed by entry into strategic partnership as No. 2 priority.

Figure 2: Ways of achieving growth

Question: *What do you see as the main opportunity to grow your business in the next 12 months?*

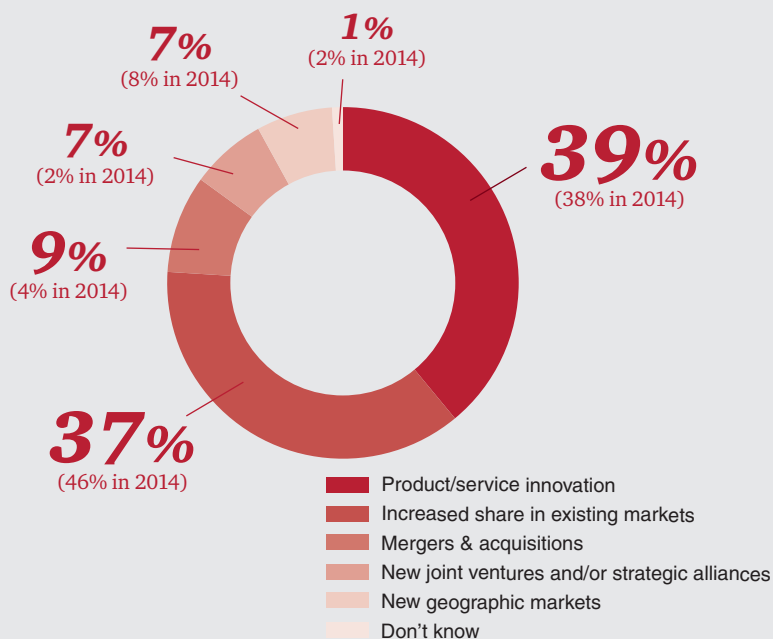


Figure 3: Where do the investments go?

Question: *What are your top 3 investment priorities over the next 12 months? You can mark up to 3 areas.*

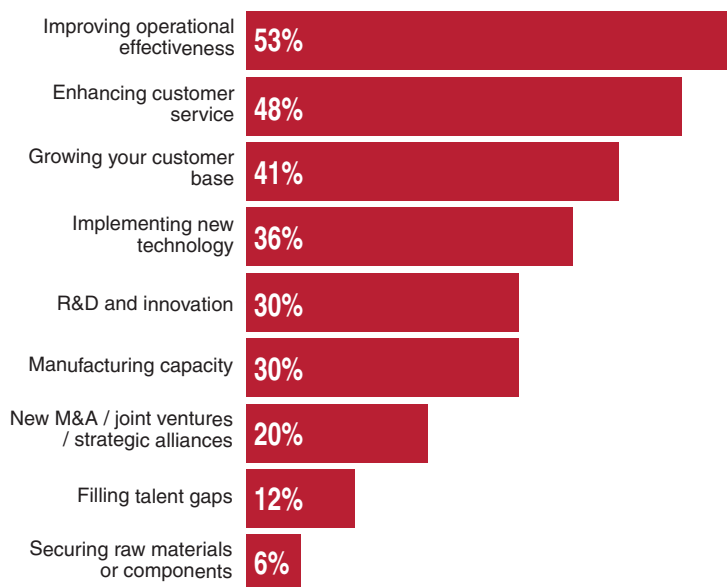


Figure 4: How do companies plan to change their business models in 2015?

Question: *Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months? You can mark more options.*



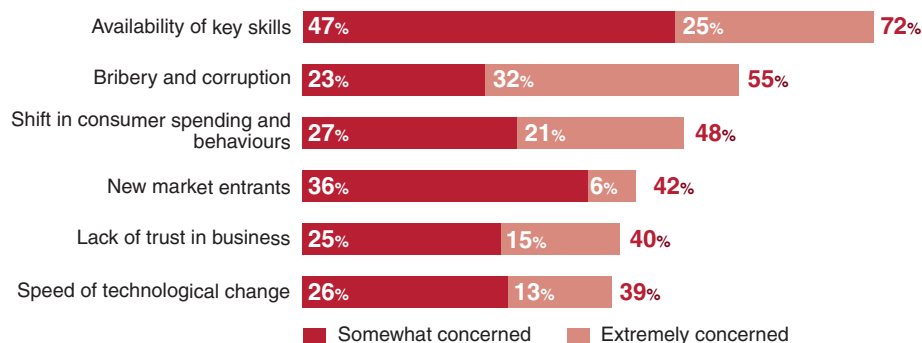
What are CEOs concerns?

There is a shortage of talent and today, the ability to attract skilled staff will decide whether a firm can succeed or not. CEOs are aware of this and therefore, not surprisingly, almost three-quarters of survey participants have selected the unavailability of key skills as a major threat. Corruption and bribery ranked second and as much as one-third of survey participants are extremely concerned about it. So far, CEOs are not very much concerned about cyber security, but on the other hand, as much as a half of them are aware of the threat of changes in consumer behaviour and spending.

If CEOs could advise the government on which areas to focus, they would choose an internationally competitive and efficient tax system (71%) and ensuring the availability of a skilled and flexible workforce (69%). However, in their individual notes, CEOs also mentioned the enforceability of law – for example one CEO added a comment “should be much higher“. And, if the government wants to support businesses, it would be worth giving attention to the development of an innovative environment (45%).

Figure 5: Question of sufficient talent is becoming more acute

Question: *How concerned are you about the following potential business threats to your growth prospects?*



“As Jim Rohn, a famous American motivational speaker, has already said, we are an average of the five people we surround ourselves with. As indicated by the CEOs in the survey, the concern increases that the quality of ‘those five selected individuals’ will not be sufficient. So, the question, what we can do to improve the quality of people surrounding us and therefore also ourselves, remains open...”

Christiana Serugová
Partner, PwC

Collaboration for a better business

Specialisation in business helps firms to succeed in tough competition but everything is more difficult without engaging with partners. CEOs in Slovakia, similarly to the global CEOs, focus on two groups of partners within their closer work relationships – suppliers and customers. In particular, suppliers significantly affect the ability of a business to produce high quality goods and services. Almost 60% of surveyed CEOs in Slovakia already have or are considering closer engagement with suppliers which corresponds with the findings of the global survey (almost 70%). Only slightly less CEOs have said that they are engaging more with customers. Similarly important for Slovak CEOs is engagement with academia. On the other hand, the government or non-governmental institutions are not viewed as attractive partners.

And why should they engage with third parties, either through a joint venture, strategic alliance or informal agreement? The clear reason is access to new customers.

Figure 6: CEOs start to develop diverse collaborations

Question: *Are you currently engaged with or considering engaging with, any of following types of business partners through joint ventures, strategic alliances or informal collaborations?*



“Along with increased focus on what they are good at, CEOs are searching for partners who could add on or develop their own capabilities. However, the diverse cooperation results in increased complexity. Stakeholders are riding several horses at the same time: e.g. customers may act as suppliers or business partners

concurrently.

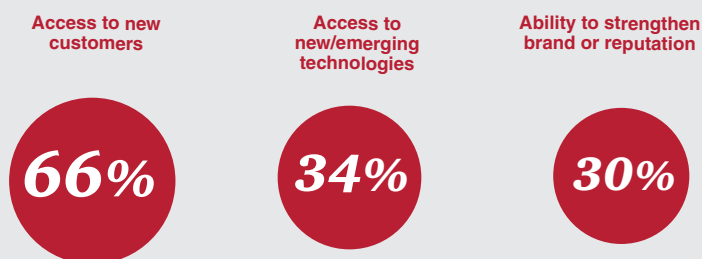
It is inevitable for such collaborations that innovative ways are identified of how to set the relationship so that it is beneficial for all involved parties. These new interaction ecosystems will become extensively important and confidence will be essential to their success.”

Alexander Šrank
Partner, PwC

Figure 7: Cooperation opens the door to new customers

Question: *Please rank your top three reasons, if any, for collaborating with a third party in joint ventures, strategic alliances or informal collaborations.*

Top three reasons for collaboration



Are we lagging behind in technology?

In the area of technologies that can provide a competitive edge, data analyses is considered the most important by Slovak CEOs. Almost 60% of respondents designated data mining and analysis as extremely important. This is followed by cybersecurity and mobile technologies to enhance customer engagement. On the lower levels of importance ranked personal items equipped with modern technologies (such as heart activity measurement equipment or special smart glasses), robotics and, in particular, 3-dimensional printers.

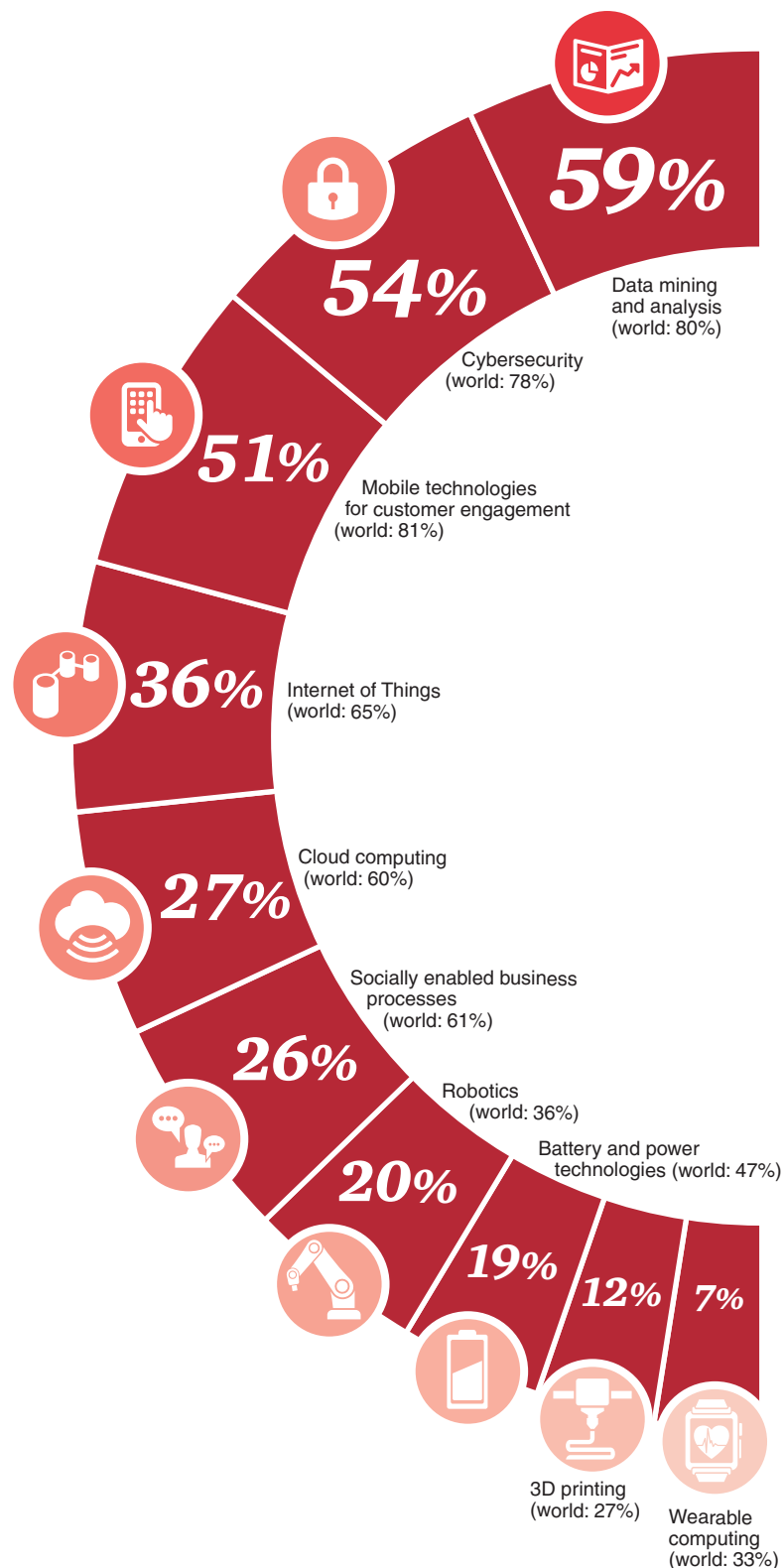
Comparison with the results achieved in the Global CEO Survey shows that priorities are similar to those cited by CEOs in Slovakia. The top 3 most important technology trends are very similar. However, it is apparent that Slovak CEOs assign less importance to technologies in the competitive struggle compared to their foreign colleagues. Whilst mobile technologies for customer engagement lead the importance ranking globally (81%), only half of survey participants in Slovakia assigned similar importance to it.

It is interesting that similar differences can be seen if we compare findings in Slovakia with those achieved in the CEE region. They are much closer to global findings compared to Slovak firms' preferences. Any possible explanation? Slovak business leaders appreciate technology that is already spread widely rather than the new one which they might have only read about.

Figure 8: Collection, analysis and use of information by technology is the key

Question: *How strategically important are the following digital technologies for your organisation?*

Note: % of CEOs who responded 'extremely important'.



Among the benefits of digital technologies for a business, improvement of operational efficiency is dominating. This is highly appreciated by colleagues from the CEE region and the global CEOs. On the other hand, a dramatic difference has been identified in the perception of technologies as the means for enhancing customers' experience (in Slovakia only less than one-fifth of CEOs consider this as a benefit; globally, it is more than three-thirds of respondents) as well as in the area of digital confidence (7% vs. 72%).

Figure 9: Investing in digital technology pays off - it brings value and influences costs

Question: *From the following lists, please rank top three contributions that digital technologies create for your business.*

Top three contributions of digital technologies

Operational
efficiency

66%

Data and data
analytics

50%

Internal/external
collaboration

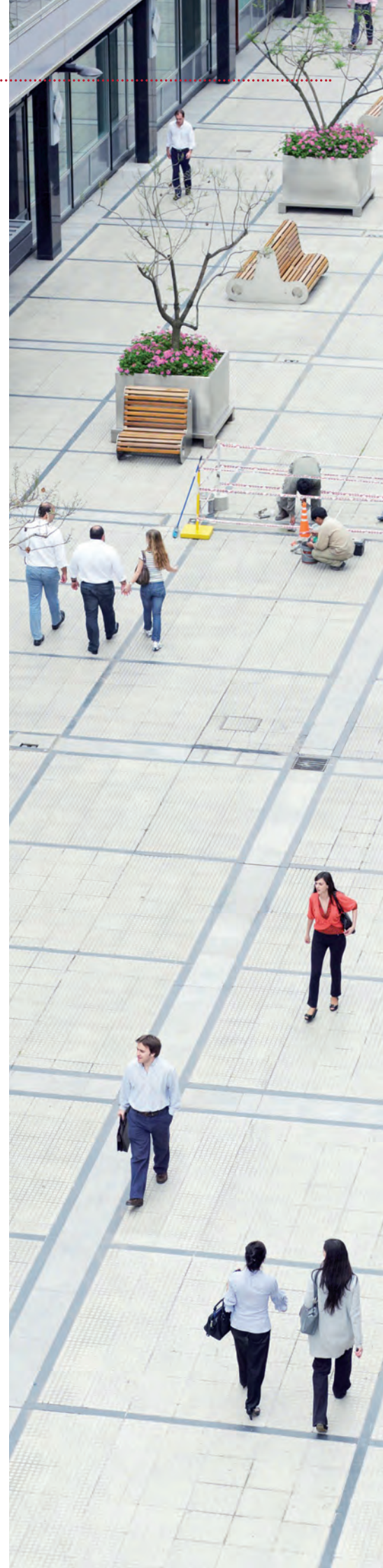
41%



“CEOs no longer challenge the need of implementing technology into their core business. Digital technologies brought revolution in customers' perception of the value. Creating customer's individual experience becomes increasingly desired and requires an extreme level of responsiveness and innovation adaptability.

If all this is to be done effectively, it cannot be performed marginally. Firms become increasingly aware of that they must change their business models. In order to make this happen, it is necessary not only to invest into proper digital technology but also use it smartly and efficiently.”

Ivo Doležal
Partner, PwC



Competitors are behind the door

Traditional competitors remain in the market; however, the competition for customers will also come from a new direction. In the global survey, CEOs pointed out that the firms from other industries are increasingly entering their traditional waters. As much as 56% of surveyed CEOs believe that in the next three years, their firms will probably be competing in the industries in which they do not operate at present.

Competitors from other industries can bring substantial changes in the business models. Slovak CEOs most often expect that new competitors will emerge from the Technology industry. Just as Amazon changed the retail business and Uber is changing taxi services, technology firms will dominate not only the IT industries. They have already changed Media and Entertainment and now the next will be traditional industries.

CEOs are aware that in the next five years their industry will be most influenced by changes in customer behaviour (more than 80% count on this). And these changes arise from the use of new technology or from priorities where CEOs invest their own time.

Figure 10: What causes changes in the traditional functioning of industries?

Question: *How disruptive do you think the following trends will be for your industry over the next five years?*

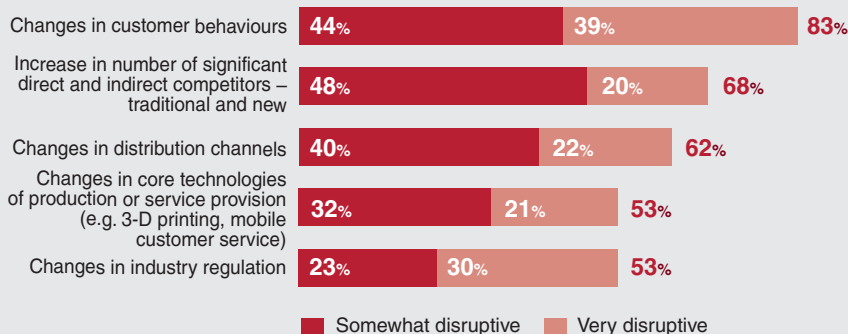
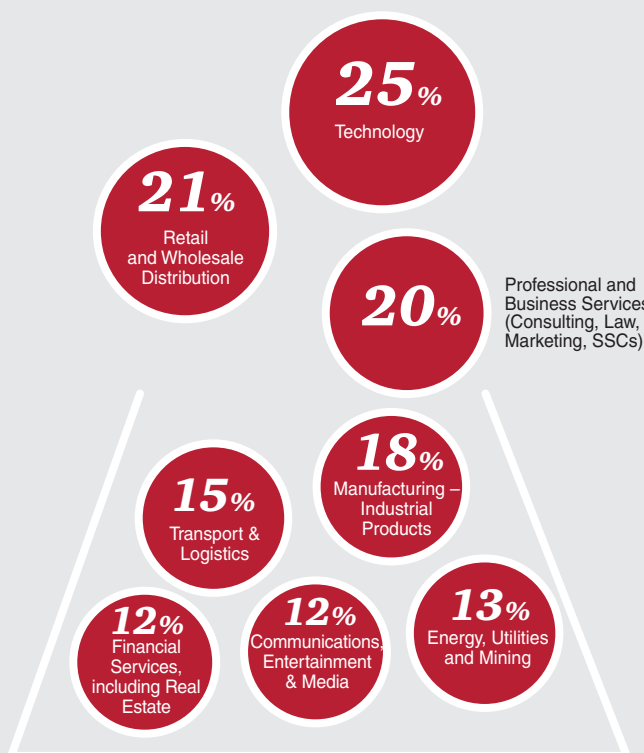


Figure 11: According to CEOs, Technology sector has the greatest potential to compete across industries

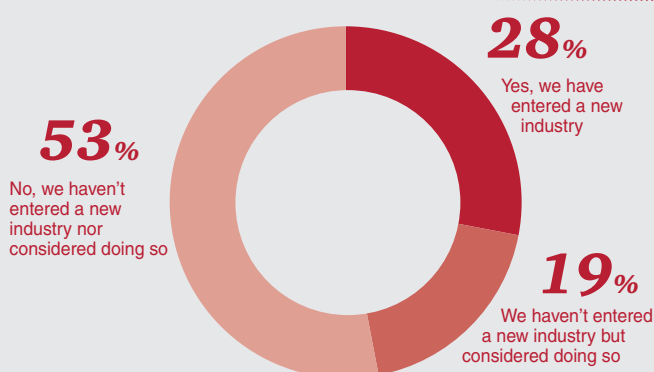
Question: *From which industry outside of your own, if any, do you think a significant competitor is emerging or could emerge? Mark all options that apply.*



Even though a majority of Slovak CEOs stated that they did not start operating in a new industry in the last three years, almost 30% have already tried this option and others are considering it. We still lag slightly behind the global trend and, therefore, the percentage of transitions into new areas will probably be growing.

Figure 12: Penetration into new industries

Question: *Has your organisation entered a new industry, or considered doing so, within the past three years? By this we mean any industry that your organisation was not already involved in.*



"Increasing focus on customers is broadening the field of competition. Forward-thinking CEOs are increasingly questioning just what business they are really in and they are actively taking businesses into adjacent or completely new sectors. Cross-industry moves aren't a new phenomenon, of course.

Corporate history is packed with stories of companies that shifted focus to take advantage of new market opportunities. Nokia, for example, famously began life as a paper mill. But what the digital age has done is supercharge the opportunities for business transformation and demonstrate how vulnerable companies are if they don't understand what their customers want."

Jens Hörning
Partner, PwC

What should the CEO of tomorrow look like?

We have mentioned ways how the competitive dynamics of industries changes. We asked the CEOs to identify capability, which they believe is the most important for them to leverage the potential of these changes and turn them into opportunities.



"Properly foresee and estimate developments and trends in market needs in given industry. Be the top in innovation

processes, bring new non-traditional solutions to the needs in given field (research, development, applied development). Search for a new material and energy resources (substitutes for a depletable material and energy resources)."

Vladimír Mužila
Managing Director
and Chairman of the Board
AGRO CS Slovakia



"Analysis and ability to leverage information."

Miroslav Hrdina
Chairman of the Board
DOMOSS TECHNIKA



"Ability to take a risk and sacrifice short-term profits."

Martin Kultán
CEO
DÔVERA zdravotná poisťovňa



"Courage."

Silvia Vančová
Managing Director
Ferno Slovakia



"To recognise up-front the market needs and shifts, to oversee the 1-5 years industry trends and to set the company priorities according to that."

Igor Kočíš
CEO
GA Drilling



"Focusing on products and services, new distribution channels, and new types of products."

Ján Otčenáš
General Manager
GEEA



"Ability to analyse the environment in order to develop a proper strategy, assess the risk and define the back-up

strategy. Understand robotisation and internal social relationships in the robotised environment within the firm."

Marián Čapkovič
Managing Director
LKW Komponenten



"Sufficient innovative staff with international reach."

Štefan Rosina
Chairman of the Board
MATADOR HOLDING



“Ability to find a common language with colleagues from strategy, technology, marketing, sales and

finance functions. It means, ability to develop an adequately strong chain from the very first idea to its delivery to the customer.”

Pavol Lančarič
CEO
Orange Slovensko



“Estimate the scope and the possible impact of all changes already at the beginning of their existence/at their

inception, based on long-term experience.”

Matej Bugár
Managing Director
Porsche Inter Auto Slovakia



“Being sensitive to consumer’s/ customer’s needs with emphasis on customisation and relevant work with data

whilst having in mind the availability of provided services.”

Jaroslav Pilát
CEO
PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY a Dôchodková správcovská spoločnosť Poštovej banky



“Ability to foresee the origination of new synergies within what seemed to be non-competitive areas or industries at

the first sight.”

Jozef Gima
CEO
RYBA Košice



“Digital literacy is essential, however it does not suffice. Ability to shorten and make effective the

analytical and distribution processes.”

Peter Sitányi
CEO
SITCON



“Flexibility and analytic prediction.”

Magdaléna Dobišová
CEO
Skanska SK



“Any success is built on uniqueness. It must be searched for; be determined, open minded, enthuse the best ones for

it and work hard to achieve it.”

Tomáš Drucker
Managing Director
and Chairman of the Board
Slovenská pošta



“Understand trends and prepare the organisation for change at the right time. Timing is even more critical than understand-

ing. Performing a change too early could be as bad as too late or never.”

Ondrej Smolár
CEO
SOITRON



“CEO’s ability to see an opportunity at the time when others do not see it yet. Properly assess the market potential.

Proper timing change.”
Matúš Babík
Managing Director
and Member of the Board
TATRAVAGÓNKA



“Analysis and search for synergies and effectiveness upon penetration into other industries.”

Bohuš Hlavatý
CEO
Tatry mountain resorts



“What: Understanding market changes, new technologies, customer requirements and expectations.

Why: To respond to market demand, recognise, adapt and capture opportunities at an early stage.”

Dino Ajanović
Country General Manager
TNT Express Worldwide



“Attracting talent – educated young people who are able to improve their performance as quickly as modern

technologies do. Older generation is no longer able to keep pace with technologic changes and opportunities such changes bring for firms.”

Peter Závodský
Managing Director
TOPOS TOVARNÍKY



“Skills, talent pool and talent management.”

Thomas Georg Bogdain
Managing Director
T-Systems Slovakia



“With no doubt, ability to analyse and foresee.”

Jozef Hric
Chairman of the Board
and Managing Director
TuCon



“Readiness for an early response to technology developments and new market requirements.”

Igor Gnap
CEO
VAŠA Slovensko

PwC's Global CEO Survey 2015

New ways to compete

PwC has conducted the Global CEO Survey for 18 years and every year it is officially presented at the World Economic Forum in Davos. In the 2015 edition of the Survey, we asked CEOs to name the one capability that tomorrow's CEO must have.

Strategic thinking and adaptability were cited by an overwhelming number of business leaders. Small wonder; constant change is the key characteristic of today's competitive landscape. Megatrends, and how companies react to them, are changing the markets where CEOs seek growth, the range of threats to business and the very fundamentals of entire industries.

We have identified six steps that business leaders can take to help build success in 2015. We believe that those CEOs who can develop the strategic focus and capabilities considered here will be best placed to win in the emerging competitive landscape. It's arguable that these approaches wouldn't have been substantially different ten years ago. But what's different now is the impact of digital technologies on virtually every aspect of business.

Find out more by visiting www.pwc.com/ceosurvey.

Six steps that business leaders can take to help build success in 2015

1. Focus on what you're good at

In an increasingly confusing marketplace, it's crucial to identify your organisation's key capabilities, those which make it unique. We don't think companies can manage more than three to six truly differentiating capabilities.

2. Re-evaluate the business you're in

Once you understand your strengths, consider the true value you give to stakeholders. Recognise who your competitors really are – including those in different industries. Ensure there's strong cohesion between your organisation's capabilities, value proposition and product and service offerings. It could be that your core strengths could excel in a sector you've never been part of before.

3. Anticipate policy issues

Pre-empt them by self-regulating effectively. Work with government to develop effective and balanced policies, as part of a collaborative network of partners.

4. Build diverse yet aligned partnerships

Consider how partnerships could enhance your capabilities. Develop a broad, diverse and dynamic ecosystem of partnerships that you can adjust upwards or downwards depending on needs. And strengthen collaborations by identifying mutually beneficial outcomes.

5. Transform through digital

Understand the impact of digital technologies on your stakeholders and the value they seek. Assess how your operating model needs to change to fulfil new needs and desires – and have a clear vision and plan for how digital investments can help achieve these changes.

6. Develop a good mix of talent

Leverage the full spectrum of differences in thinking and working to build a collaborative and technologically skilled workforce that can deliver the innovation you need to compete in the new economy.



Slovak CEO Survey 2015

The Survey was conducted by consultancy firm PwC in co-operation with the Slovak edition of Forbes magazine. The CEOs contacted replied via an on-line or printed questionnaire from 12 January 2015 to 13 March 2015.

121 top representatives of companies operating in the Slovak market participated in the Survey. Industry sectors included: financial services (banking & insurance), industrial manufacturing, construction, automotive, retail & distributive wholesale, consumer goods, transportation & logistics, information technology, telecommunications, energy & utilities and other.

Characteristics of companies represented in the survey:

Type: 61% a subsidiary or branch of an international parent company, 39% Slovak company (privately owned, family business, etc.).

Years of doing business in Slovakia: 42% 5-15 years, 37% 15-25 years, 18% over 25 years, 3% less than 5 years.

Revenues: 26% EUR 5 - EUR 15 million, 21% EUR 15 - EUR 30 million, 14% EUR 100 - EUR 250 million, 13% EUR 30 - EUR 100 million, 16% less than EUR 5 million, 10% over EUR 250 million.

About PwC

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 195,000 people who are committed to delivering quality in assurance, tax and advisory services. Find out more and tell us what matters to you by visiting us at www.pwc.com/sk.

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Contacts

PwC Bratislava

Námestie 1. mája 18, 815 32 Bratislava
tel.: +421 2 59350 111

PwC Košice

Aupark Tower, Protifašistických bojovníkov 11, 040 01 Košice
tel.: +421 55 32153 11

Todd Bradshaw

Country Managing Partner, PwC
+421 2 59350 600
todd.bradshaw@sk.pwc.com

Zuzana Sehnalová

Marketing and Communications Leader, PwC
+421 2 59350 133
zuzana.sehnalova@sk.pwc.com

Juraj Porubský

Editor-in-chief, Forbes Slovensko
+421 2 208 66 337
jporubsky@forbes.sk



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