

Industrial Sector: Positioned for Growth Through Digitalization



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Contents

- I. Introduction 3
- II. Executive Summary 4
- III. Findings and Analysis 5
 - a. Optimism and Growth 5
 - b. Digitalization is a Priority 6
 - c. Benefits of Digitalization Vary by Company Size 8
 - d. Private Equity Firms are Thriving 9
 - e. Publicly Traded Companies are Struggling With Digitalization 11
 - f. Global Talent Shortage 13
 - g. Regional Bias 16
- IV. Recommendations 17
- V. Demographics 18
- VI. About Stanton Chase 19

I. Introduction

The results of our fifth annual Global Industrial Executive Survey are in, and they paint a striking picture. As the Fourth Industrial Revolution surges forward, the industry is poised for significant growth driven by digitalization initiatives, which are crucial for obtaining consistent, reliable, and in-depth information needed to meet business goals and remain competitive.

Successful enterprise digitalization requires four elements:

- A strategic purpose for digitalization initiatives.
- A commitment to adopting digitalization as a company-wide priority.
- Acquiring and retaining leadership talent with proven digitalization skills.
- Understanding and evaluating the ROI of digitalization initiatives.

The more organizations recognize the importance of digitalization initiatives as they invest for growth, the more secure they feel in the industry and the more optimistic they are about gaining competitive ground. The single biggest challenge any company faces is a lack of in-house expertise to lead digital initiatives. Although digital talent is in limited supply, it does exist in the market. Securing such talent is crucial to implementing successful digitalization strategies.

We sincerely appreciate the participation of our survey respondents and are excited to share our findings with you. If you would like to learn more, we invite you to visit www.stantonchase.com or contact your local Stanton Chase office.

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II. Executive Summary

The industry is in an overwhelmingly positive place, with 81% of respondents assessing the current economic situation as consistent with or better than last year and 78% expressing optimism regarding growth in the coming year.

As the Fourth Industrial Revolution continues to gain momentum, digitalization is a key priority, with almost 90% of respondents engaged in the process. The primary goals of digitalization are to sharpen and improve core competencies and to aid in the development and deployment of business practices. However, a lack of in-house expertise is a significant problem in implementing digitalization strategies.

In fact, the industry overall is seeing a global talent shortage affecting their organizations across all geographic locations and sectors, particularly in General Management, Sales and Marketing, Engineering, and Manufacturing and Operations. Investing capital in acquiring, developing, and retaining talent is an increasingly high priority for organizations as they plan for growth.

Our fifth annual Global Industrial Executive Survey was completed by 300 participants worldwide. Over half of the respondents were at the executive and board level, with the remaining respondents leaders across other major functional roles. Participating firms varied in size from under \$100M to exceeding \$5B in annual revenues. Companies were privately owned, publicly traded, and private equity backed across nine diverse Industrial sectors.

III. Findings and Analysis

Optimism and Growth

The Industrial sector is strong and poised for growth, with 81% of respondents assessing the current economic situation as the same or better when compared to last year. This overwhelming optimism is consistent across geographic regions, annual company revenues, and type of company ownership.

How Do You Assess the Current Economic Situation in Your Industry Compared to Last Year?



Optimism regarding growth, which has been robust for the past several years, has reached an all-time high, with more than three-quarters of respondents anticipating growth in the coming year.

Increasing Optimism Regarding Industry Growth

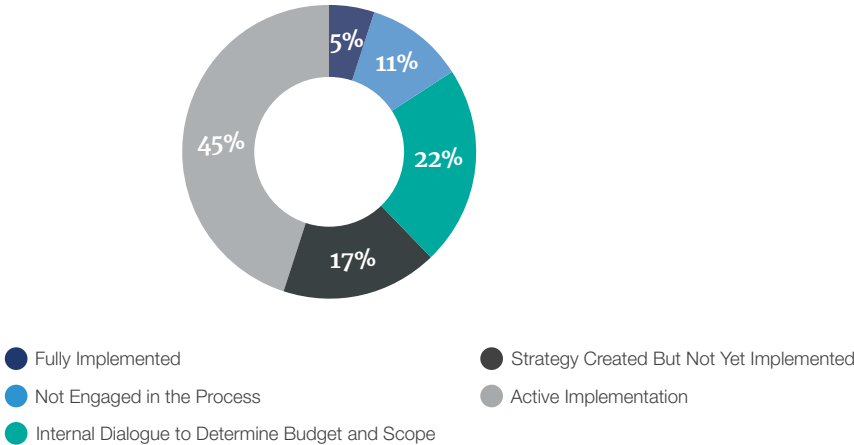


Consistent with last year, product development, talent management, and technology remain the three highest priority areas as companies invest for growth. This is not surprising given the focus on digitalization initiatives as a continuation of the Industry 4.0 phenomenon. Organizations are in need of creative, visionary leaders to develop new, competitive products and implement digitalization strategies.

Digitalization is a Priority

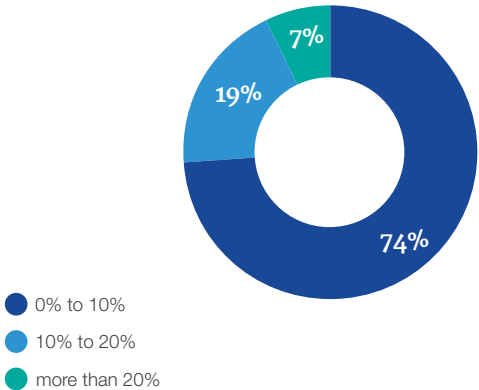
Digitalization is an enormous priority for the Industrial sector, with almost 90% of respondents engaged in the process and 50% reporting active or fully implemented digitalization initiatives.

Which Stage of Digitalization is Your Firm Currently In?



With technology rated as a top spend category as organizations invest for growth for the second consecutive year, digitalization is the focus of significant financial investment. Over a quarter of organizations are investing very aggressively – more than 10% of total revenue – in digitalization, an astounding testament to the commitment of companies throughout the Industrial sector to prioritize digitalization.

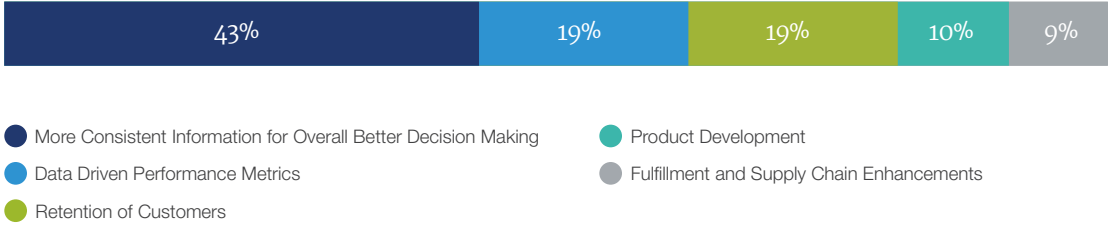
What Percentage of Revenue is Your Firm Investing in Digitalization?



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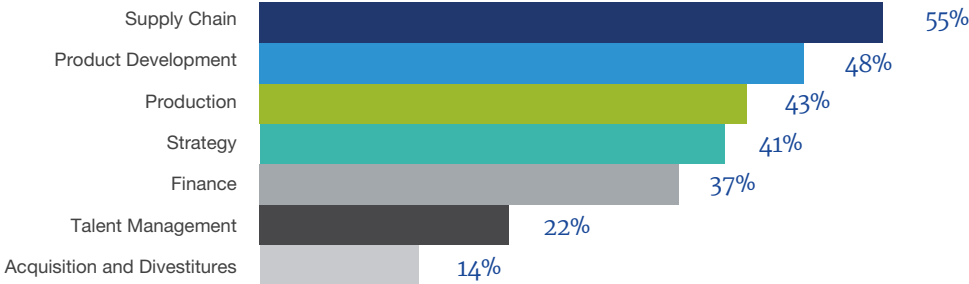
The majority of executives are committed to digitalization as a means to greatly assist and empower them by providing them with more consistent, reliable, and in-depth information that will allow for better decision making.

Factors Driving Digitalization



Thus far, organizations have seen the strongest benefits of digitalization in supply chain management, product development, and production. Given the emphasis companies are putting on product development as their highest priority spend as they invest for growth, digitalization is a powerful asset in meeting these goals.

Functional Impacts of Digitalization



However, growth is never without its challenges and digitalization is no exception. Although the benefits are clear and organizations are willing to invest both time and financial resources, they are lacking in-house expertise to lead digital initiatives. Qualified talent does exist in the marketplace, but it is limited and organizations are struggling to attract and retain that talent.

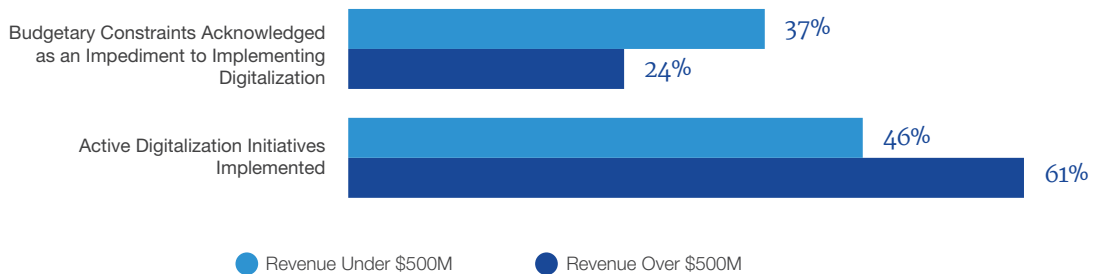
Most Significant Challenges in Implementing Digitalization



Benefits of Digitalization Vary by Company Size

Budgetary limitations noticeably strain an organization's ability to implement digitalization, a fact magnified in companies with lower annual revenues. Small and mid-sized companies – those with revenues under \$500M – report more significant budgetary constraints and lower rates of active digitalization implementation than larger companies.

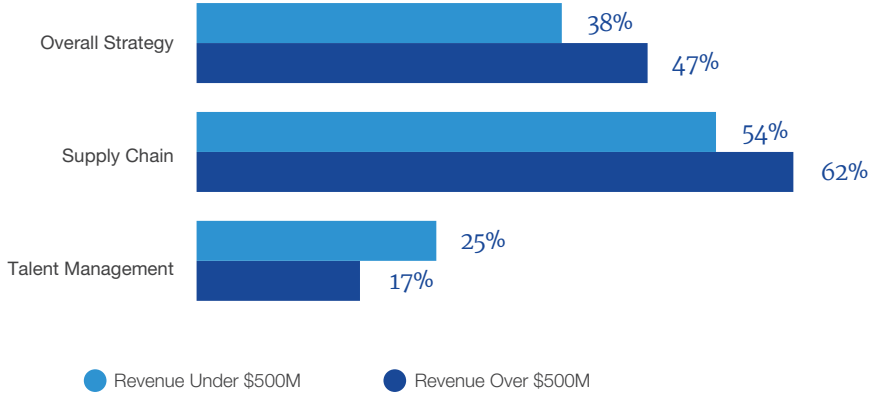
Higher Budgetary Constraints Equate to Lower Digitalization Implementation Rates



Furthermore, the strongest benefits of digitalization vary by company size. Large companies are seeing the payoff of digitalization in their overall business strategy and supply chain management, whereas small and mid-size companies report higher than average improvements in their talent management programs. Future research may provide insights as to why these smaller companies are seeing such an impact on talent management and how large firms may learn from this.

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Functional Impacts of Digitalization



Private Equity Firms are Thriving

Annual revenues aren't the only differentiating factor when it comes to digitalization within the Industrial sector. Private equity firms express more positivity about the economic situation of the industry as well as their anticipated growth than publicly traded and privately owned companies.

Perceives a Positive Economic Situation in the Industry



● Private Equity
● Industry Average

Optimistic for Growth Over the Next Year

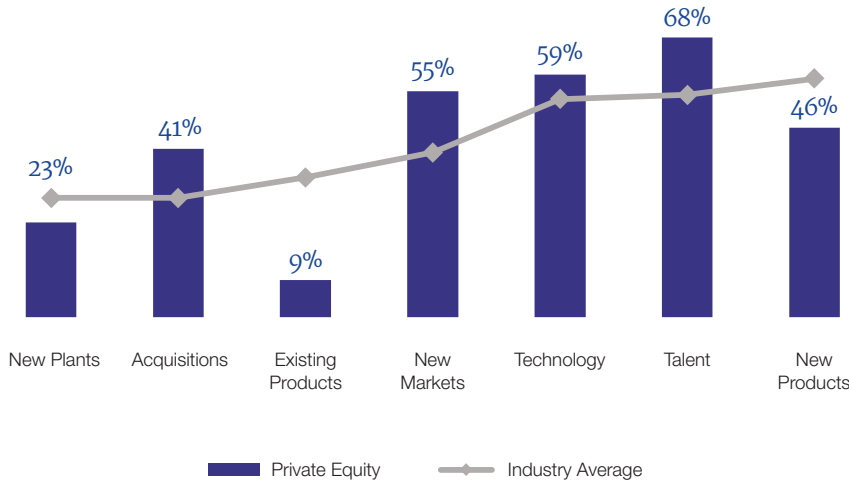


● Private Equity
● Industry Average

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Their growth plans shy away from products and plants, instead focusing on talent management, acquisitions, and new markets, specifically in North America, South America, Asia Pacific, and Europe. At this time, private equity firms' interest in expanding business in the Middle East and Africa is lower than the industry average.

Capital Deployment as Companies Invest for Growth



“Of the three types of company ownership, only private equity firms are 100% engaged in digitalization.”

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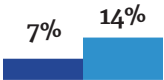
Of the three types of company ownership, only private equity firms are 100% engaged in digitalization and invest most aggressively in digitalization initiatives, seeing it as a means for value creation. In fact, they have seen its effects most keenly in providing data driven performance metrics.

Currently Engaged in Some Phase of Digitalization



● Private Equity
● Industry Average

Investing More Than 20% of Revenue in Digitalization

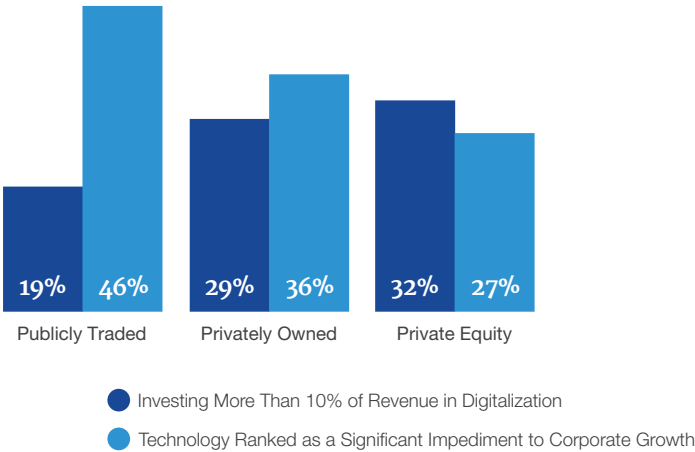


● Private Equity
● Industry Average

Publicly Traded Companies are Struggling With Digitalization

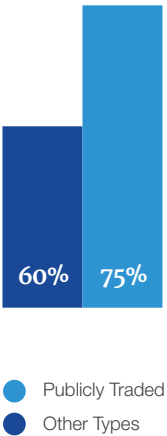
Publicly traded companies expressed the greatest struggle with implementing digitalization efforts. They are investing the lowest percentage of their revenue in digitalization when compared with other company types, seeing it mainly as a strategy tool to use for better decision making as opposed to a means for revolutionizing product development or supply chain management. It remains to be seen if investments will rise when technology is no longer viewed as an impediment.

Publicly Traded Companies are the Most Impeded by Technological Restraints



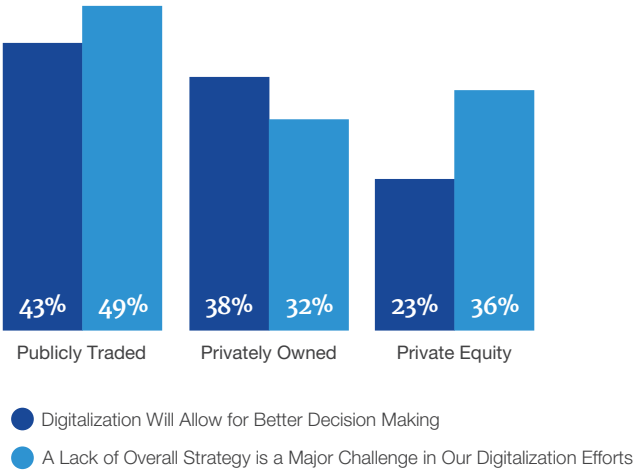
Publicly traded companies recognize a lack of digitally minded talent as a major hindrance in their ability to create and implement a digitalization strategy. The global talent shortage is impacting their organization more so than any other company structure, most keenly in General Management.

Report a Global Talent Shortage Impacting Their Organization



They acknowledge that they have the financial resources and a suitable organizational structure for implementing digitalization, but lack the in-house expertise and overall strategy required to do so.

Publicly Traded Companies the Most Challenged By a Lack of Overall Digitalization Strategy



Global Talent Shortage

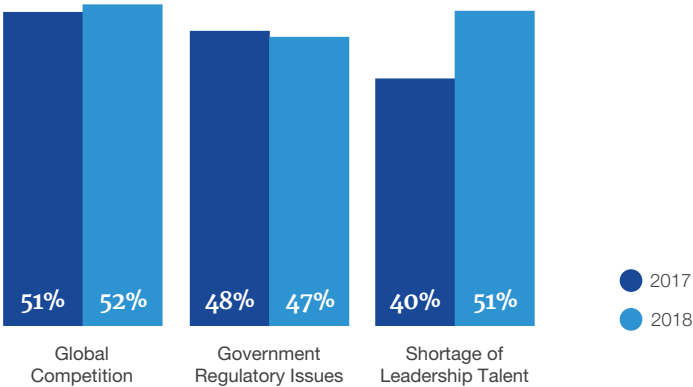
Consistent with years past, more than two-thirds of respondents are seeing a global talent shortage negatively affecting their organization. Companies are most in need of future leaders who think and act like entrepreneurs, displaying vision, strategic thinking, and creative problem solving skills.

Are You Seeing a Global Talent Shortage Impacting Your Organization?



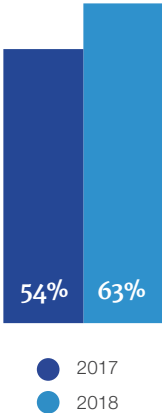
In fact, talent management is increasingly becoming a significant problem for organizations regardless of region, company size, corporate structure, or industry sector. Although talent management has historically been ranked as a top tier impediment to growth, it is identified as a larger issue in 2018 than it was last year.

Primary Impediments to Corporate Growth



Talent management is becoming such an obstacle that it is increasingly troubling executives even when they are away from the office. When asked what issues keep them awake at night, a higher percentage identified talent management as a worry this year than previously.

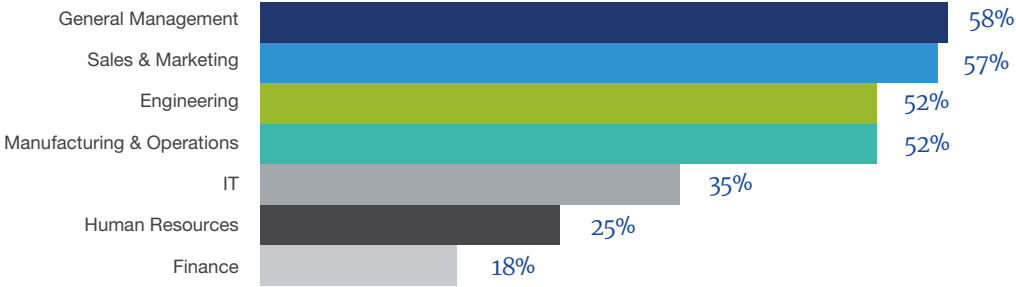
Talent Management as a Primary Concern for Executives



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This shortage is perceived equally across geographic regions, but is most pronounced in General Management, Sales and Marketing, Engineering, and Manufacturing and Operations. As in previous years, IT, Human Resources, and Finance report being less affected by talent shortages.

Functional Talent Shortages



Not surprisingly, companies that perceive a global talent shortage impacting their organizations are investing most heavily in talent as they plan for growth.

Global Talent Shortage Impacts Corporate Growth and Capital Deployment

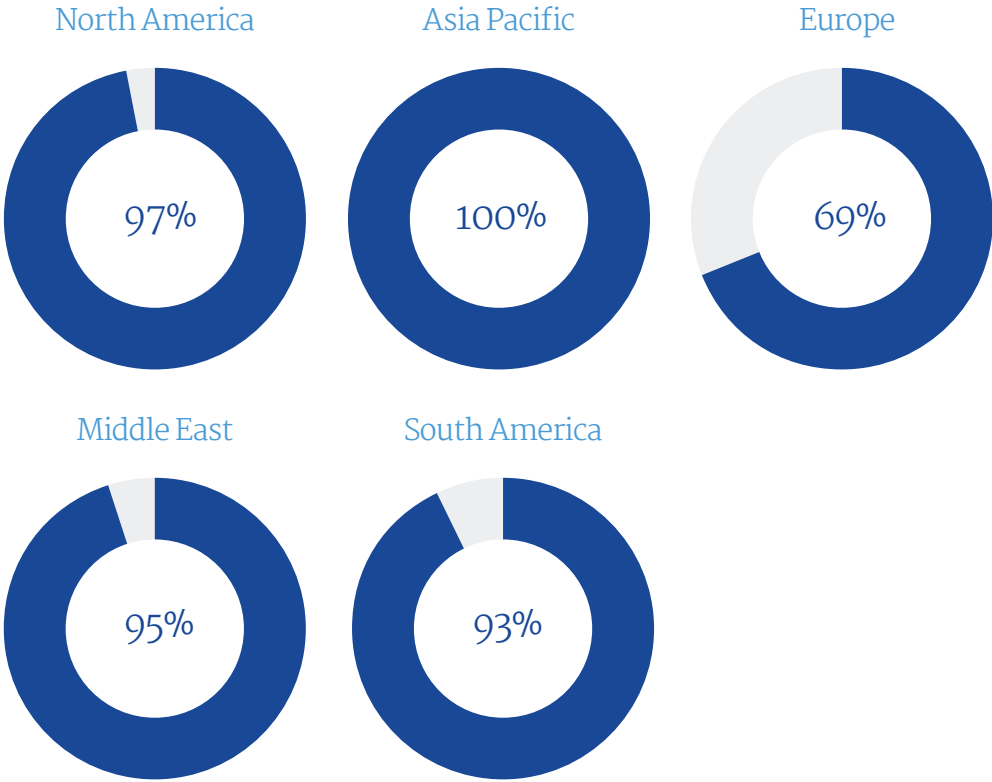


When asked to identify the most important things their company needs to consider for a successful digital transformation, those who perceive a global talent shortage put a higher emphasis on transforming executive leadership and upgrading talent and skills.

Regional Bias

Although industry wide, Asia Pacific and North America are the areas identified as the biggest growth opportunities, there is a strong regional bias regarding growth. Each region identifies itself as having the greatest opportunity for expansion. Additionally, North America, South America, and Europe all perceive the greatest regional talent shortage to be close to home.

Percent of Respondents That Identify Their Own Regions as Having the Greatest Growth Potential



IV. Recommendations

Based on our experience of over 25 years in advising leaders and the findings we uncovered via this survey, we offer the following recommendations:

Prioritize Digitalization

As the Fourth Industrial Revolution surges forward, digitalization is no longer optional. It is essential. In order to remain relevant and competitive, your organization needs to be implementing digitalization initiatives to strengthen and improve core competencies and provide more consistent information for better decision making.

Talent is the First Step

Before you can implement a digitalization strategy, you need in-house expertise who can lead. We can learn a great deal by looking at companies that feel well-positioned and optimistic for growth in the coming year. Those organizations that are confident regarding their corporate growth recognize a lack of talent as their primary impediment and are consequently investing aggressively in attracting, acquiring, and retaining digitally minded talent. In fact, the more optimistic the company, the more heavily they are investing in talent.

Digitalization Strategy

Once your talent is in place, take time to strategize. Although digitalization is a high priority, companies cite a lack of overall

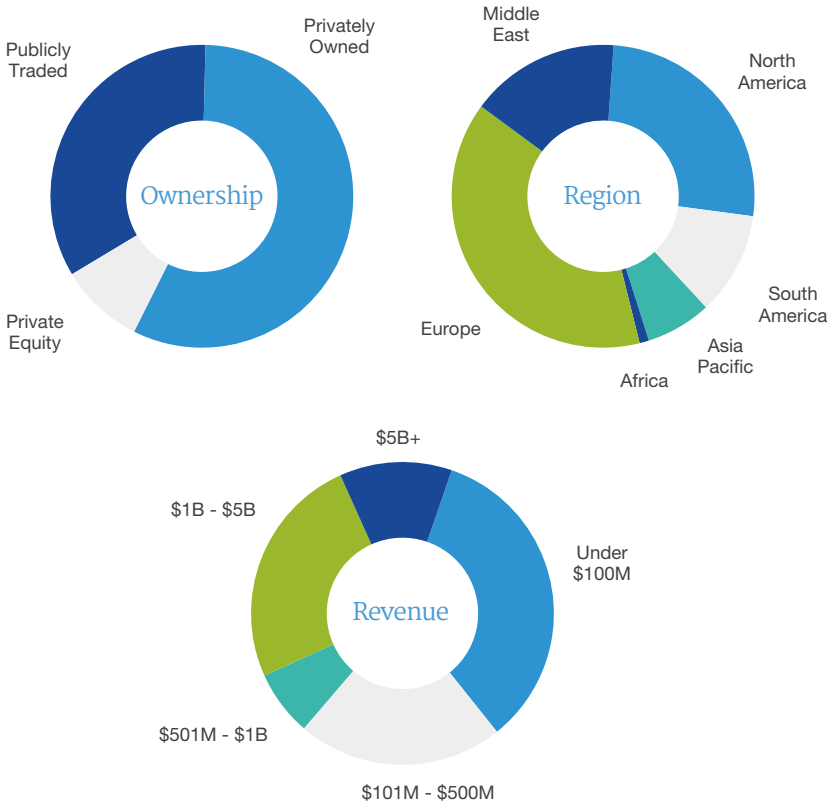
digitalization strategy as major hurdle in their digital transformation journey. Don't jump first and ask questions later. Consider the end-game: What aspects of your organization are you hoping to improve with digitalization? Which functions can be made more efficient? What processes can be automated? How will you measure your success? Whenever possible, create quantifiable goals for your digitalization initiatives so that you can ascertain their effectiveness.

Deploy Capital Where It's Needed

Companies that are actively implementing digitalization report significantly higher levels of satisfaction with the state of the industry as well as significantly higher optimism for corporate growth in the coming year. Digitalization helps secure a company's place in the industry and position them for growth. But in order to get there, you'll need to prioritize spending. We recommend reviewing expenditures and allotting a specified minimum of your organization's revenue in digitalization efforts. The payoff will be worth the investment.

V. Demographics

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V. About Stanton Chase

Founded in 1990, Stanton Chase is your global leadership partner, recognized for exceptional results around the world. Stanton Chase is unique in the executive search industry, offering clients the expertise and global reach of one of the world's ten largest executive search firms complemented by the service, industry expertise and personal relationships usually reserved for small, boutique practices.

Stanton Chase is proud to offer our clients a complete suite of executive search and consultancy services.



Executive Search

Our worldwide network of offices and partners gives us the ability to access top talent not just across borders but across the globe.



Candidate Assessment

Using the latest methodology for the identification, motivation, and assessment of competencies and personality profiles.



Leadership Consulting for Boards and C-Suite

Recognizing the unique challenges of CEOs, Boards, and the C-Suite and counseling our client partners on a breadth of corporate, governance, and strategic imperatives.



Diversity Search

Committed to and embracing the global reality of diversity and inclusion.

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