

MTI Survey on CEO Business Outlook for 2013

For second consecutive year, MTI Consulting has carried out the CEO Business Outlook Survey. The 2013 survey covered 150 CEOs, up from the 100 that was covered in the 2012 Business Outlook Survey. Approx. 40% of the sample comprised CEOs of the top 100 CSE listed companies, with 35% comprising non-listed / privately held companies of comparable size to their counterparts in the listed companies segment. The sample also included 20% of mid-cap companies (both listed and private) and 5% of strategic views. The industry verticals included Manufacturing, Services, Industry Majors and Multi-Business Conglomerates. The survey has been supplemented by qualitative interviews with a cross section of CEOs and MTI's extensive consulting experience in Sri Lanka and diverse international market.

2012 below expectations – after the highs of 2010-11

- A significant 53% of the respondents felt that the business environment for their respective industries/domains was below what they had expected at the beginning of the year. This was also evident by the corporate earnings of companies that depend on local markets sales - they were faced with increased imported input costs; and mid-tier exporters relying on the EU and North America. One third-of the respondents felt their businesses met their expectations set for 2012. Companies related to Tourism, Construction and Infrastructure seemed to have performed relatively better.
- Similarly surveys conducted in 2010-11 say extremely high corporate confidence (linked to the post-war economic syndrome). Therefore, arguably the expectations they had for 2012 could have been an extension of the 'bull run' that many industries experienced in 2010-11. It should also be noted that 2010 & 11 saw a significant amount of pent-up demand (North and East for instance), which has now reached a plateau.

We cannot expect an extension of 2010-11 growth rates without an increase in retail consumption and that can only come if real consumer buying power increases at the bottom of the pyramid. This in turn requires real growth in economic activities

Gloomy outlook on global economy – likely to impact exports

- 60% of the respondents expect the global economy to remain depressed, while 5% of whom believe that it will further slide. 32% are however hopeful it will recover, the keyword being hopeful! All indications from the Euro Zone is that markets will remain depressed as the austerity measures will continue to check retail consumption, while Government spending on capital expenditure will continue to be at very low levels. The much talked about 'Fiscal Cliff' in the US will determine how consumer confidence will shape up and consequently on retail

consumption. This means countries like Sri Lanka that are highly dependent on their exports to the North Atlantic region will be under pressure for export revenues. Equally of concern for Sri Lankan is turmoil in the Middle East and its impact on tea exports and foreign remittances from Non-Resident Sri Lankans. In the first 7 months of 2012, Sri Lankan exports (in value terms) dropped by 4.5% and this is one of the major concerns expressed by export dependent companies.

Lower corporate confidence levels for 2013

- 52% of the respondents expect the Sri Lankan economy to stabilize. However, what is of greater concern is that a significant 25% expect the economy to decline (given all the different global challenges that they have indicated throughout the study). This figure (25%) is a marked increase from the corresponding figure (11%) in 2011. Conversely, 40% in 2012 expected the economy to accelerate in 2012 and this figure is down to 24% for 2013. In reading into these figures, it is however, important to place it in the context of the 2 most economically euphoric years that Corporate Sri Lanka experienced in 2010 & 11 – after a 30 year war that took its toll on businesses.

Corporates concerned about the economy & governance

- Unlike in our survey in 2011, there was a more pronounced expressions of 4 major economic challenges that CEOs felt need serious attention and identified as the ones that significantly impact their own business performance. They are: the widening balance of payment, governance (some saw this extend into corporate governance), inflation (and its impact on the cost of living and consequently on retail consumption) and lack of concerted effort of exports and FDIs. The profitable growth of the tourism sector, the expansions of construction activity and the ambitious infrastructure developments were all considered in positive light.

Costs and Consumption Levels – the major business challenges

- In our survey in 2011, the 2 major business challenges that concerned CEOs were related to human resource management and business expansion, which needs to be appreciated in the context of the impressive corporate performance in 2011. However, in line with the depressed business performance in 2012, the 3 major business challenges for CEOs are: costs, depressed demand for exports and reduced consumption / affordability in the local market. We clearly see a major thrust towards cost optimization and in some cases slowing down the ambitious growth plans that Corporates had in 2010-11.

"Cost Optimization and Slack Elimination will be the mantra for 2013. However, this needs to be approached positively and in a scientific manner – as opposed to knee jerk cost chopping"

However, CEOs hopeful of a better 2013!

- Despite all of the above responses, almost half (52%) of the respondents expect their businesses to record higher growth in 2013, while a significant 36% expect the same growth they experienced in 2012 in 2013. In general, Sri Lankan Corporates (even during the toughest times of the 30 year) have always been positive and hopeful on their own business performance. In these gloomy global economic times, being positive can only help, provided hope is converted to value-adding measures. Interestingly, 10% expect a further slide in their business performance in 2013 – would they be the pessimists or the realists!?

As a nation, Sri Lanka has overcome many challenges (from the Tsunami to Terrorism) and the Corporate Sector has always been resilient through these challenging times. Hopefully, we will turn the tide and make 2013 an year like no other!

Key Takes

- 60% expect the global economy to remain depressed
- 52% expect the Sri Lankan economy to stabilize – 25% expect it to decline
- 4 key issues that concern CEOs about the economy are: Balance of Payment, Governance, Inflation / Cost of Living and FDIs / Exports
- Tourism, Construction and Infrastructure seen as positives
- At an enterprise level, rising costs and reduced consumption levels are the 2 major concerns
- Despite all of the above, only 10% expect their 2013 performance to be lower than their 2012 performance

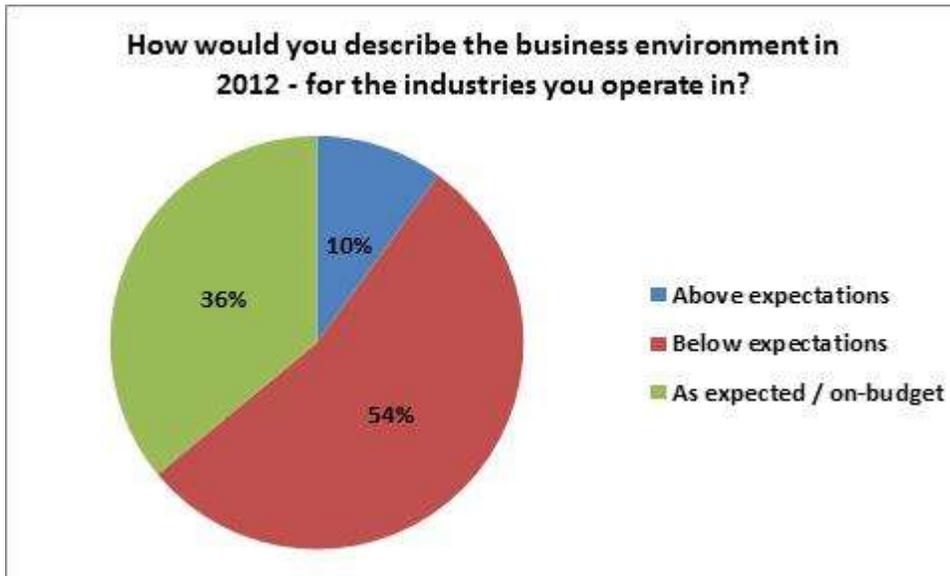
What to watch in 2013 (globally)?

- Food Security & Agro renaissance
- SME Thrust as the Growth Engine
- Local & Regional Sourcing – as mature economies encounter high unemployment
- Energy Conservation & De-consumption
- Increase in White Collar & Cyber Crimes

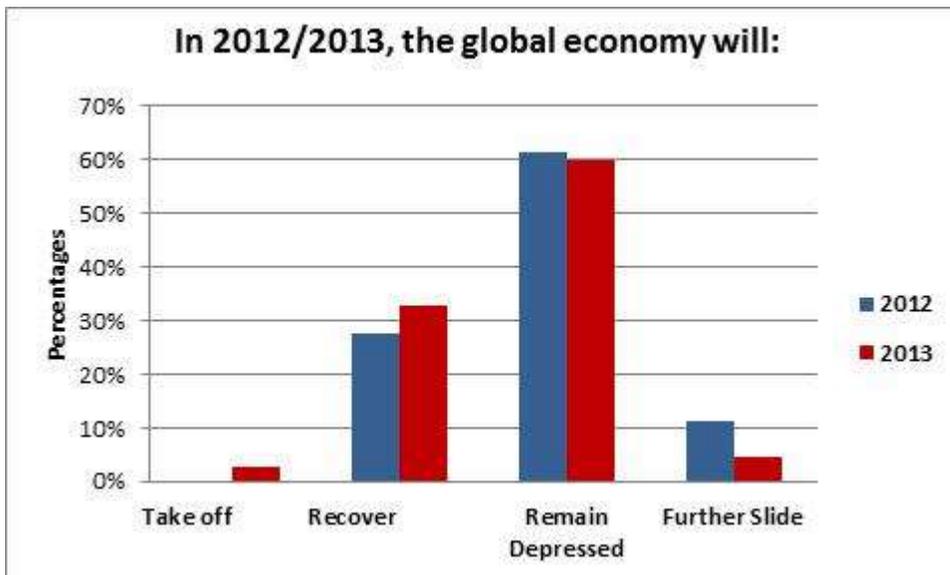


Hilmy Cader, CEO, MTI Consulting

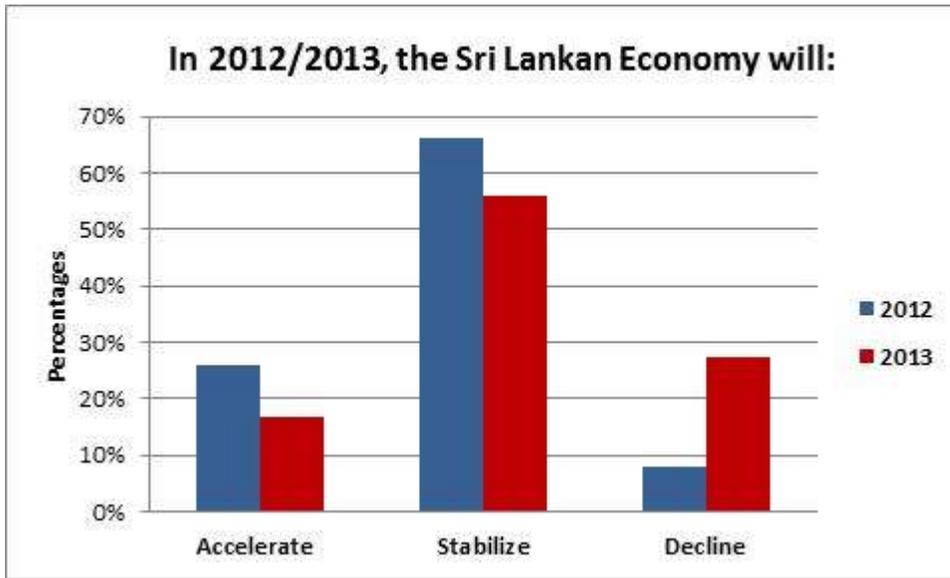
Q1.



Q2.



Q3.



Q4.

