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UK Futures
Big business optimism returns

Key points

- Big business plans to invest £13 billion in growth strategies in 2013.
- 80 per cent of board directors and senior executives believe they are now best placed to lead a new era of wealth creation.
- Confidence is high, with nearly 40 per cent of big businesses expecting to be in the top three in the world in the medium term.

Contacts

David Sproul
Senior Partner and Chief Executive
Deloitte LLP
020 7303 6641
dsproul@deloitte.co.uk

Richard Punt
Managing Partner
Growth & Markets
020 7007 0887
rpunt@deloitte.co.uk

Chris Gentle
Partner and Head of Deloitte Insight
020 7303 0201
cgentle@deloitte.co.uk

Deloitte LLP analysis suggests that big business could be the catalyst to kick-start wider business investment across the UK economy. More than 60 per cent plan to make investments greater than £50 million in 2013.

Big business optimism returns

Will 2013 be a turning point for UK business? Optimism appears to be returning to big business. According to the latest UK Futures estimates, major firms based in the UK plan to invest over £13 billion during 2013 in growth related initiatives, with two in three senior executives viewing the next three years as a period of growth for their business.[1]

The long-term wealth creation prospects of the UK are likely to be significantly influenced by big business. Deloitte LLP analysis suggests that big business could be the catalyst to kick-start wider business investment across the UK economy. Much has been said about the cash piles generated by large firms over the last several years with the total now estimated at £708 billion.[2] After a period of caution, our analysis shows that 80 per cent of senior executives believe that business leaders are best placed to lead a process of wealth creation.

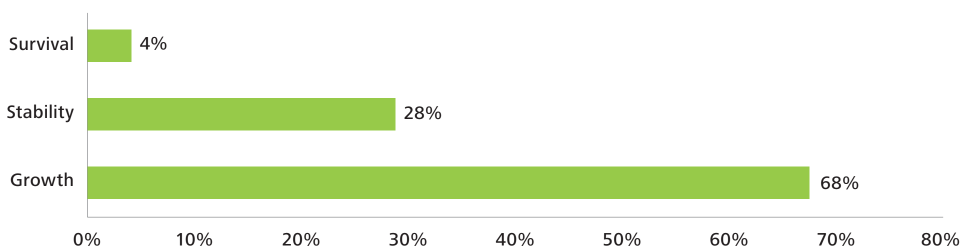
What is important to wealth creation is the return of investment confidence. Our research shows encouraging news on two fronts.

First, big businesses based in Britain have plans to invest to drive growth. Based on Deloitte estimates, more than 60 per cent plan to make investments greater than £50 million in 2013. Only 10 per cent of companies in this category said they had no investment plans, and of the remaining 30 per cent, three-quarters plan to make investments on a similar scale within two years.

Second, UK-based businesses are confident of future success, in spite of the intensity of international competition. Over two-thirds of firms (70 per cent) expect to be either a global leader (top three worldwide) or an international company (with more than 50 per cent of revenues flowing from foreign markets) within the next five to ten years.

UK big business also appears to have adapted to the 'new' normal. The vast majority (75 per cent) said there was a fundamental shift in the business environment over the last five years. The evidence provided here suggests we have reached a turning point in major firms' confidence, echoing the results of the latest Deloitte CFO Survey.[3]

Figure 1. The growth imperative
Which best describes your company's focus over the next three years?



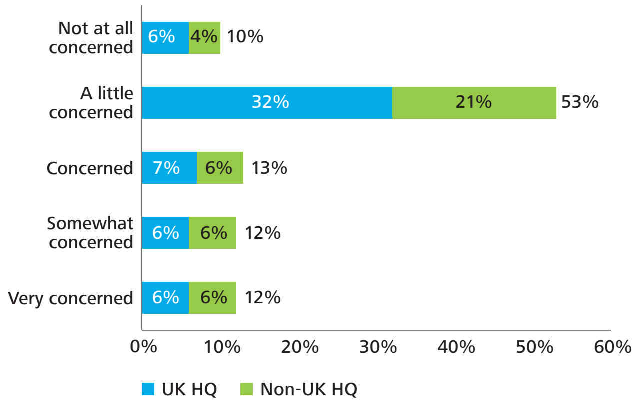
Source: EIU, Deloitte analysis

Getting to grips with the 'new' normal

Concerns about the UK's ability to generate wealth

- The UK economy experienced little or no growth during the last five years. UK GDP has yet to reach the level last seen in 2007.
- Traditional methods of kick-starting economic growth, such as government investment and consumer spending, are not readily available due to the level of both public and personal debt.

Figure 2. Nine-in-ten business leaders are concerned about the UK's ability to generate wealth

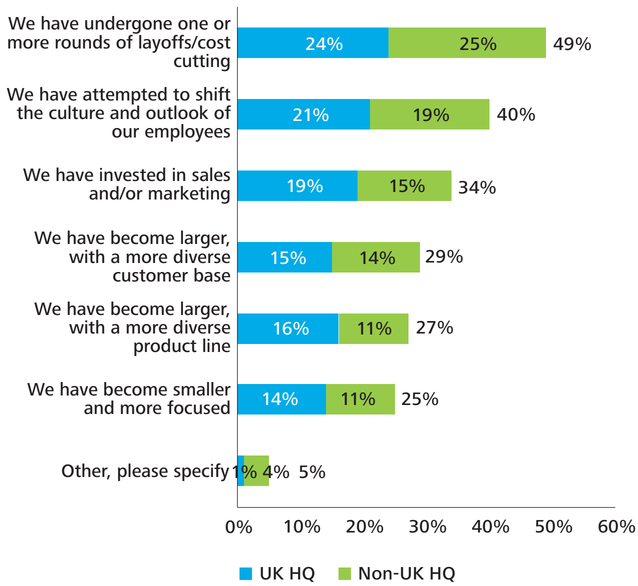


Source: EIU, Deloitte analysis

Companies have been adopting new strategies since 2008

- Many commentators now refer to the low growth environment of the last five years as the 'new' normal. This shift has not gone unnoticed by big business. Since 2008, three-in-four (75 per cent) have seen a 'fundamental change in business environment' and almost half (48 per cent) have gone through a round of cuts or layoffs.
- It appears that big business in Britain has adopted a broad portfolio of business strategies to make their businesses fit for purpose in this new operating environment. While they have implemented cost cutting measures, they have also put in place the foundations for growth: 'invested in sales/marketing activities' (34 per cent), 'become larger with a more diverse customer base' (29 per cent) or have 'developed a more diverse product line' (27 per cent).
- All these actions suggest big business has positioned itself to be better able to compete in this next chapter of globalisation.

Figure 3. Different shapes and sizes
Actions companies have taken since 2008

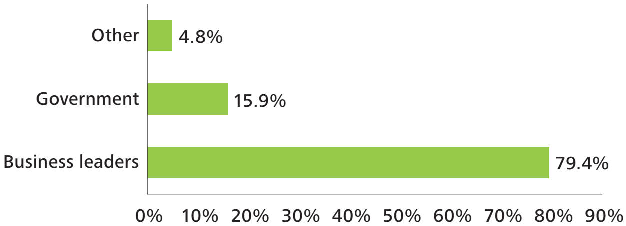


Source: EIU, Deloitte analysis

Leading from the front

- Through our UK Futures programme, Deloitte LLP has put forward the case for business to take the lead role in driving long-term wealth creation. Nearly four-in-five business leaders accept responsibility for creating wealth. Based on our analysis it is clear that business leaders have higher levels of confidence – and are ready to invest.
- This renewed business confidence is important. Not only does it illustrate what UK-based business can achieve in international markets, it also serves as a role model for medium-sized firms.

Figure 4. Leading from the front
Who should be responsible for driving a new era of wealth creation



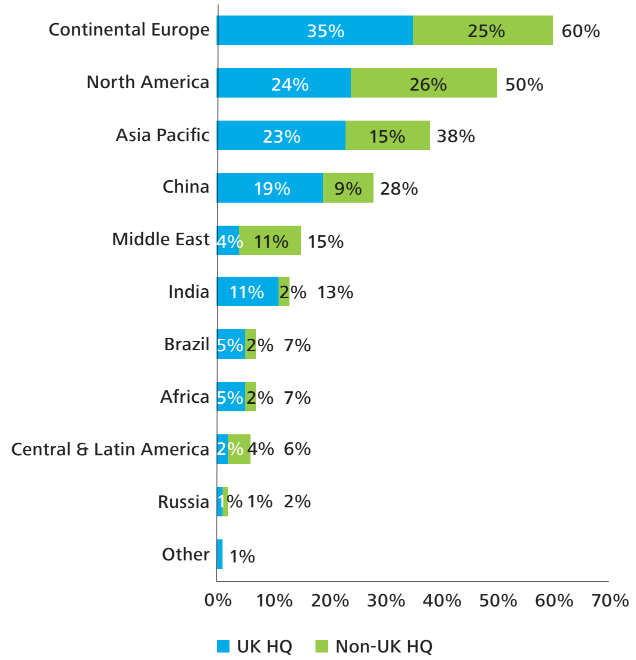
Source: EIU, Deloitte analysis

International markets are the key growth focus

Mature markets are still dominant

- Over the past decade the UK's share of the global export market has declined from 5.3 per cent to 3.7 per cent. The majority of UK exports are still destined for mature markets such as the European Union and North America, particularly the United States. Evidence from our survey supports these trends.
- In 2011, UK exports totalled £493 billion, or 31 per cent of GDP. Goods accounted for nearly two-thirds of all exports (61 per cent), while services were 39 per cent or £198 billion. The UK ranks second in the global league table for services exports, but over the last decade our total share has declined from 7.9 per cent to 6.5 per cent.
- In an attempt to reverse this decline, the UK government has set an ambitious target to double UK exports to £1 trillion by 2020 and has identified 20 priority markets for UK exports. However, based on current trends, Deloitte LLP expects UK exports to fall short of this target by around £150 billion.

Figure 5. Mature markets still dominant
Largest UK export markets

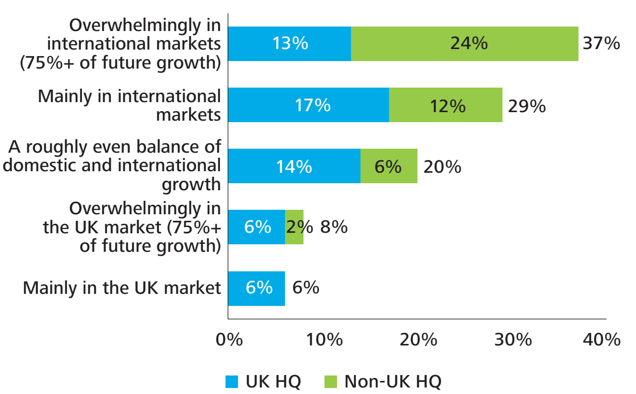


Source: EIU, Deloitte analysis

Expected growth opportunities in the next three years

- Deloitte LLP analysis shows that big business expects future growth to come from international markets. Two-thirds of companies expect growth from foreign markets over the next three years, with more than a third expecting growth of over 75 per cent.
- Despite historically being one of the ten largest exporters in the world, the UK only ranks as a Top 10 goods exporter in five of the 20 growth markets identified by the government. Three of the five growth markets are in the Middle East (Saudi Arabia, the United Arab Emirates, Qatar), with South Africa and Russia taking the other two positions.

Figure 6. International focus
Expected growth opportunities in the next three years

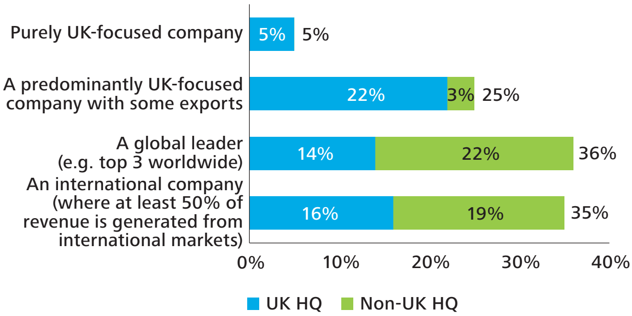


Source: EIU, Deloitte analysis

Confident about the future

- Major UK-based firms have a significant role to play in helping to meet the government's targets. To be successful, companies need to strengthen their international presence and take advantage of the expected growth in these 20 markets.
- Major UK-based firms are confident they can improve their global performance. Nearly three-quarters (71 per cent) expect to be a world leading firm over the medium term. Over the next five years, 36 per cent expect to be a top three player in their industry, while 35 per cent expect to have more than half their revenues generated from international markets.

Figure 7. Confident about the future
Company position in five-to-ten years



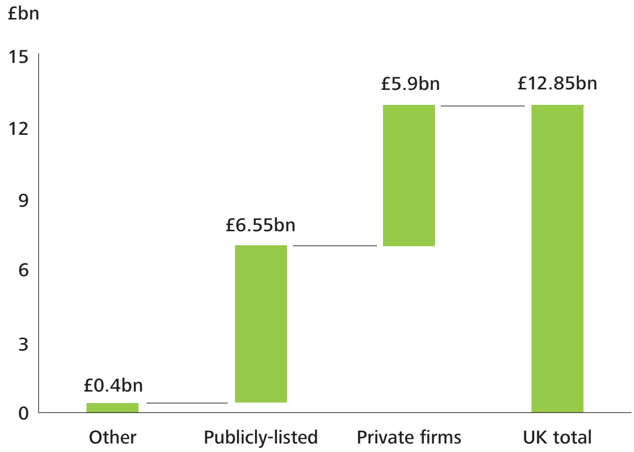
Source: EIU, Deloitte analysis

Investment plans and opportunities

The £13 billion growth challenge

- Over the last five years, there have been few 'green shoots' of growth. However, Deloitte LLP analysis indicates that big business is investing significantly especially in international markets. We estimate that UK-based big business will invest nearly £13 billion in 2013.
- Much has been made of the cash reserves of FTSE 100 non-financial firms, which now stand at £119 billion. Deloitte LLP analysis shows that 25 per cent of this total hold approximately 75 per cent. A broad range of large firms both in the FTSE 100 and beyond have detailed plans for growth. According to our analysis, these companies are increasingly looking to invest in both organic and inorganic growth, and increased their spending considerably on both in 2012.
- Interestingly, private firms are playing a major role in this growth push. Although they are not often recognised for the central role they play in the UK economy, private firms plan to invest nearly £6 billion in 2013.

Figure 8. The £13 billion growth challenge
Investment greater than £50 million+ ownership of business



Source: EIU, Amadeus, Deloitte analysis

Many paths to market

- Ensuring big companies get a good return on their investment is critically important. Deloitte LLP analysis indicates that big business plans to take many paths to market, rather than adopting the traditional organic vs. acquisition strategy. For instance, nearly two-thirds (60 per cent) said they are pursuing strategic ventures with locally-based firms, while 44 per cent are opting for organic initiatives. This suggests that different strategies are being adopted for different markets – organic strategies in mature markets, and local link-ups in growth markets.
- There are also differences across the types of businesses. Notably, FTSE 100 companies are looking to mergers and acquisitions to drive their growth strategies. This is supported by recent market data which shows that since the financial crisis M&A is at record levels among non-financial firms in the FTSE 100. B2C (business-to-consumer) firms are adopting a different strategy to B2B (business-to-business) firms: they are focusing on organic growth while B2B companies are concentrating on M&A.

Figure 9. Many paths to market
What are your top routes to accessing new markets over the next three years? Respondents could select more than one route (%)

	Total	Private	FTSE 100	B2B	B2C
M&A	55	44	60	63	44
Local alliances	60	52	54	58	66
New ventures	35	32	41	36	32
Joint ventures	31	36	20	35	22
Organic	44	32	52	35	59

Source: EIU, Deloitte analysis

Both new and mature markets are targets

- There has been much hype around the growth of emerging markets notably the BRICs. However, it is important not to write-off mature markets. North America far outweighs other regions in being the most likely destination for big UK company investment. And, although it is in third place, continental Europe is still a favoured investment location. UK-based big business appears to be taking a balanced view on future opportunities and investing in both the old and new world.
- Companies not planning major investments this year do have plans in place to invest in the next 24 months. Over three-quarters (76 per cent) expect to invest over £50 million in 2014 and 2015. Only ten per cent of the senior executives who took part in the Deloitte LLP survey indicated they had no major investment plans.

Figure 10. Do not write off mature markets

Ranking of international regions by investment opportunities	
1	North America
2	Asia-Pacific
3	Continental Europe
4	Central & Latin America
5	Africa
6	Middle East

Ranking of BRIC countries by investment opportunities	
1	China (including Hong Kong/Taiwan)
2	India
3	Brazil
4	Russia

Source: EIU, Deloitte analysis

Notes

1 The survey, conducted by the EIU for Deloitte LLP, interviewed 126 senior executives from board directors to senior business unit leaders in companies with an annual turnover greater than £1 billion a year. These businesses were from 16 different industrial sectors, had a variety of ownership (publicly listed, private and private-equity held) and included both UK HQ and non-UK HQ businesses.
2 Office for National Statistics, 27 March 2013.
3 Deloitte CFO Survey Q1 2013.

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