XI Italian-German Economic Forum

Approaching disruption

Deloitte and AHK Italien, June 20th 2017
Introducing the survey

Approaching disruption
Survey highlights
Over 60% of top management involved in the research

Online Survey

- **Disruption:** challenges and factors of uncertainty in the companies’ growth process
- **The role of digital technologies** in developing the business
- **Addressing the change:** propensity and maturity of the companies

Respondents breakdown

More than **200 C-Level** related to companies associated to the Chamber of Commerce

- Over 60% of CEOs/Presidents/Managing Directors
- 10% of CFOs
- Over 10% of Head of Business Unit/Departments

- **42%** founded in **Italy**
- **58%** founded in **Germany**

21st March Survey launched

18th April Survey closed

Percentages may not sum up exactly 100% due to rounding
The sample represents companies of each dimension.

**Turnover**

- **64%** Up to 500 mln
- **36%** Over 500 mln

**Employees**

- **52%** Up to 1,000
- **48%** Over 1,000
The sample
Companies’ turnover

<table>
<thead>
<tr>
<th></th>
<th>Italy</th>
<th>Germany</th>
<th>EU</th>
<th>Extra EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies founded in Italy</td>
<td>44%</td>
<td>27%</td>
<td>15%</td>
<td>14%</td>
</tr>
<tr>
<td>% of companies’ turnover</td>
<td>71%</td>
<td>9%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Companies founded in Germany</td>
<td>24%</td>
<td>40%</td>
<td>19%</td>
<td>17%</td>
</tr>
</tbody>
</table>

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Preface

The macroeconomic context
A comparison between two countries

**Italy and Germany rank among the first economies in the world**

<table>
<thead>
<tr>
<th>Position 2016</th>
<th>Country</th>
<th>Nominal GDP Billion $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>18.5</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>11.3</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>4.4</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3.4</td>
</tr>
<tr>
<td>5</td>
<td>UK</td>
<td>2.7</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>2.4</td>
</tr>
<tr>
<td>7</td>
<td>India</td>
<td>2.2</td>
</tr>
<tr>
<td>8</td>
<td>Italy</td>
<td>1.8</td>
</tr>
<tr>
<td>9</td>
<td>Brazil</td>
<td>1.5</td>
</tr>
<tr>
<td>10</td>
<td>Canada</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, World Economic Outlook Database, April 2016

**Both countries rely deeply on trade commerce**

<table>
<thead>
<tr>
<th>Position 2016</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>United States</td>
</tr>
<tr>
<td>2</td>
<td>United States</td>
<td>China</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>Germany</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>Japan</td>
</tr>
<tr>
<td>5</td>
<td>South Korea</td>
<td>UK</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>France</td>
</tr>
<tr>
<td>7</td>
<td>Hong Kong</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>8</td>
<td>Netherlands</td>
<td>Canada</td>
</tr>
<tr>
<td>9</td>
<td>Italy</td>
<td>South Korea</td>
</tr>
<tr>
<td>10</td>
<td>UK</td>
<td>India</td>
</tr>
<tr>
<td>14</td>
<td>---</td>
<td>Italy</td>
</tr>
</tbody>
</table>

Source: CIA
Trade partners of both countries

Germany is our first customer and supplier, Italy also plays a key role in the German economy.

Top 10 Italy Trade Partners in 2016

Germany 112.1
France 76.4
United States 50.8
Spain 40.4
China 38.2
UK 33.3
Belgium 31.2
Netherlands 29.8
Switzerland 29.6
Poland 19.9

Top 10 Germany Trade Partners in 2016

China 169.8
France 167.1
United States 164.6
Netherlands 162.5
UK 121.6
Spain 113.1
Belgium 101.1
Switzerland 98.4
Poland 94.2
Czech Rep. 80.5

Figures in the chart are in billions of €

Source
Italy: Istat, Il Sole24ore
Germany: Destatis, Il Sole24ore
The European Innovation Scoreboard: an assessment of innovation performance

Germany is considered an Innovation Leader; Italy a Moderate Innovator

Italy is the 17° in Europe, with a performance between 10% and 50% below the EU average. Germany is the 4° country in Europe, with a performance higher than the EU average of at least 20%.

Source: http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_it
Disruption: challenges and factors of uncertainty in the companies’ growth process
How would you rate the overall level of external financial and economic uncertainty facing your business?

"Uncertainty is an uncomfortable position. But certainty is an absurd one."
Voltaire
Sentiment on financial and economic perspectives
There is optimism about current situation; Italians are more positive than 6 months ago

Considering the current economic and financial situation of your company, you feel ...

- 94% Very optimistic
- 11% Optimistic
- 6% Pessimistic
- 11% Very pessimistic

Compared to six months ago, how do you feel about the financial prospects for your company?

- 44% Significantly more optimistic
- 50% Somewhat more optimistic
- 6% Broadly unchanged
- 6% Somewhat less optimistic
- 6% Significantly less optimistic

<table>
<thead>
<tr>
<th>Comparison - % of optimistic</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies founded in Italy</td>
<td>93%</td>
</tr>
<tr>
<td>Companies founded in Germany</td>
<td>95%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comparison - % of more optimistic</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies founded in Italy</td>
<td>60%</td>
</tr>
<tr>
<td>Companies founded in Germany</td>
<td>33%</td>
</tr>
</tbody>
</table>
In your view, which of the following external challenges are likely to pose a significant risk to your business over the next 12 months? (top 10 cited items)

- Changes in regulations / Introduction of new regulatory burdens (42%)
- Deflation in Europe and possibility of a new crisis in Europe (36%)
- Contraction of domestic demand / of local market (33%)
- Unstable situation in domestic politics (33%)
- Elections in Europe (28%)
- Change in the oil and other raw materials price (28%)
- Litigation / Controversy management (28%)
- Entrance of "disruptive" competitor (28%)
- Loss of competitiveness compared to global competitors (25%)
- High volatility of the capital market (22%)

Economic context and regulatory framework seem to be the worst concerns.
Sentiment on financial and economic perspectives
There is optimism about current situation; Italians are more positive than 6 months ago

How likely is it that your market will be ‘disrupted’ over the next 2-3 years?

- Very Likely
- Likely
- Unlikely
- Very Unlikely
- Don't know

<table>
<thead>
<tr>
<th>Comparison - % of Very likely + Likely</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies founded in Italy</td>
<td>54%</td>
<td>62%</td>
</tr>
<tr>
<td>Companies founded in Germany</td>
<td>40%</td>
<td>38%</td>
</tr>
</tbody>
</table>

How likely is it that your company has the potential to lose significant market share to new entrants in the near future?

<table>
<thead>
<tr>
<th>Comparison - % of Very likely + Likely</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies founded in Italy</td>
<td>54%</td>
<td>62%</td>
</tr>
<tr>
<td>Companies founded in Germany</td>
<td>40%</td>
<td>38%</td>
</tr>
</tbody>
</table>
The role of digital technologies in developing the business
Disruptive technologies will have an important role for companies
More than 1 respondent out of 2 believes digital technologies will have a ‘disruptive’ role

Do you think that digital technologies (as IoT, Artificial Intelligence, Cognitive technologies, robotics, etc.) will have a “disruptive” role for your business?

**Companies founded in Italy**
- 53% likely
- 33% unlikely
- 7% very likely
- 7% very unlikely
- 13% don't know

**Companies founded in Germany**
- 62% likely
- 38% unlikely
- 19% very likely
- 4% very unlikely
- 43% don't know
Digital technologies – phase of the journey

The majority of companies have already started initiatives...

Has your organization already taken initiatives related to that?

**Companies founded in Italy**
- 42% Yes, but we are still in an experimental stage
- 36% Yes, we have already made significant investments
- 17% No, but we plan to do it in the short term
- 5% No, we don’t care

**Companies founded in Germany**
- 47% Yes, but we are still in an experimental stage
- 33% Yes, we have already made significant investments
- 13% No, but we plan to do it in the short term
- 7% No, we don’t care

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Digital technologies – phase of the journey 2/2
... companies with higher turnover are more ahead in the journey

<table>
<thead>
<tr>
<th>Has your organization already taken initiatives related to that?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yes, but we are still in an experimental stage</strong></td>
</tr>
<tr>
<td>42%</td>
</tr>
<tr>
<td><strong>Yes, we have already made significant investments</strong></td>
</tr>
<tr>
<td>36%</td>
</tr>
</tbody>
</table>

**‘Big’ Companies**
- Yes, but we are still in an experimental stage: 23%
- Yes, we have already made significant investments: 46%
- No, but we plan to do it in the short term: 31%
- No, we don’t care: 0%

**‘Small’ Companies**
- Yes, but we are still in an experimental stage: 52%
- Yes, we have already made significant investments: 30%
- No, but we plan to do it in the short term: 9%
- No, we don’t care: 9%

**Companies with turnover up to 500 Mln**

**Companies with turnover over 500 Mln**
Digital technologies – where to invest
Analytics perceived as a technological priority where investing

Which of the following technologies does your organization consider as priority to invest upon in the next 3-5 years?

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytics</td>
<td>44%</td>
</tr>
<tr>
<td>IoT Platforms</td>
<td>39%</td>
</tr>
<tr>
<td>Mobile</td>
<td>33%</td>
</tr>
<tr>
<td>Cloud</td>
<td>33%</td>
</tr>
<tr>
<td>Cyber Security</td>
<td>33%</td>
</tr>
<tr>
<td>Social</td>
<td>25%</td>
</tr>
<tr>
<td>AI/ Cognitive computing</td>
<td>22%</td>
</tr>
<tr>
<td>Augmented/virtual reality</td>
<td>19%</td>
</tr>
<tr>
<td>3D Printing</td>
<td>19%</td>
</tr>
</tbody>
</table>

Multiple answer possible
Digital technologies – how much to invest
Companies plan to invest less that what they think it is necessary

**Considering the next 2/3 years, how much should your organization invest to enhance activities and processes related to innovation?**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Budget Range</th>
<th>Average Budget</th>
<th>Proxy Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>64%</td>
<td>Up to 2 mln €</td>
<td>5.3 millions of €</td>
<td>(\text{Proxy data expressed in millions of €})</td>
</tr>
<tr>
<td>17%</td>
<td>2-10 mln €</td>
<td>4.0 millions of €</td>
<td></td>
</tr>
<tr>
<td>19%</td>
<td>Over 10 mln €</td>
<td>6.2 millions of €</td>
<td></td>
</tr>
</tbody>
</table>

**How much your organization is likely to invest in order to enhance activities and processes related to innovation in the next 2/3 years?**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Budget Range</th>
<th>Average Budget</th>
<th>Proxy Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>75%</td>
<td>Up to 2 mln €</td>
<td>3.9 millions of €</td>
<td>(\text{Proxy data expressed in millions of €})</td>
</tr>
<tr>
<td>14%</td>
<td>2-10 mln €</td>
<td>3.0 millions of €</td>
<td></td>
</tr>
<tr>
<td>11%</td>
<td>Over 10 mln €</td>
<td>4.6 millions of €</td>
<td></td>
</tr>
</tbody>
</table>
# Digital Technologies – Obstacles in the Journey
Dealing with organizational changes and lack of talent are the main challenges

## What are the biggest barriers that your organization expects to face in this path of innovation?

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty in managing the resulting organizational changes</td>
<td>53%</td>
</tr>
<tr>
<td>Poor availability of resources with specific skills</td>
<td>44%</td>
</tr>
<tr>
<td>Limited knowledge of new technologies</td>
<td>31%</td>
</tr>
<tr>
<td>Problems with management and data security</td>
<td>28%</td>
</tr>
<tr>
<td>Lack of standards, regulations and certifications</td>
<td>22%</td>
</tr>
<tr>
<td>Timeline and uncertain investments</td>
<td>19%</td>
</tr>
<tr>
<td>Poor commitment from top management and other stakeholders</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Multiple answer possible*
Addressing the change: propensity and maturity of the companies
Propensity to face out changes: overall perception
40% of the companies consider themselves mature to address change

How would you rate the maturity of your organization in facing radical changes, triggered by the development of new digital technologies?

- 14% early
- 46% developing
- 40% maturing

Methodology comes from a survey conducted by MIT Sloan Management and Deloitte University Press, July 2016
Respondents have been asked to rate their company’s maturity on a scale of 1 to 10. Three maturity groups were observed: "early" (1-3), "developing" (4-6), "maturing" (7-10).
Propensity to face out changes
Inability to attract talents and poor inclination in taking risks are the main issues

And how much do you agree with the following statements?
My company is ...

1. ...made by people who share passion for work
2. ...accurate in taking decisions
3. ...accustomed to work in a collaborative way
4. ...based on a non-hierarchical leadership structure
5. ...inclined to take risks
6. ...agile in making decisions
7. ...able to attract & develop the best talents

The ranking is based on the average score.
Deficit of human resources
...affects 1 company out of 4

In order to face this innovating path, do you think that your organization has deficit in terms of human resources?

- Yes, in terms of digital skills (IT, analytics ...): 33%
- Yes, in terms of relational skills / soft skills: 28%
- Yes, in terms of specialist skills: 28%
- No, we do not have any deficit: 25%

Multiple answer possible
In conclusion ...
Perspective

In an economic and financial context where uncertainty is the “new normal”, companies are fundamentally optimistic.

Companies are aware that markets will be “disrupted” (~60%) in 2/3 years but only 28% consider the entrance of disruptive competitors as a risk in the short term.

Even if disruption challenges do not yet seem to be tangible, they’re already real.

Tomorrow is today!
Companies are focusing on technology (especially analytics), but they are investing a lower budget than what is actually needed.

The future investments gap is not concerning Italy and Germany, but between big and small companies.

Small companies, especially in Italy, need to fill the gap between planned and completed investments. (~50% of Italian SMEs will not invest what they should to face disruption)

Think big!
Investing in innovation involves the management of cultural and internal challenges; 86% of companies define themselves as "ready" to face disruption but HR lags behind.

Companies need to go beyond only the technological aspects, and invest in change management, knowledge transfer and training for employees.

Public players should incentivize this process (iper-ammortamento HR)

Human, after all!
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