Citi Commercial Bank
2023

Global Industry Insights Report

Citi Commercial Bank is pleased to share its first Industry Insights Report

This report provides data and insights on the opportunities and challenges facing mid-size companies globally. Over 500 companies completed the survey between April - June 2023. Participation was voluntary and responses anonymous.

The data comes from companies across various industry segments including:

- Consumer & Retail
- Healthcare
- Business & Professional Services
- Digital, Technology & Communications
- Industrials
- Nonprofit

As an organization that focuses on the commercial banking needs for these segments, we encourage you to explore the data and read the perspectives of our industry sector heads shared towards the end of the report.

Thank you

Highlights

72%

of respondents say managing costs is the biggest challenge. Inflation and market volatility are the top threats

55%

say they are on track for being carbon neutral by 2050. The healthcare sector leads the way

52%

are focusing on expanding internationally this year. Asia is the top destination

52%

say supply chain issues are improving. Consumer & retail companies are the most positive

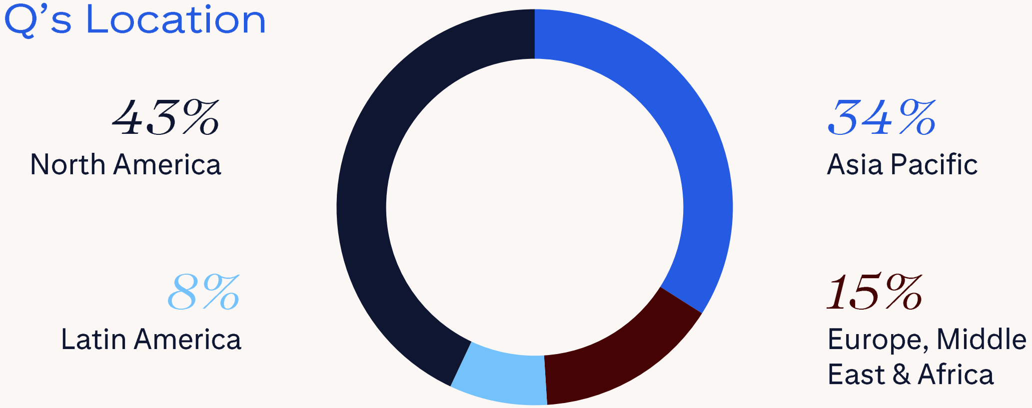
27%

are not satisfied with progress towards their financial goals. The nonprofit sector is the most positive

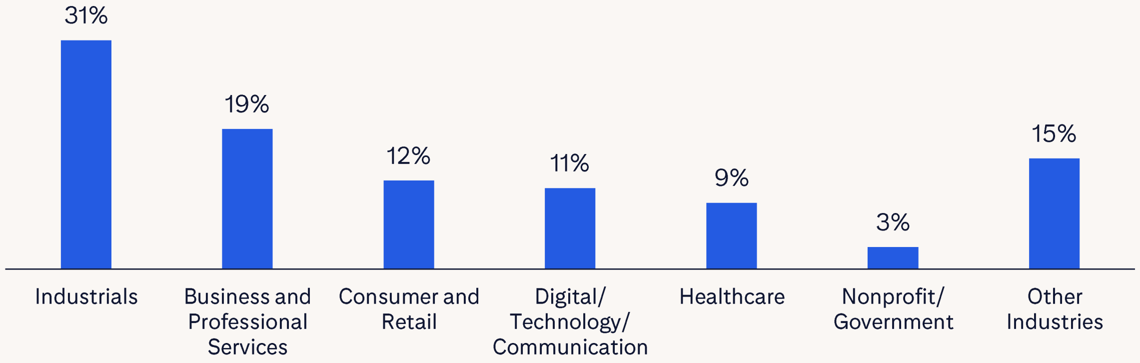
Source: CCB Industry Insights Survey

Who took the survey?

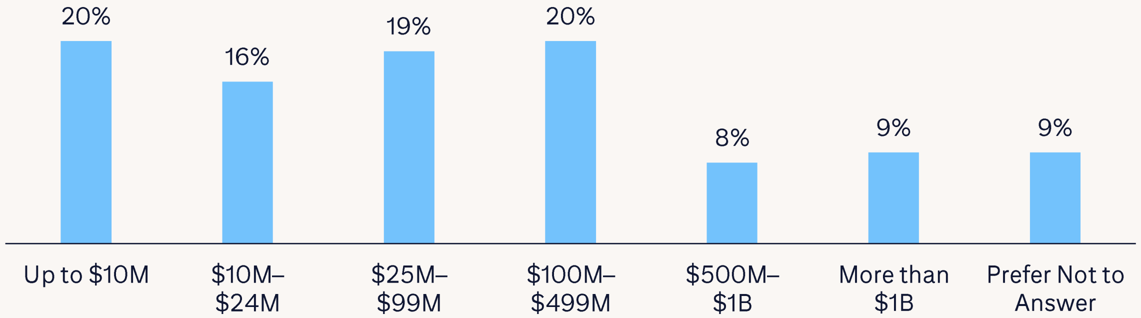
HQ's Location



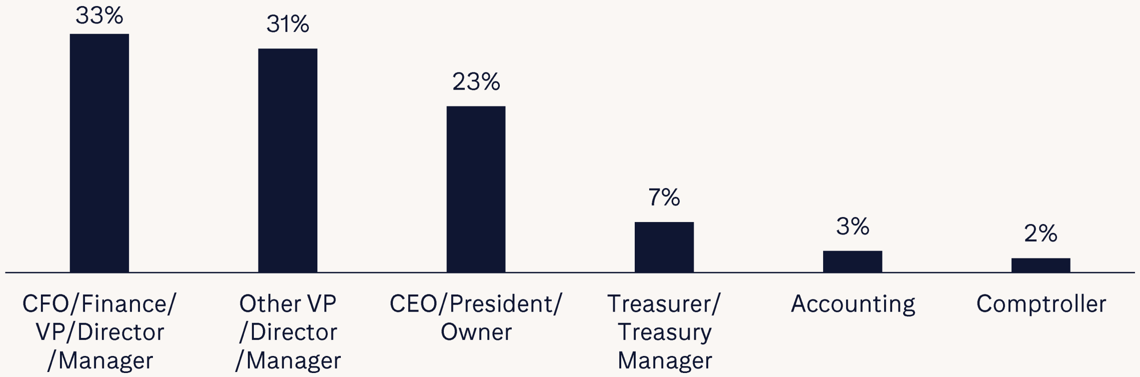
Industry Group



Annual Turnover, in USD



Respondent's Title

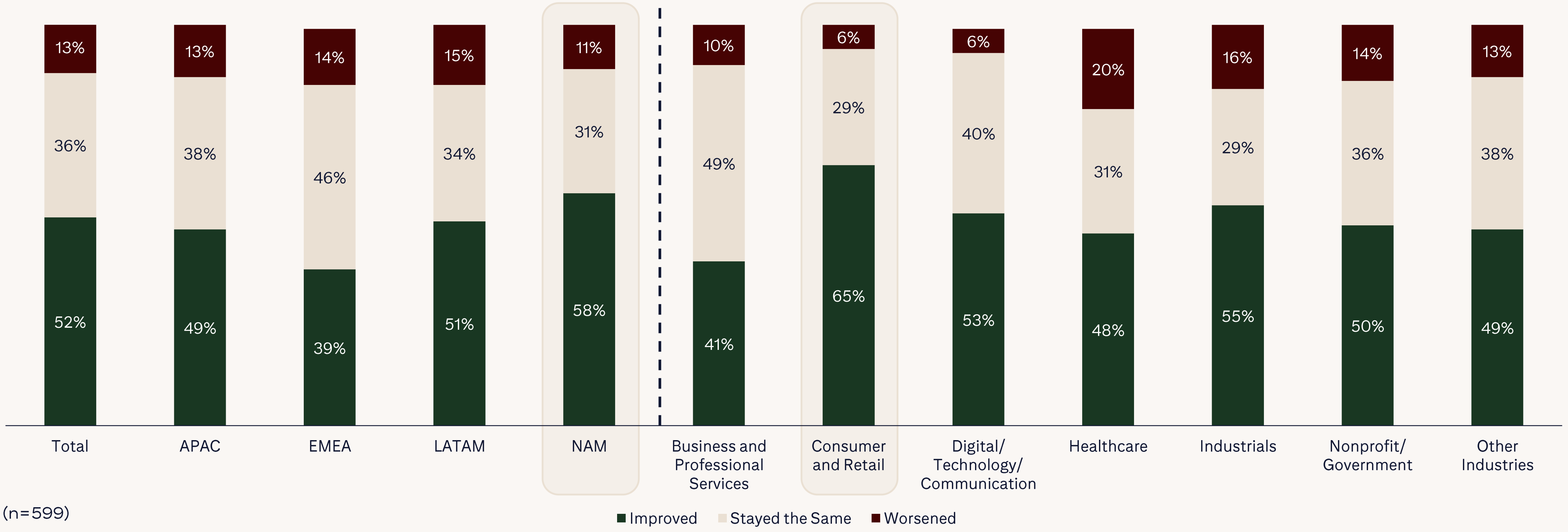


Source: CCB Industry Insights Survey

Supply Chains

Majority of respondents have seen an improvement in their supply chains with North American companies and those in the consumer sector being more positive.

What is your assessment of supply chain issues over the last 12 months?



(n=599)

Source: CCB Industry Insights Survey

Impact of market factors

Inflation and market volatility are the main concerns across regions and industry groups. Climate change is currently the smallest threat.

Please rank the market factors below in order of how threatening they are to your business on a scale of 1 to 6; where 1=biggest threat and 6=smallest threat – mean ranking

	Total	APAC	EMEA	LATAM	NAM	Business & Professional Services	Consumer & Retail	Digital/ Technology/ Communication	Healthcare	Industrials	Nonprofit/ Government	Other Industries
Inflation	2.7	3.1	2.8	2.6	2.4	2.6	2.3	2.8	2.7	2.8	2.1	3.0
Market Volatility	2.8	2.5	2.9	3.2	3.0	2.8	2.8	2.5	3.0	2.8	3.1	2.8
Regulatory Environment	3.6	3.6	3.8	3.5	3.6	3.5	4.0	3.7	3.2	3.6	3.1	3.8
Trade	3.9	3.5	3.6	4.2	4.4	4.6	3.6	3.6	4.2	3.8	5.1	3.4
Corporate Taxes	4.5	4.8	4.3	4.2	4.4	4.0	4.8	4.3	4.3	4.7	5.9	4.8
Infrastructure	4.7	4.8	4.7	4.6	4.6	4.8	4.7	4.8	4.8	4.6	3.7	4.7
Climate Change	5.7	5.8	5.8	5.7	5.6	5.7	5.7	6.4	5.7	5.6	5.0	5.6

(n=587)

Source: CCB Industry Insights Survey

Challenges/Obstacles

As inflation represents the most threatening factor to their business, respondents consider managing costs as the main challenge to achieve success in today's environment.

What are the biggest challenges/obstacles to success you face today as you lead your business?

	Managing Costs/Keeping Costs Down	Staffing	Managing Supply Chains	Digitizing/ Automating Operations	Improving Customer Service	Investing to Keeping Pace with Technology Changes	Complex and Inefficient Banking Structures Worldwide	Other
Total	72%	47%	38%	33%	31%	31%	19%	7%
APAC	74%	40%	48%	31%	35%	33%	20%	2%
EMEA	68%	51%	34%	48%	34%	37%	31%	6%
LATAM	71%	39%	47%	25%	27%	34%	7%	10%
NAM	72%	54%	29%	31%	27%	26%	16%	10%
Business and Professional Services	65%	51%	14%	36%	47%	32%	22%	6%
Consumer and Retail	69%	37%	42%	35%	23%	24%	25%	6%
Digital/Technology/Communication	71%	60%	21%	42%	28%	54%	21%	5%
Healthcare	72%	52%	42%	31%	25%	27%	17%	9%
Industrials	80%	42%	51%	28%	28%	29%	14%	7%
Nonprofit/Government	59%	73%	0%	45%	14%	32%	27%	9%
Other Industries	73%	42%	58%	28%	31%	22%	18%	6%

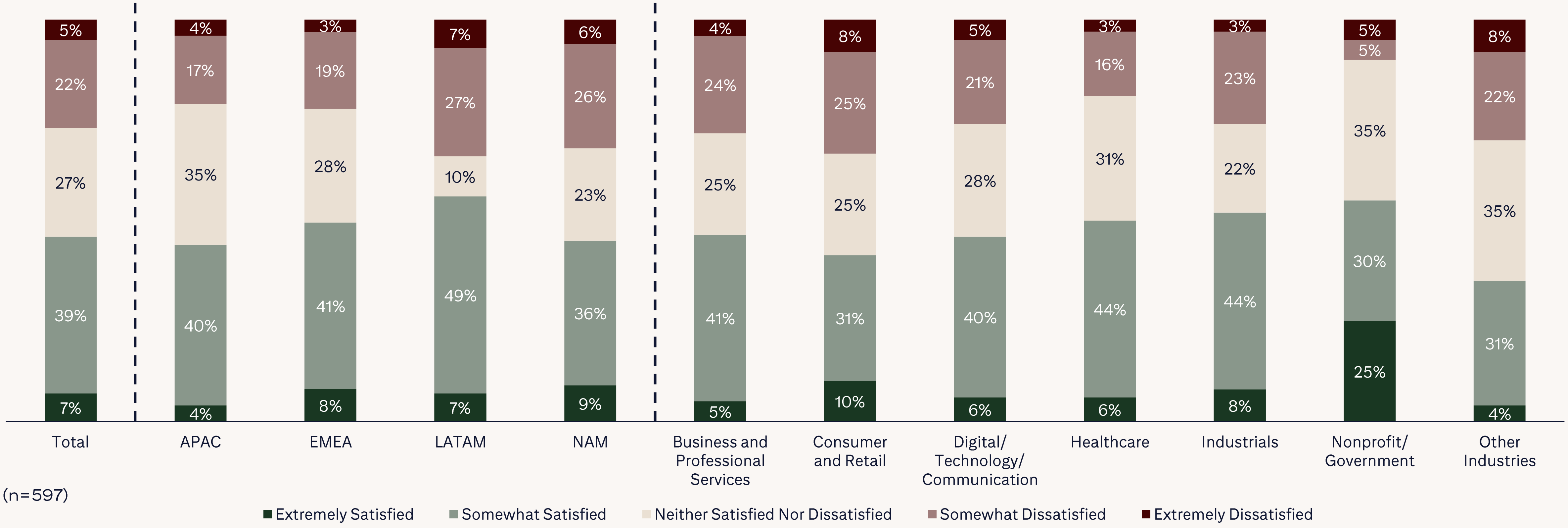
(n=599)

Source: CCB Industry Insights Survey

Satisfaction with financial goals progress

Close to 1/3 of respondents are dissatisfied with their progress towards their financial targets this year. LATAM and NAM based respondents are more negative than other regions, while those in the healthcare and nonprofit sectors indicate higher satisfaction.

How satisfied are you with the progress of your financial goals this year?

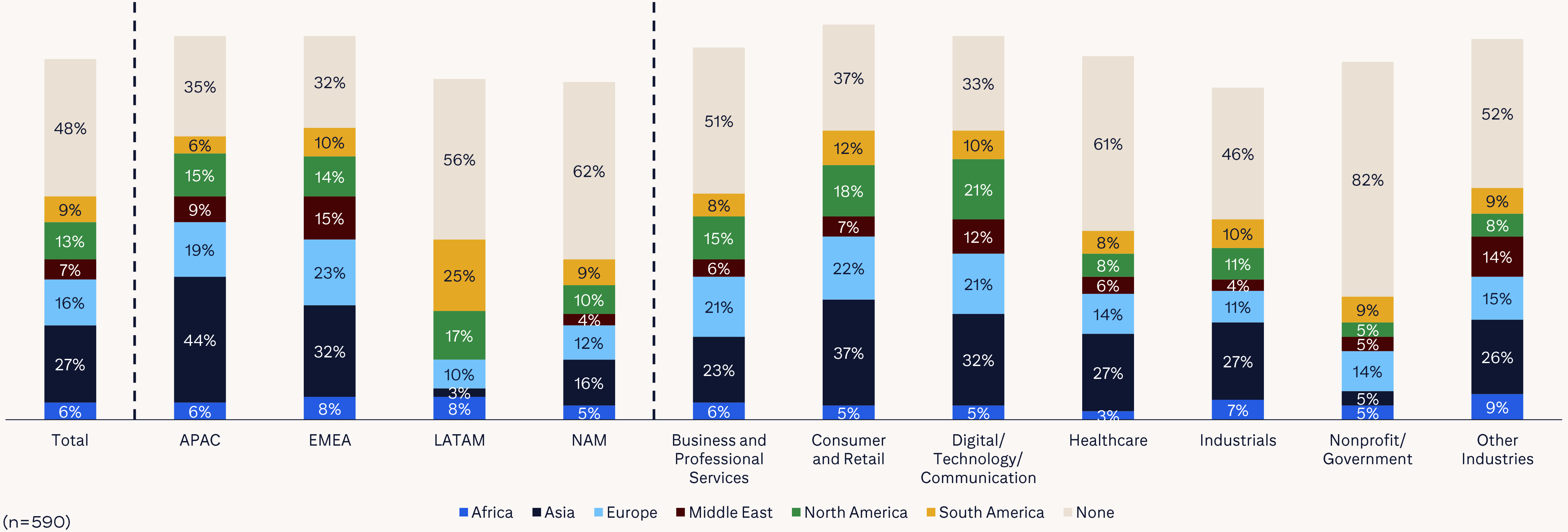


Geographic expansion plans

Asia is the most favored region for expansion, especially among consumer and tech respondents. Nearly 2/3 of NAM based respondents don't plan any expansion.

Is your company considering expansion into any other part of the world this year? If so, where?

Note: % figures in each bar do not add up to 100 as respondents could vote for more than one region



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Source: CCB Industry Insights Survey

Improvements to Commercial Banking

Majority of respondents are looking for improvement in working capital and better investment vehicles. APAC based companies also looking for help in their trading arrangements.

If you could improve up to three things about your commercial banking what would they be?

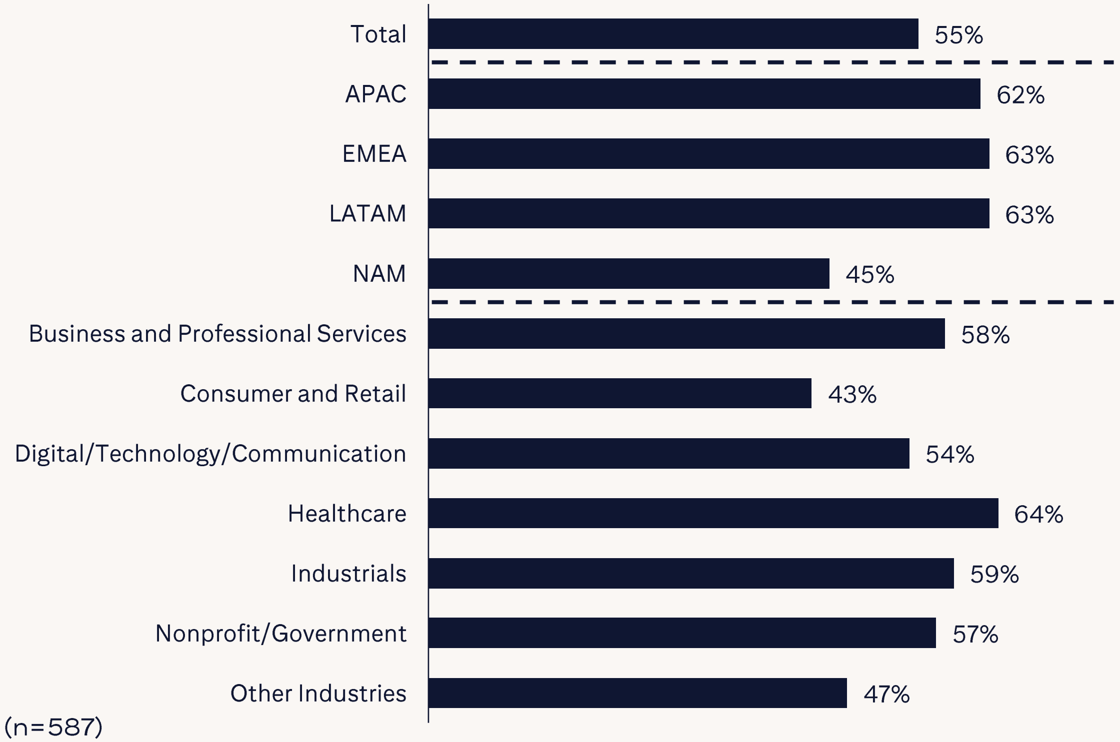
	Total	APAC	EMEA	LATAM	NAM	Business & Professional Services	Consumer & Retail	Digital/ Technology/ Communication	Healthcare	Industrials	Nonprofit/ Government	Other Industries
Improve working capital	47%	50%	51%	53%	41%	44%	47%	47%	58%	48%	36%	41%
Find better investment options for my idle cash	38%	39%	37%	36%	38%	46%	33%	46%	30%	32%	45%	43%
Streamline my trade flows by simplifying arrangements with buyers and/or sellers	29%	44%	30%	34%	14%	10%	33%	24%	31%	38%	9%	37%
Find a simpler and more scalable way of entering new markets	28%	34%	37%	31%	20%	26%	30%	35%	16%	26%	23%	40%
Supercharge my business growth by sourcing more robust external financing	26%	28%	36%	34%	18%	21%	25%	31%	20%	32%	5%	23%
Consolidate the number of banking providers	21%	23%	29%	17%	18%	26%	29%	23%	25%	17%	32%	10%
Something else	16%	8%	9%	17%	24%	21%	13%	13%	8%	13%	32%	21%

Source: CCB Industry Insights Survey

Carbon neutrality

Except for NAM based respondents, most expect to reach carbon neutrality within the target date. However, neither Net Zero nor ESG is a primary focus of participants' companies.

Is your company on target to reach net zero by 2050, i.e. Carbon Neutrality? % Yes



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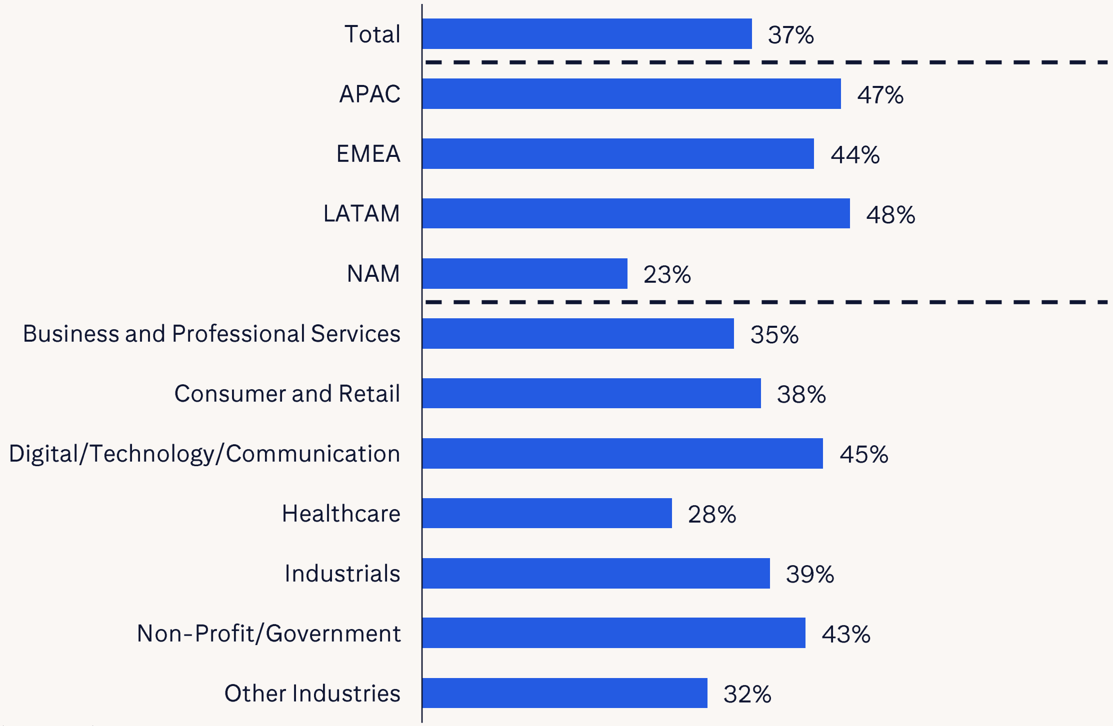
Is net zero and/or ESG in general a primary focus for your company? % Yes



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Source: CCB Industry Insights Survey

Business & Professional Services

Business & Professional Services

Customer service, staffing and tech are front of mind

John *Burke*
Global Industry Head of Business & Professional Services,
Citi Commercial Bank

- Most business and professional services companies are white-collar, people driven operations and therefore many have experienced fewer supply chain challenges than most other sectors. 41% of respondents saying that supply chain issues have improved over the last 12 months, while 49% say they have stayed the same.

- 47% of respondents view improving customer service as their biggest challenge reaffirms that a key success factor in the sector is the strength of relationships. For example, a corporate that hires a recruiter to find a new CEO is essentially entrusting its future to that recruiter's ability to find the right candidate: in such circumstances, the quality of customer service and relationship management is the defining factor in the recruiter's value proposition.

- Business and professional services companies typically have a higher ratio of employees to revenue than other sectors. Almost two-thirds of survey respondents cite managing costs as their key priority, with 51% citing staffing. One North American respondent noted that "staff is consuming an increasing amount of our operating expenses". Unsurprisingly, attention is therefore turning towards the potential for automation – cited by 36% of respondents – and the use of artificial intelligence in order to lower costs . One APAC respondent noted it is focused on technical innovation and using "artificial intelligence to replace personnel's work as much as possible".

- When it comes to banking services, it is striking that 46% of respondents are focused on finding better investment options for their idle cash. In recent years, this has not been a priority for companies in the sector. Given historical low interest rates most companies have been content to keep surplus funds on deposit. However, as we have moved into a higher yield environment, many companies take the view that the incremental principal risk associated with seeking high yields from other types of investment products is worthwhile.

- More than a quarter of business and professional services firms that took part in the survey want to consolidate their banking relationships. Often, companies in the sector have grown rapidly and mandated local banks for subsidiaries in each country where they operate. As they become more global, this approach can become hard to manage, opaque and costly. In some instances, the uncertain macro environment may be prompting companies to consolidate providers in order to gain greater visibility and control (including of FX costs and risks) or to concentrate surplus funds in order to earn higher returns.

Business & Professional Services

What issues worry you that could impact your business yet aren't getting enough attention?

Business & Professional Services

How are you managing increased labor costs and retaining top talent?

"With great difficulty. Staff is consuming an increasing amount of our operating expenses"

North America, Up to $10 Million

"Increasing our fees, being more selective/conservative in taking on new clients, declining riskier business opportunities, balancing workloads, providing new benefits, earlier succession planning for executive roles and focus for all on promotion and development "

North America, $10 Million – $24 Million

"Focus on technological innovation…, use artificial intelligence to replace personnel's work as much as possible; give better treatment and welfare subsidies to high-end talents."

APAC, $10 Million – $24 Million

Source: CCB Industry Insights Survey

Consumer & Retail

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Consumer & Retail

Working capital management is key in volatile times

Timicka *Anderson*
Global Industry Head of
Consumer & Retail,
Citi Commercial Bank

- Consumer products and retail is a capital intensive sector as competitive advantage is given to those who can produce and inventory sufficient supply of goods to meet the needs of the ever changing consumer. Consequently companies place great emphasis on the importance of working capital in and through the economic cycles. Almost half the respondents identified improving working capital as a key area for improvement.
- Many consumer products and retail companies face acute challenges when it comes to inflation; they are often hemmed in by rising supplier costs that, in some instances, they are unable to pass on given the squeeze on household incomes. Consumer and Retail firms ranked inflation higher as a concern than any other industry groups. While inflationary pressures are beginning to ease in some markets, many companies are seeking ways to reduce expenses by managing their cost of financing through FX and interest rate hedging.
- Labor is another important theme for consumer products and retail companies, with 37% of respondents naming it as a significant obstacle to success. Companies' experience of labor shortages in the post-pandemic period mean that many firms continue to prioritize efforts to attract and retain staff. Some observers believe that firms are likely to make less aggressive cuts to their labor force – even if economic conditions soften – then might have been the case during previous economic downturns. Thereby mitigating the risk of no labor available when the economic outlook improves.
- In a quest for efficiency, 35% of consumer products and retail companies are seeking to digitize and automate their operations. In addition, there is an appetite among a third of companies in the sector to streamline trade flows by simplifying arrangements with customers and suppliers. Key to this is improving transparency to and quality of trade related data.
- While 63% of consumer products and retail companies expect to expand into another part of the world this year – compared to 52% for respondents from all sectors – sentiment in the industry towards geographical growth has changed. Anecdotal evidence suggests that the experience of the pandemic and subsequent supply chain disruption has given companies in the sector pause for thought, given the high capex requirements associated with geographical expansion. In addition, there are some concerns about the challenges associated with managing a global business at a time of growing geopolitical tensions.
- Concerns over the complexity of managing disparate geographical organizations is also reflected in respondents' highlighting prior experience with complex and inefficient banking structures worldwide as a barrier to future success. Likewise, 29% of respondents want to consolidate the number of banking partners they have into a more manageable number, often by eliminating local country banking relationships in favor of regional or global relationships that can lower counterparty risk and improve efficiency, visibility and control.

Consumer & Retail

What issues worry you that could impact your business yet aren't getting enough attention?

Consumer & Retail

Is the economic backdrop causing a delay in CapEx or difficulties reaching sales targets?

"Yes — macroeconomic forecasts hamper our ability to commit material capital for expansion projects."

APAC, $500 Million – $1 Billion

"Yes, we are proceeding with CAPEX initiatives, but at a slower pace."

North America, $100 Million – $499 Million

"Our products had a boom in the covid years which is subsiding a bit but sales are still relatively strong."

North America, $10 Million – $24 Million

Source: CCB Industry Insights Survey

Digital, Tech & Comms

Digital, Tech & Comms

Funding dynamics and strategic outlook

Thierry *Jenar*
Global Industry Head
of Digital, Tech & Comms,
Citi Commercial Bank

- The survey confirms many of the trends that companies in the digital, technology and communications sector have been talking to the bank about in recent times. However, there are two areas where client sentiment is notably more optimistic.
- First, looking back over the past 12 months, companies in the sector have an upbeat assessment of their supply chain issues, with 53% reporting improvements and 40% saying the challenges remain the same. Only 8% feel that matters have worsened.
- Secondly, a remarkable 54% of respondents share the conviction that they are on track to achieve net zero carbon emissions by 2050. Additionally, 45% of participants – more than any other sector surveyed – define net zero and/or ESG as their primary focus. An opportunity for the finance industry going forward could be to devise new incentives for tech companies to achieve their ESG objectives and go beyond sustainability-linked loans or bonds.
- Like all companies, higher inflation is a concern for tech firms but the funding dynamics for this sector is posing a bigger challenge, with knock-on consequences. Raising venture capital has been like playing hide and seek over the past year as interest rates have risen and macroeconomic conditions have lowered valuations. At the same time, public markets have been dislocated and opportunities for venture capital to exit have been few and far between. With lower valuations, founders could consider giving up greater stakes to get the funding they require, which many are reluctant to do. To reduce cash burn, companies are cutting back on growth initiatives, slowing down hiring or eliminating positions, reducing sales and marketing spend, but all ultimately impact valuations further.
- Unsurprisingly, this vicious circle means that 26% of respondents are either somewhat or extremely dissatisfied with their progress towards achieving their financial targets this year.
- Encouragingly, geographical expansion is still an important goal for these companies with 66% considering expansion into another part of the world this year compared to 52% across all industries. Notwithstanding geopolitical tensions, APAC remains the favored destination for growth with companies looking to exploit favorable demographics and income trends among consumers in the region as well as to relocate capacity from China to Vietnam, India and other countries. EMEA remains also a strong pull after Asia.
- Digital companies expressed a desire for banks to make it easier for them to enter new markets (35%) and are focused on finding better investment options for their idle cash (46%). The latter result again reflects the way tech companies are typically financed. Many have large piles of venture capital money, the value of which is being eroded by inflation. Given the slowdown in funding rounds, they want to extend the runway for their cash and are therefore looking for ways to increase returns.

Digital, Tech & Comms

What issues worry you that could impact your business yet aren't getting enough attention?

Digital, Tech & Comms

Which technology do you expect to have the biggest impact over the next three years?

"Exponential growth of broadband internet in speed and coverage."

LATAM, $100 Million – $499 Million

"Earned wage access (EWA) technology consolidates the employers' payroll process, using flexible pay so that employees can improve their financial & mental wellbeing."

EMEA, Up to $10 Million

"In the next three years, I think artificial intelligence technology will change people's daily life the most."

APAC, $500 Million – $1 Billion

Healthcare

Healthcare

Inflation elevates the importance of working capital

Laura *Fogarty*
North America Industry
Head of Healthcare,
Citi Commercial Bank

- While respondents from the healthcare sector are more negative in their assessment of supply chain issues than respondents overall, there is likely a significant divergence between large healthcare providers – which have the flexibility to weather challenges – and smaller market participants, which may still be recovering from chip shortages and logistics problems. Q1 results for listed healthcare companies showed stabilization is underway and there is anecdotal evidence that Q2 will show further improvement as inflationary pressures start to ease.
- That said, 72% of healthcare respondents cite managing costs as their biggest challenge and inflation and market volatility are salient issues for the sector. The healthcare industry has long been known for its strong cash flow profile, so working capital management was not a top priority in the past. However, inflationary impacts from the pandemic, including higher freight, energy, raw materials and labor costs – as well as a shift from just-in-time inventory to just-in-case/safety stock inventory –forced many companies to take action to improve their working capital management. Almost six in 10 healthcare respondents cite improving working capital as a key goal. Ultimately, companies' focus on working capital optimization will improve their cash flow conversion cycle and free up cash to redeploy into research and development and other value-generating activities.
- Healthcare companies lead the way among business sectors when it comes to reaching net zero emissions by 2050, with 64% of respondents claiming to be on track. The healthcare industry has long been at the forefront of ESG developments: several healthcare companies have issued sustainability-linked bonds, which are tied to key performance indicators such as greenhouse gas emission reductions or sustainability targets, such as net zero emissions by 2050. One Citi Commercial Bank client has also executed an Inclusive Accelerated Share Repurchase (IASR) program with Minority Broker-Dealer participation, allowing Citi and its client to achieve financial goals while supporting minority-owned businesses.
- Although 28% of healthcare firms said that digitizing and automating operations is a key challenge, it is perhaps the greatest opportunity for the sector. Technologies such as artificial intelligence could play a crucial role in clinical research and chronic disease management. Pharmaceutical companies, for example, are using AI for clinical trial design to accelerate the drug discovery process. Given the high cost of bringing a drug or device to market, there is a substantial opportunity to reduce costs and bring lifesaving therapies to patients faster. Companies are also leveraging AI to mine electronic health records to facilitate early identification of chronic conditions. This could potentially result in earlier interventions and alter the course of the disease, which will not only improve the patient's quality of life, but also reduce the cost of care.

Healthcare

What issues worry you that could impact your business yet aren't getting enough attention?

Healthcare

What is your company doing to better harness data to improve customer outcomes?

"Invest in R&D and analyzing marketing data & needs to align with customer needs and market integration."

EMEA, $100 Million – $499 Million

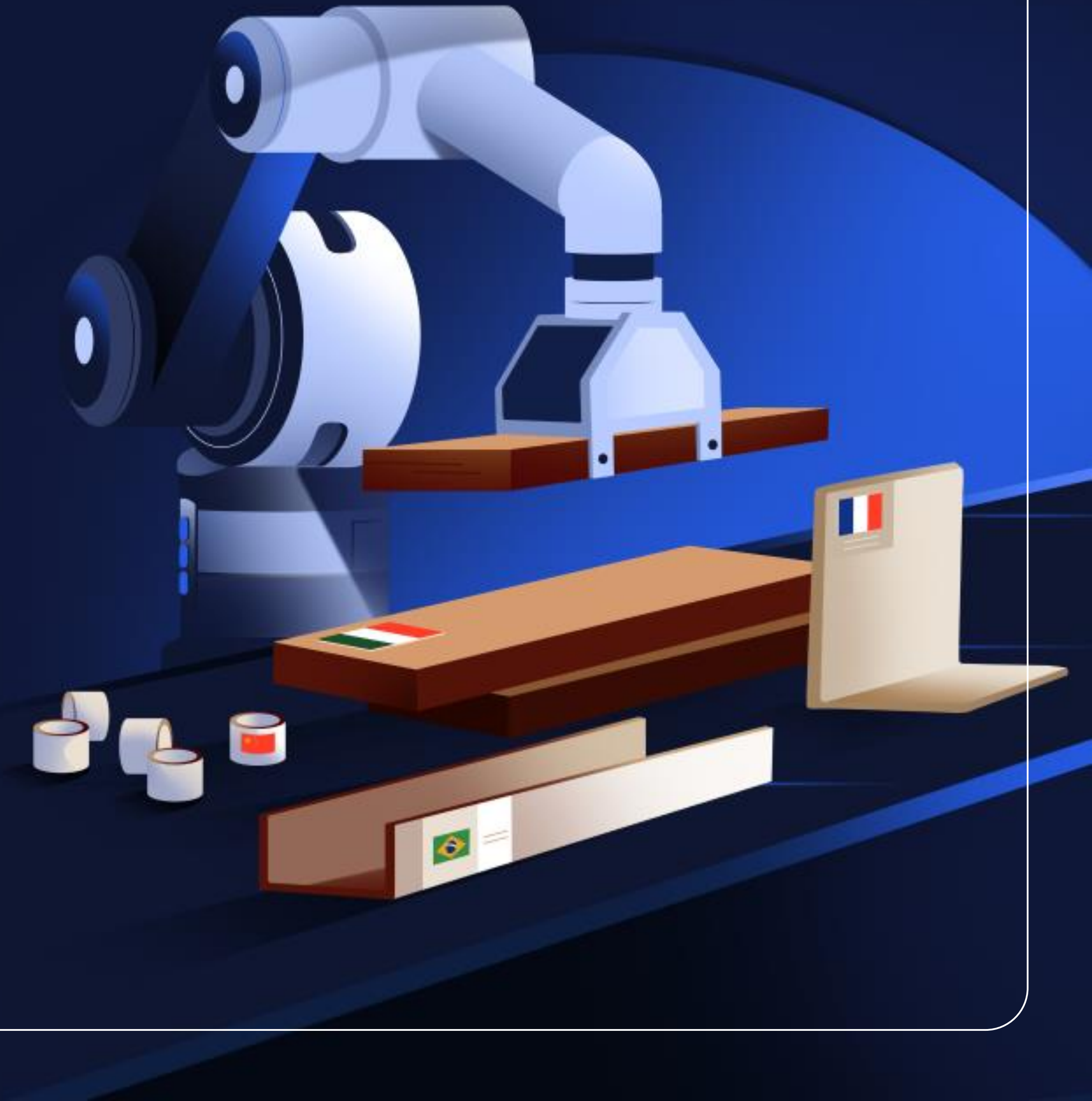
"Talking to our customers to help them reach their goals, monitoring how they use the menus in our machines"

EMEA, $100 Million – $499 Million

"Implementation of BI tools"

North America, $100 Million – $499 Million

Industrials



Industrials

Looking towards a new model for growth

Huaijin ***Bao***
Global Industry Head of
Industrials , Citi Commercial Bank

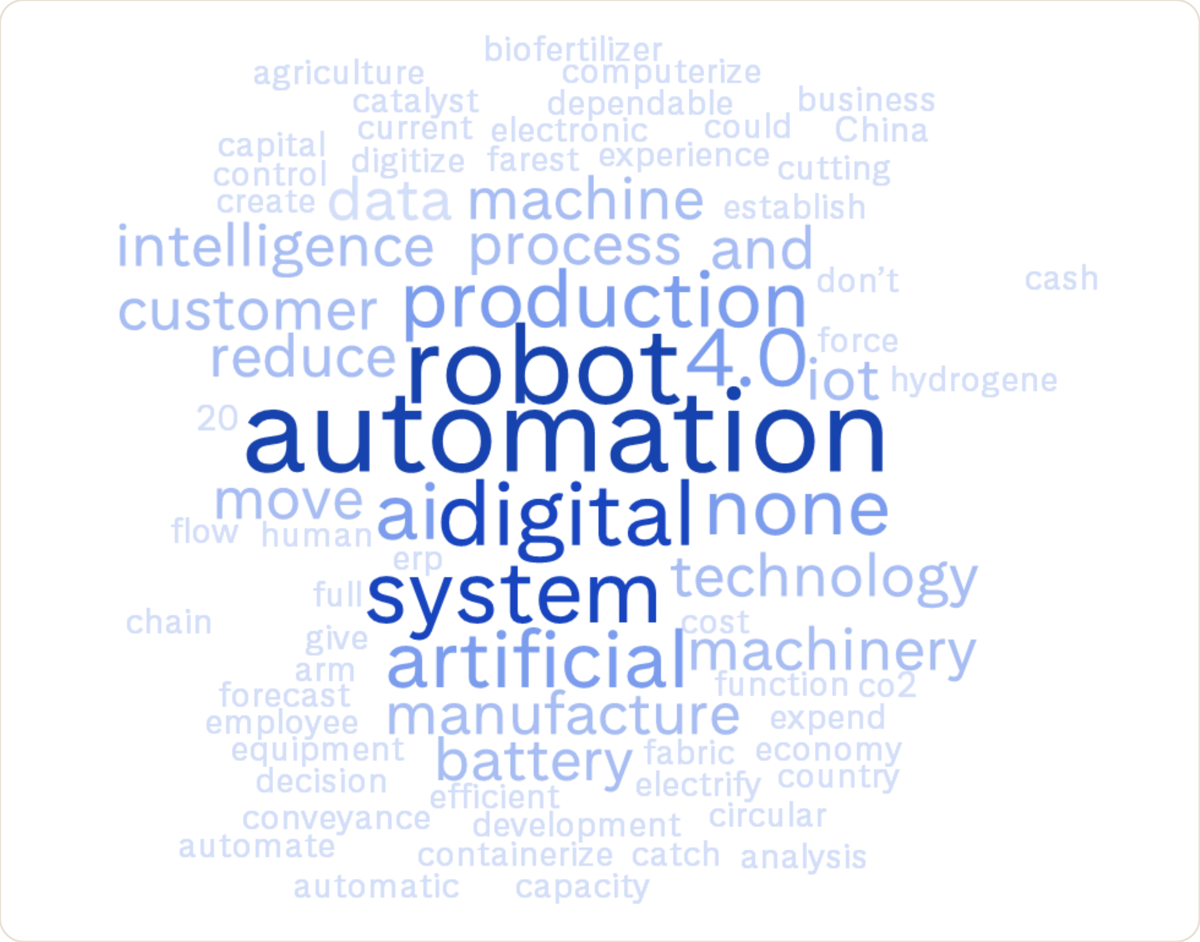
- Following the disruption caused by the pandemic and logistics blockages as economic growth rebounded, supply chain problems continue to ease, according to 55% of Industrials sector respondents to the CCB Industry Insight Survey. The challenges of the past few years have clearly left an imprint, however: 51% of respondents cite supply chains as a challenge.
- One factor helping to lessen supply chain pressure could be near-shoring/re-shoring (which is largely benefitting ASEAN countries, the US and Mexico). While global trade is under pressure, globalization remains robust. Companies are increasingly adopting an 'in the market, for the market' model, which is prompting geographical expansion: more than 50% of Industrials respondents expect to expand into another part of the world in the coming year, with APAC the main target.
- Although it has slowed in recent months, US inflation remains at historically elevated levels and is cited as a major concern by respondents. Inflation in Latin America and EMEA also remains historically high. In contrast, much of APAC is experiencing deflation. Market volatility, especially of commodity prices (most obviously energy) and foreign exchange, plays a large factor in this.
- Industrial companies are keen to keep costs down, with 80% of respondents citing it as their greatest challenge. Partly, this relates (in some markets) to inflation, which pushed Central Banks to raise benchmark rates. Some borrowers, however, can effectively lower their borrowing costs. For example, US companies looking to expand in APAC could consider financing in local markets (rather than in their home markets, which are usually their chosen source of funding) as interest rates are currently lower in certain markets. Also, given concerns around the global economy and company performance, more stringent financing terms are a developing trend. Working Capital financing can be an option to alleviate some of these pressures.
- Meanwhile, tight labor markets are also putting pressure on costs; in North America, for instance, staffing is cited by 54% of survey respondents as a challenge. Higher labor costs are helping to drive an increased focus on automation. As one respondent noted, automation can reduce dependency on people and improve efficiency. Technology, including artificial intelligence, big data and robotics, has the potential to transform the Industrials landscape in the coming years.
- Carbon Neutrality remains a key theme with 59% of Industrials respondents indicating their firms are on target to reach net zero carbon neutrality by 2050. Larger corporates tend to have a greater environmental, sustainability, and governance (ESG) focus and mid-sized companies that are part of their supply chains also have begun to consider their approach to sustainability. That stated, there is additional work to be done, with the Industrial sector being a leading contributor to total greenhouse gas emissions. In addition, ESG disclosure is becoming a mandatory requirement in a growing number of markets and financing requirements. The impact of the global sustainability disclosure standard issued by ISSB (The International Sustainability Standard Board) and broader regulatory pressure for decarbonization could see climate change become a live issue for mid-sized companies in the near term, for example accelerated EV transformation and clean energy transition.

Industrials

What issues worry you that could impact your business yet aren't getting enough attention?

Industrials

What technology or automation will be the next to transform your business?



"Automation (robots) to make part of the process less dependent on people and more efficient."

LATAM, $25 Million – $99 Million

"Supply Chain analysis automated decision making (I.e. containerization)."

EMEA, $10 Million – $24 Million

"Robotics AI on manufacturing and production lines."

North America, $10 Million – $24 Million

Source: CCB Industry Insights Survey

Nonprofit

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Nonprofit

Managing cash and improving working capital are key to enduring a volatile market

Irina *Berg*
North America Industry Head for Nonprofit, Citi Commercial Bank

Susan *Krimigis*
North America Industry Head for Nonprofit, Citi Commercial Bank

- The Nonprofit industry has seen significant volatility in recent years, with subsectors faring differently based on their scale and mission. It is unsurprising then, that the main concerns outlined by respondents as threats to their organizations include inflation, market volatility and regulatory environments. During the COVID pandemic, cultural institutions were fully closed due to regulatory mandates, eliminating one of their main sources of revenue, while many social services and global NGOs saw an influx of charitable giving and government funding to assist with food insecurity, homelessness, and healthcare. Despite inflation and market volatility, in 2022 and 2023 the international NGO subsector witnessed a surge of charitable giving towards the crisis in Ukraine. Many nonprofits are now utilizing collected cash for various charitable programs and have concerns that replenishment will not come due to financial hardships many companies and individuals may be experiencing this year.

- Over 70% of respondents outlined staffing as the main challenge to their future success. These results indicate that this isn't just a challenge, but a crisis in the industry. While nonprofits always faced competition from the for-profit sector in staffing, the problem was exacerbated during the COVID pandemic when employees were looking for a greater work-life balance. Nonprofits already with lean operating budgets, restricted funding and now reduced staff need to manage expenses and create efficiencies – all increasingly important during economic volatility - to maximize the delivery of their missions. In line with managing expenses, added efficiencies and digitizing operations came in third place at 45%. Commercial banks can help their nonprofit clients achieve optimization goals through integration and digitizing payables and receivables.

- While it varies by subsector, of all the industry respondents, nonprofits had the highest satisfaction rate with progress towards their financial goals. This is not surprising as many subsectors continued to see elevated support of their missions during some of the most trying times. Anxieties are growing about the future and what inflation and volatile markets may mean for future funding. Those organizations that depend on inputs such as food, fertilizer and gas or require extensive travel are seeing the effects of inflation on their budgets. Global conflict and natural disasters cause further challenges. This is where a commercial bank with a global lens, insights and on-the-ground capabilities is a critical partner in delivering missions.

- After some troubles in parts of the US banking sector this year, nonprofit boards have been reviewing their banking relationships with a focus on consolidation as part of contingency planning protocols. Additionally, in this high interest rate environment, nonprofits are finding themselves with excess operating cash and looking for ways to optimize it – something they didn't need to think about for over a decade due to low interest rates. Many are turning to their commercial banks for competitive on and off-balance sheet and working capital solutions.

Nonprofit

What issues worry you that could impact your business yet aren’t getting enough attention?

Nonprofit

Are rising inflationary pressures hurting your company's ability to deliver on its purpose?

"Yes — inflation hurts our member studios which in turn affects their ability to fund us, their trade association."

North America, $25 Million – $99 Million

"Yes, makes providing our services more expensive."

North America, Up to $10 Million

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