

Luxembourg Business Compass

13th Survey Wave

April 2015

TABLE OF CONTENTS

| | Page |
|--|------|
| INTRODUCTION | 1 |
| | |
| FINDINGS | |
| | |
| Luxembourg business leaders are increasingly optimistic about the economic outlook | 3 |
| | |
| Substantial improvement in perceptions of Luxembourg's competitiveness as a business location | 5 |
| | |
| Luxembourg companies expect considerable increases in turnover and investments on average—along with growing profits and an increase in the number of employees | 15 |
| | |
| The positive mood is also reflected in Luxembourg companies' budgeting plans: In some areas of operations, more companies are now planning to increase their budgets than they were in any of the prior survey waves | 18 |
| | |
| Fewer barriers to growth, particularly in connection with the labor market | 25 |
| | |
| A "digital transformation" at Luxembourg companies: An important issue, but not all companies have made any significant effort in this respect so far | 28 |
| | |
| The "Digital Lëtzebuerg" initiative: Important, but many are not familiar with it | 35 |
| | |
| APPENDIX | |
| | |
| Survey data | |

INTRODUCTION

In April 2009, top decision-makers at the largest companies in Luxembourg, as defined by the number of employees, were interviewed for the first time within the framework of the *Luxembourg Business Compass*. Using this instrument, the aim was to establish an economic indicator—for the first time ever—that could be employed to ascertain Luxembourg business leaders' expectations regarding the future economic trend in Luxembourg at regular intervals. The survey focuses particularly on how business leaders expect the Luxembourg economy will develop in the next 12 months, along with their expectations and plans for their own companies' future development. These core questions are supplemented by varying questions pertaining to business or politics.

In April 2015, the survey for the *Luxembourg Business Compass* was conducted for the thirteenth time. As with the prior survey waves, the INSTITUT FÜR DEMOSKOPIE ALLENSBACH was commissioned by KPMG S.A.R.L. to design the survey methodologically, develop the questionnaire in cooperation with the client, confidentially process the anonymous data collected and compile a report on the findings. After being notified about the survey in writing or by telephone, a total of 71 top decision-makers were interviewed using an online questionnaire in English in the time from March 23 – April 14, 2015. As in all of the previous survey waves, it was also possible to draw a top-notch sample for the present survey: in about 23 percent of the cases, the interview was completed by the company owner him- or herself, while about two thirds of the respondents either belong to the executive board or top management of their companies (63 percent), and an additional 13 percent hold other executive positions.¹

The companies were selected based on the STATEC directory, "Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2, Situation au 1er janvier 2014 (édition juin 2014)."

¹ One respondent provided no information on his position in the company.

In drawing the sample, companies were selected from the different business sectors in line with these sectors' share of the gross domestic product in Luxembourg. Within the different economic sectors, the largest companies—as determined by the number of employees—were included in the investigation.

The present report summarizes the most important findings of the study and presents them in graphic form. The report is supplemented by a basic volume of tables showing the responses to all questions in tabular form.

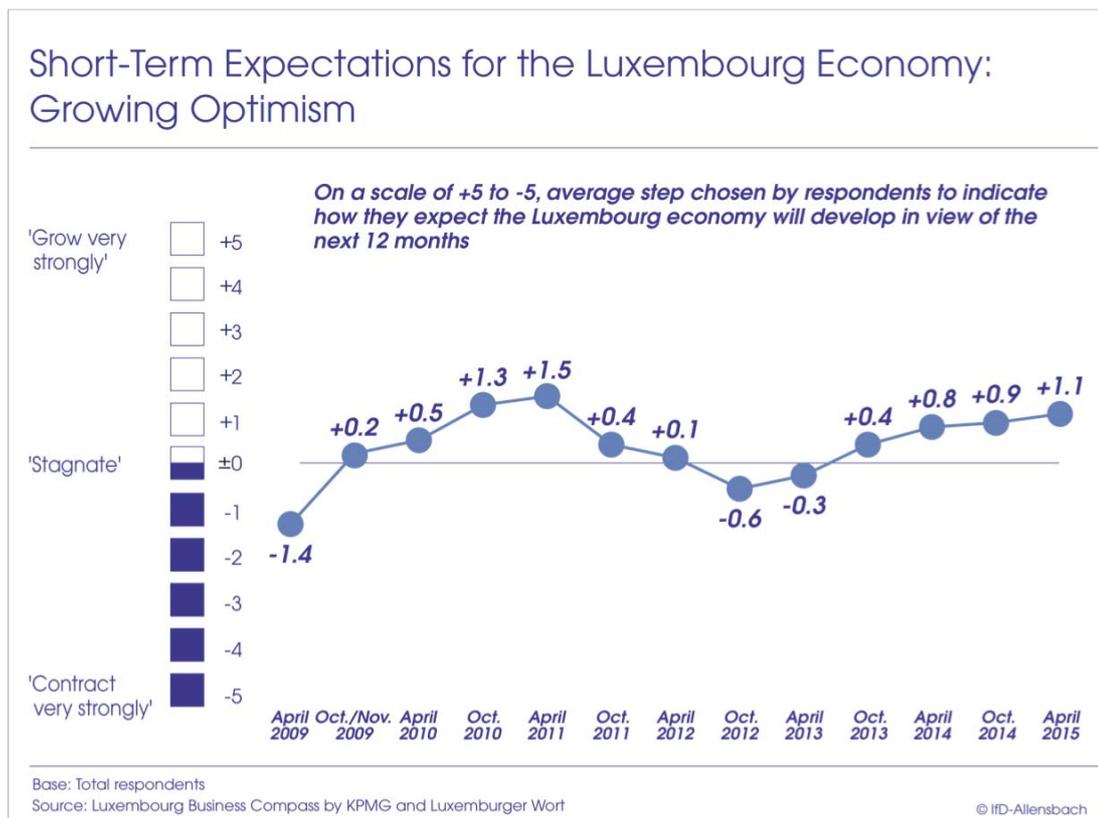
Allensbach on Lake Constance, INSTITUT FÜR DEMOSKOPIE ALLENSBACH
April 24, 2015

FINDINGS

Luxembourg business leaders are increasingly optimistic about the economic outlook

In the view of Luxembourg business leaders, the Luxembourg economy is continuing on its upward path, as evidenced by their expectations for the economic development over the next 12 months, which are again clearly optimistic. On an 11-step scale ranging from '-5' ("economy will contract very strongly") to '+5' ("economy will grow very strongly"), respondents currently choose an average value of +1.1, indicating that they anticipate perceptible economic growth over the course of the year. Their expectations have thus risen for the fifth time in a row, even if only by a few tenths of a point since the last survey waves of April and October 2014 (Figure 1).

Figure 1



A more differentiated look at the findings obtained for the individual steps on the scale shows that business leaders' expectations for the next 12 months are—as was already the case a year ago—very homogeneous: A vast share of the entrepreneurs interviewed choose steps +2, +1 and 0 on the scale, whereas only small shares anticipate either very strong economic growth in Luxembourg (steps 3, 4 or 5 on the scale) or any significant economic contraction (Figure 2).

Figure 2

| | | Index of Expectations for the Luxembourg Economy in View of the Next 12 Months | | | | | | |
|--------------------------|-------------|--|------------|------------|------------|------------|------------|------------|
| | | On a scale of +5 to -5, step chosen by respondents to indicate how they expect the Luxembourg economy will develop – | | | | | | |
| | | April 2009 | April 2010 | April 2011 | April 2012 | April 2013 | April 2014 | April 2015 |
| 'Grow very strongly' | +5 | x | x | x | x | x | x | x |
| | +4 | x | 2 | x | x | x | x | x |
| | +3 | x 11 | 1 61 | 24 88 | 1 44 | x 30 | 1 70 | 7 78 |
| | +2 | 4 | 29 | 25 | 7 | 6 | 25 | 33 |
| | +1 | 7 | 29 | 39 | 36 | 24 | 44 | 38 |
| 'Stagnate' | ±0 | 17 | 14 | 8 | 25 | 36 | 19 | 14 |
| | -1 | 24 | 9 | 1 | 16 | 12 | 10 | 6 |
| | -2 | 23 | 8 | 1 | 11 | 14 | x | 1 |
| | -3 | 15 72 | 5 25 | x 3 | 3 30 | 4 34 | 1 11 | 1 8 |
| | -4 | 6 | 2 | x | x | 2 | x | x |
| 'Contract very strongly' | -5 | 4 | 1 | 1 | x | 2 | x | x |
| | No response | x | x | 1 | 1 | x | x | x |
| | | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| On average | | -1.4 | +0.5 | +1.5 | +0.1 | -0.3 | +0.8 | +1.1 |

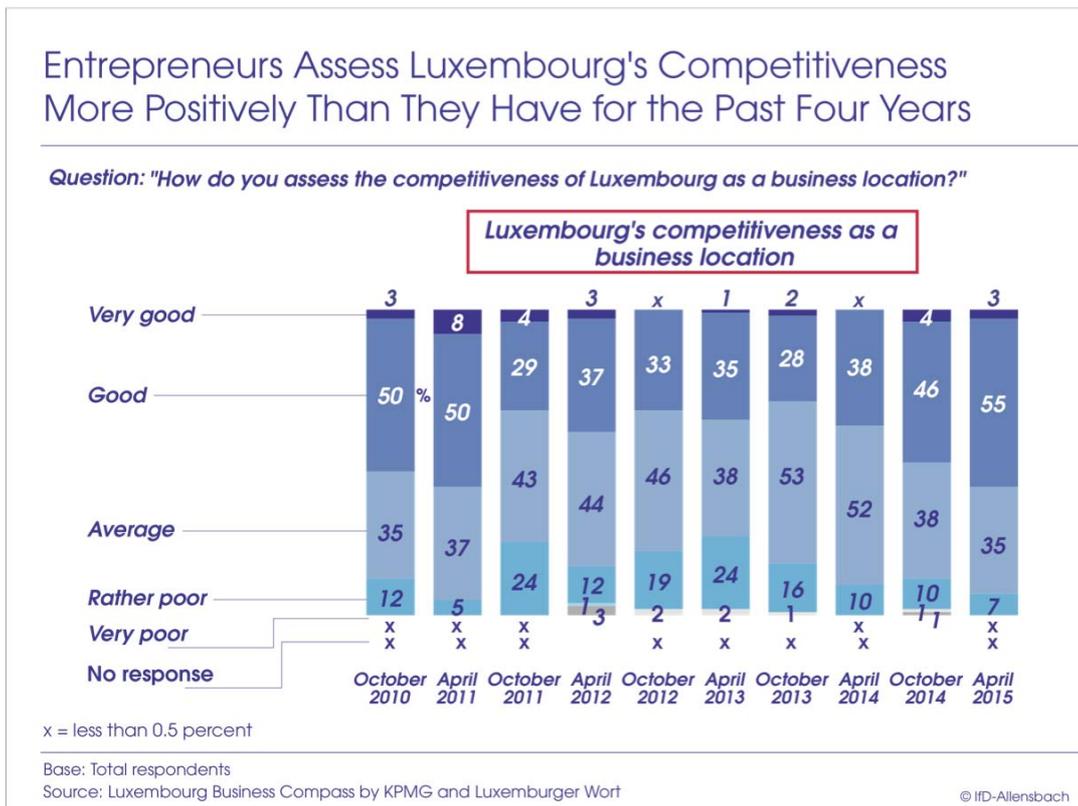
Base: Total respondents
Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

x = less than 0.5 percent
© IfD-Allensbach

Substantial improvement in perceptions of Luxembourg's competitiveness as a business location

In the eyes of Luxembourg entrepreneurs, Luxembourg's competitiveness as a business location has improved substantially. Following the survey wave of April 2011, assessments of the country's competitiveness took a decidedly negative turn. Now, however, they have again reached the level measured four years ago, with 58 percent of business leaders currently rating the country as "good" or—in a few individual cases—even "very good" in terms of competitiveness, while 35 percent rate it as "average" and only 7 percent assess Luxembourg's competitiveness as "poor." None of the respondents now rate the country as "very poor" in terms of competitiveness (Figure 3).

Figure 3



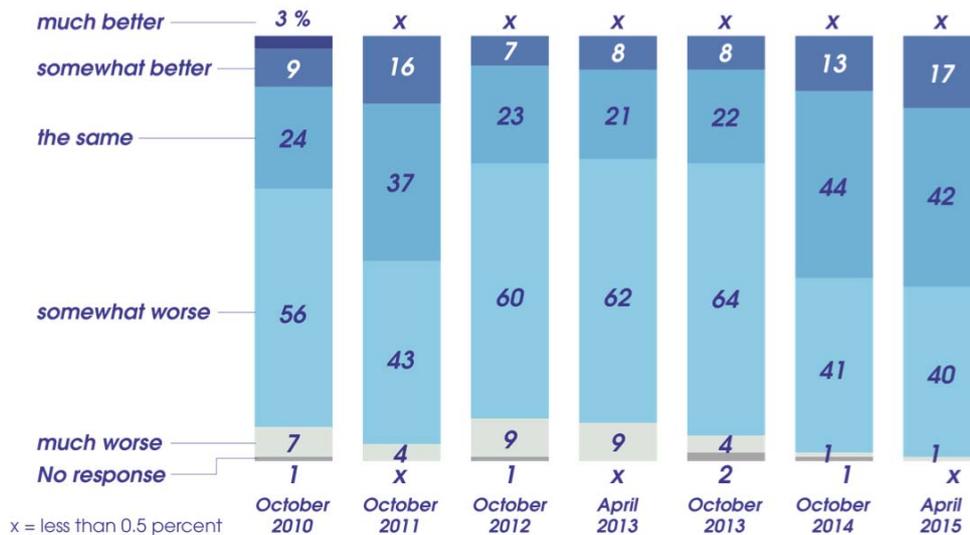
Moreover, when asked about the development of Luxembourg's competitiveness in comparison to the situation two years ago, assessments given by the country's top decision-makers are—as was already the case in October last year—much more positive than they were in 2012 and 2013. Nevertheless, the share of business leaders who perceive a negative trend with respect to the country's competitiveness over the past two years remains larger than the share of those who perceive a positive development (Figure 4). This stands in direct contradiction to the previous finding, since in comparison to the situation in prior years, Luxembourg's competitiveness is clearly assessed more positively now than it was in 2012 and 2013.² Apparently, despite the positive perceptions of Luxembourg's competitiveness at present, many of the business leaders interviewed still have the feeling that the country has not completely recovered from the setbacks caused by the crises in recent years.

² *Cf. Figure 3*

Figure 4

About 40 Percent of Entrepreneurs Say That Luxembourg's Competitiveness as a Business Location Is Worse Now Than It Was Two Years Ago

Compared to the situation two years ago, Luxembourg's competitiveness as a business location is now -



Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

© IfD-Allensbach

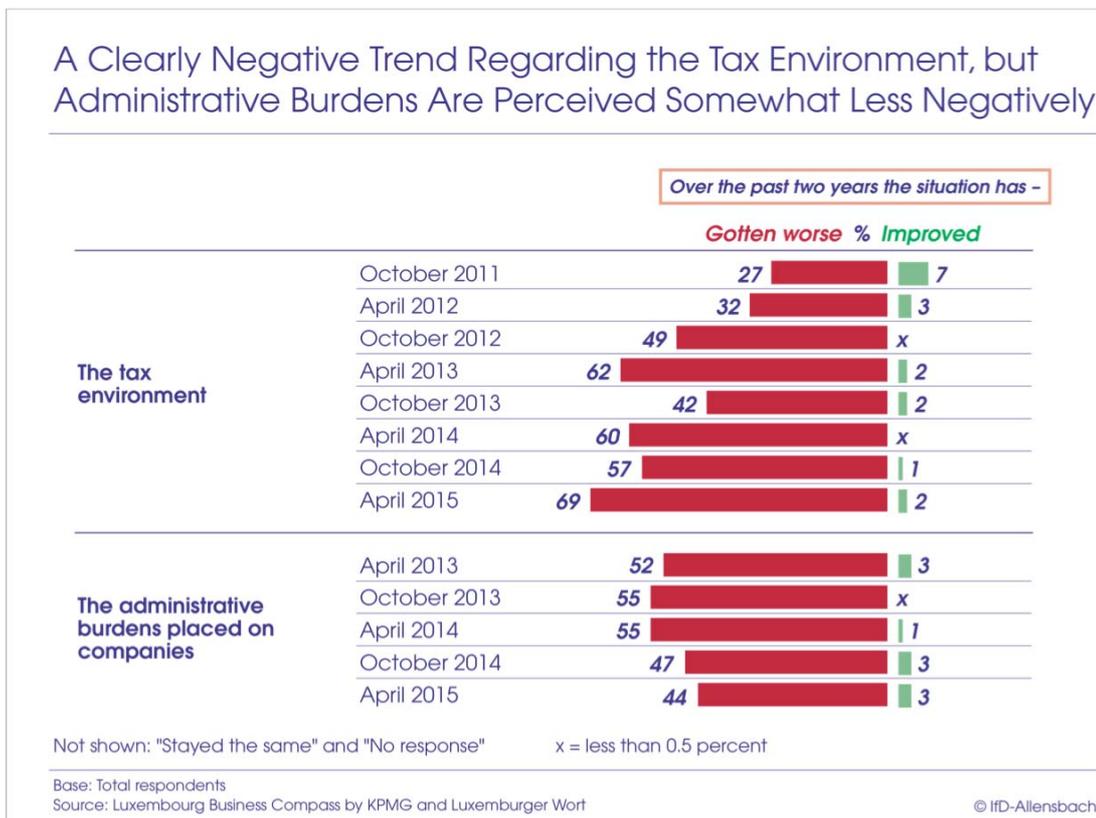
Even if business leaders are again more positive with respect to Luxembourg's competitiveness in general, they nevertheless tend to perceive negative trends in connection with the development of various individual factors that contribute to Luxembourg's competitiveness as a business location. This is especially true with respect to the tax environment and the regulatory environment. For both of these factors, a majority of business leaders say the situation has gotten worse over the past two years. Regarding all of the remaining factors, the majority—or at least a relative majority—perceives no change over the past two years. In most cases, however, the share of respondents who perceive a negative trend is greater than the share of positive assessments, a finding which is most pronounced in connection with labor costs, the availability of a skilled workforce and the administrative burdens placed on companies by the state. At the same time, a more positive trend is perceived on balance in conjunction with cost management by Luxembourg companies, access to political decision-makers, the Luxembourg economy's innovative power and—most strikingly—the promotion of Luxembourg as a business location (Figure 5).

Figure 5



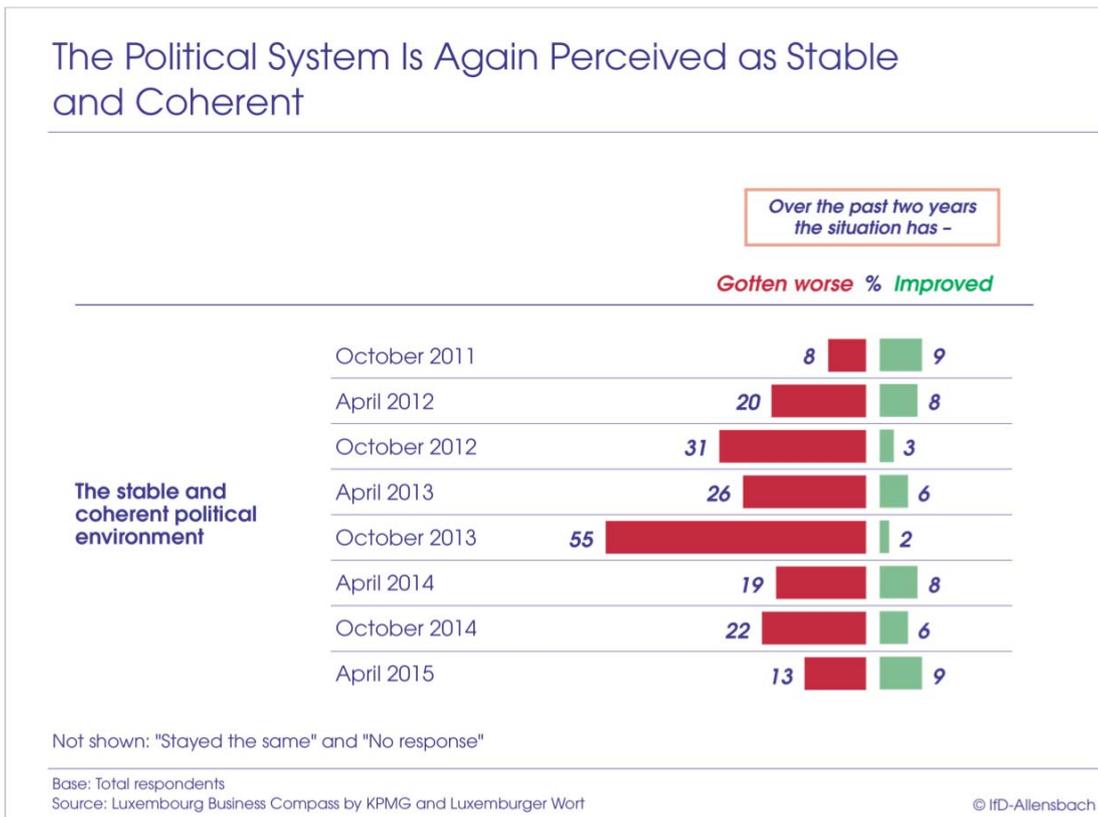
Regarding the development of those location factors that are influenced by the state, business leaders' assessments are negative on the whole. In comparison to prior years, however, the trends measured for individual factors are highly divergent. Whereas the development of the regulatory environment obtains similarly negative ratings as it did in the last survey wave of October 2014, the development of the tax environment is assessed more negatively on balance than in any prior survey wave. In contrast, when it comes to the administrative burdens placed on companies, Luxembourg's business elite perceives a considerably less negative trend on balance than was the case in past survey waves (Figure 6).

Figure 6



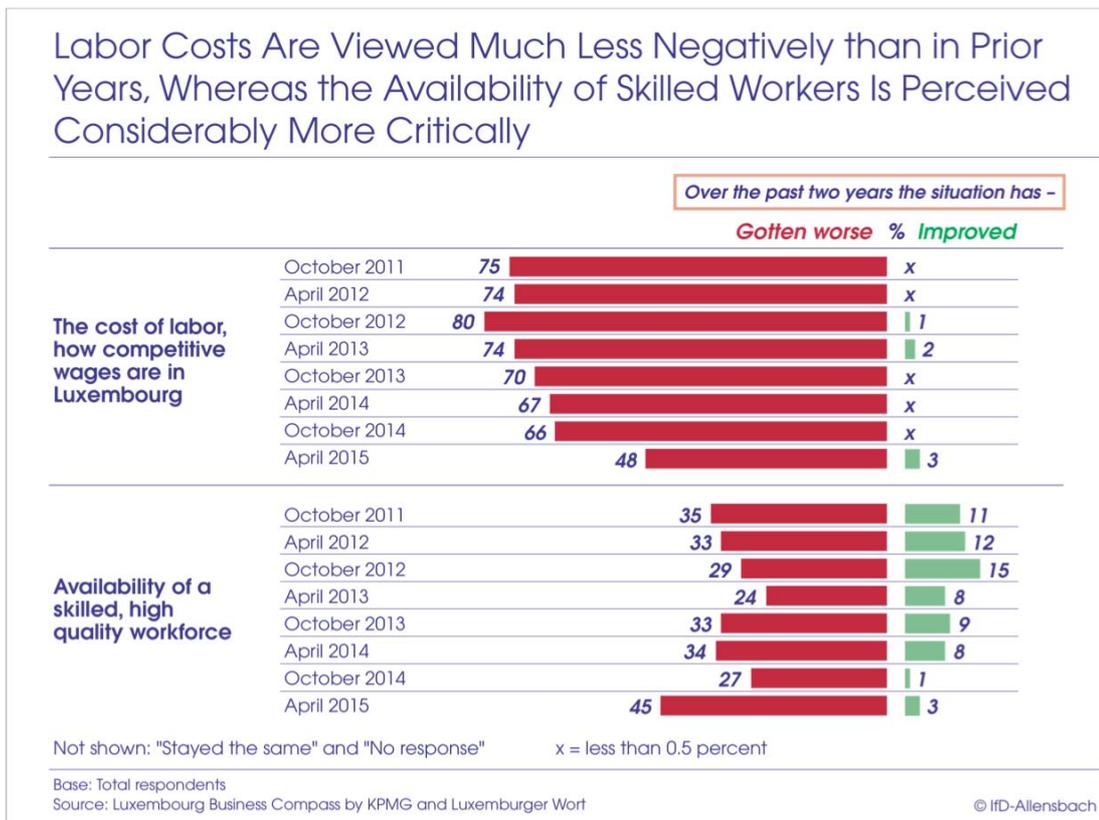
In the eyes of Luxembourg business leaders, there has hardly been any negative trend with respect to the stability of the political system and the coherence of its political decisions. In fact, the overall assessment of the development of this location factor is considerably less negative than the assessments given in the past three years (Figure 7).

Figure 7



Similarly, the share of respondents who believe that labor costs have developed negatively over the past two years is substantially smaller now than was the case in all prior survey waves. The situation is completely different when it comes to the availability of a skilled, high quality workforce: here, the share of business leaders who report that the situation has gotten worse is larger than it was in any of the previous survey waves (Figure 8).

Figure 8



Although a clearly greater share of entrepreneurs perceive a negative development with respect to the availability of a skilled, high quality workforce, this finding stands in strong contrast to the largely stable share of companies that report having difficulties in finding qualified staff. Currently, finding qualified staff is somewhat difficult for 58 percent of Luxembourg companies, while it is very difficult for an additional 25 percent. These shares hardly differ from the values obtained in October 2011 and April 2014 (Figure 9). Moreover, companies that are looking for qualified workers are now more likely to find them in Luxembourg than they were a year ago—even if qualified staff continues to be recruited most frequently from other EU countries (Figure 10).

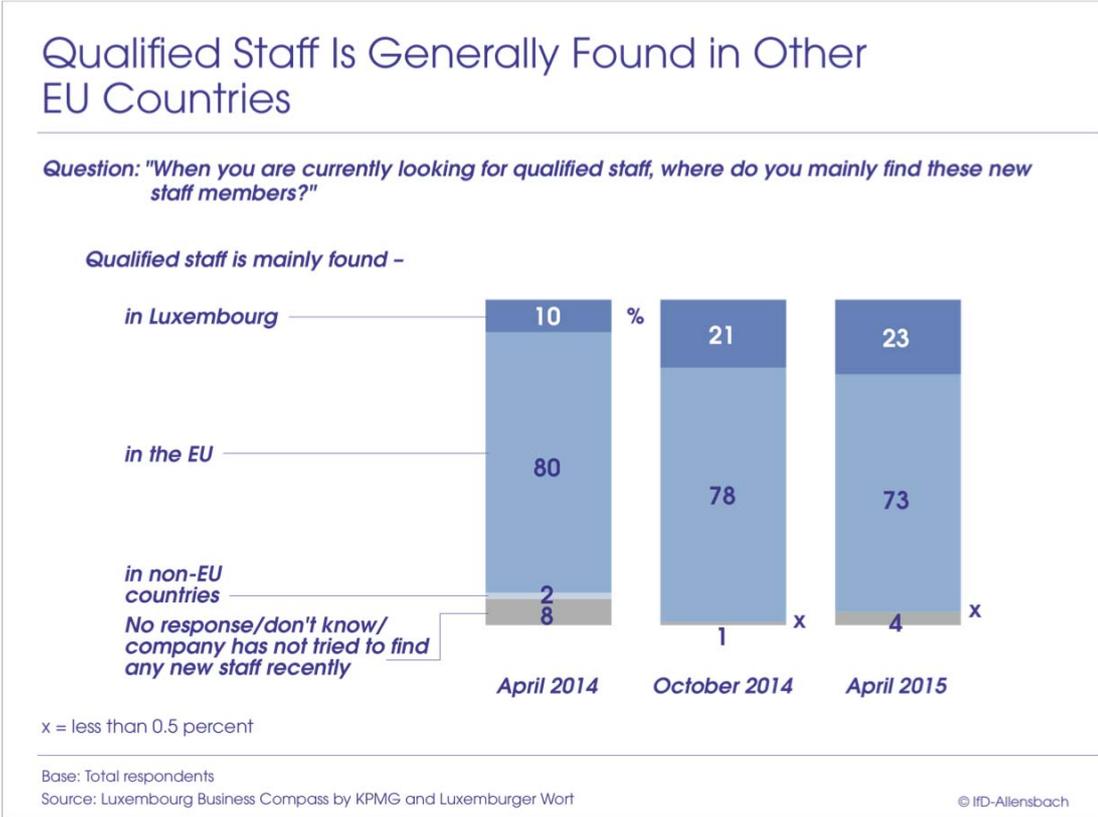
The general assessment that the situation regarding the availability of a high quality workforce has gotten worse over the past two years (see Figure 8 above) is thus obviously not based on Luxembourg companies' own negative experiences. Instead, this finding is perhaps a reflection of media coverage or increased public debate on the issue, an interpretation which is also supported by the findings on the various barriers to growth for Luxembourg companies, as discussed below.³ In comparison to earlier survey waves, the lack of qualified staff is now cited less frequently as one of the barriers to growth at respondents' own companies.

³ See Figure 21, p. 27

Figure 9



Figure 10

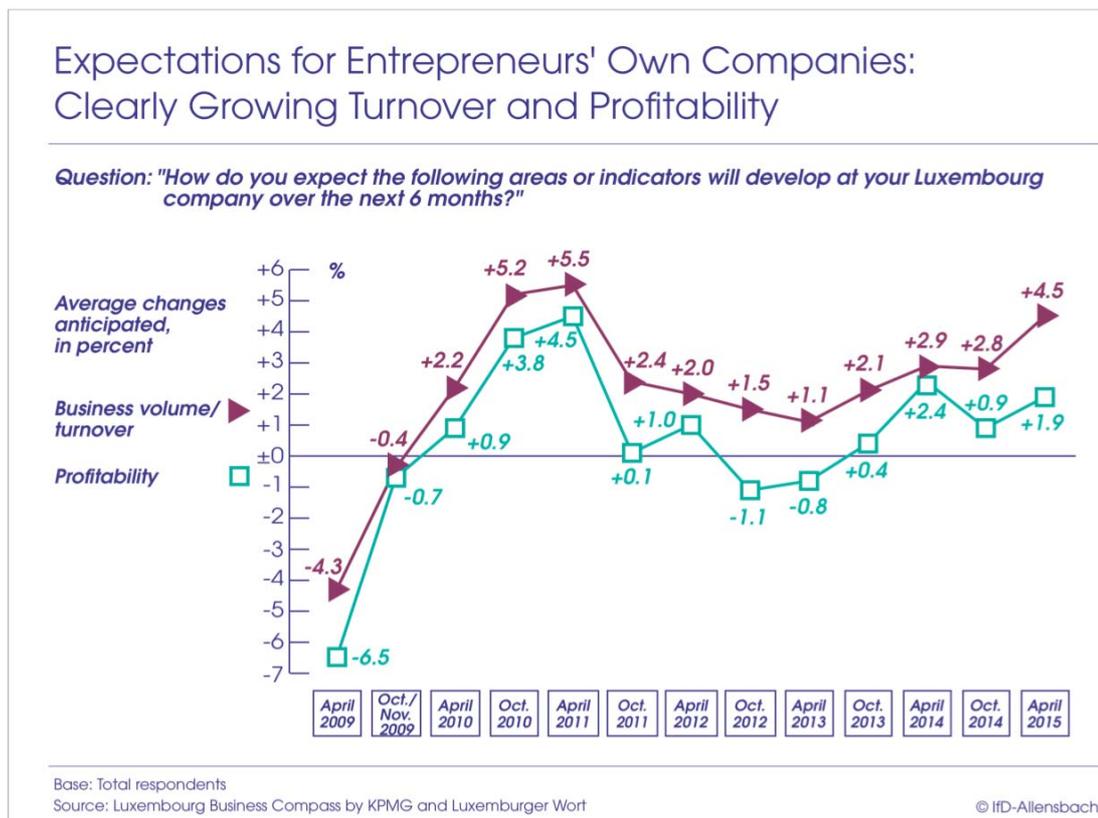


Luxembourg companies expect considerable increases in turnover and investments on average—along with growing profits and an increase in the number of employees

In keeping with their increasingly positive outlook on the overall economic development, Luxembourg decision-makers are also optimistic when it comes to the expected development of key economic indicators at their own companies. Most notably, business leaders expect clearly growing turnover and investments.

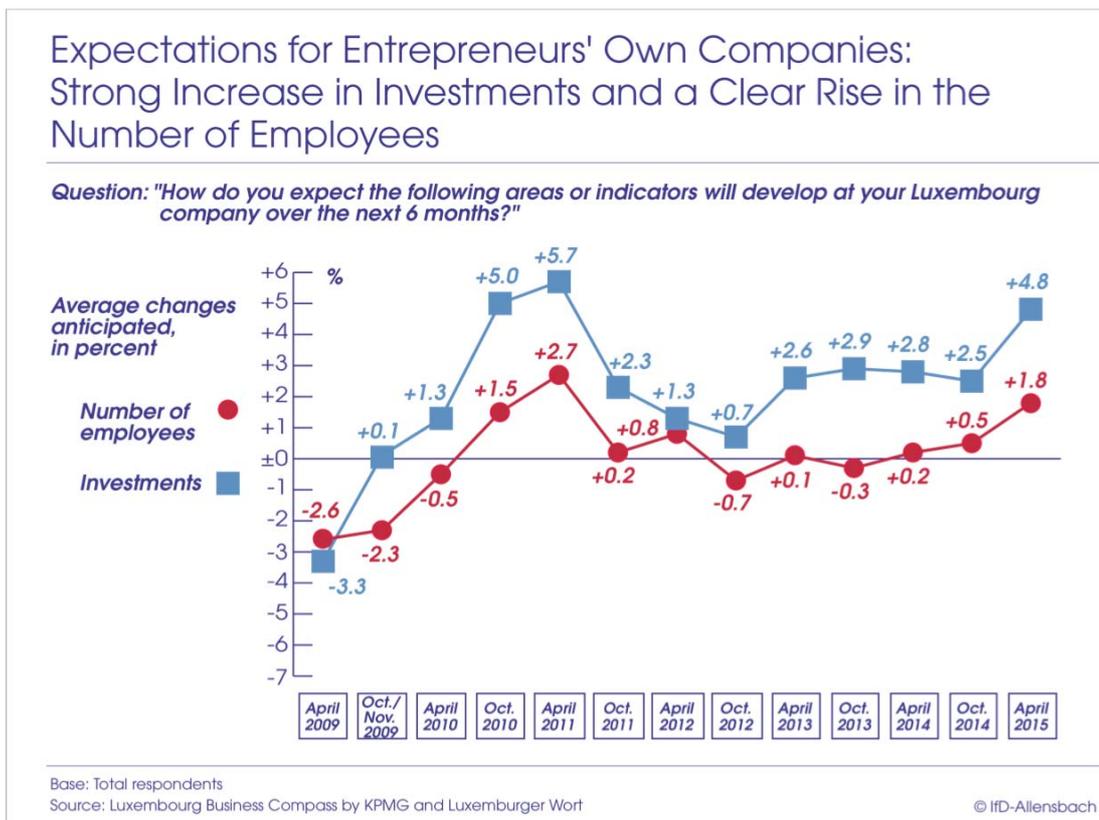
Respondents now anticipate that business turnover at their own companies will increase by an average of +4.5 percent over the next 6 months—an increase which is greater than any of the values measured since April 2011. Similarly, Luxembourg decision-makers also expect profitability to grow markedly over the next six months, with a predicted increase of +1.9 percent on average (Figure 11).

Figure 11



Expectations regarding investments are now more positive than they have been since April 2011, with entrepreneurs assuming that the investment volume at their companies will increase by an average of +4.8 percent over the next 6 months. The same is true in conjunction with the expected development of the number of employees over the next 6 months: the number of employees is expected to grow by +1.8 percent, which is the highest increase measured in the last four years (Figure 12).

Figure 12



A more differentiated analysis shows, however, that expectations regarding the development of profitability over the next six months are relatively diverse: while 54 percent of the entrepreneurs interviewed expect growing profits at their own companies over the next 6 months—including 30 percent who anticipate an increase of 5 percent or more— more than one out of five expect declining profits, including 13 percent who anticipate a decline of 5 percent or more. In comparison, the expected trend is more consistent when it comes to the development of turnover and investments: about three quarters of the companies surveyed expect their turnover will grow over the next six months (Figure 13).

Figure 13

Three Quarters of Luxembourg Entrepreneurs Expect Growing Turnover

Question: "How do you expect the following areas or indicators will develop at your Luxembourg company over the next 6 months?"

| | Profitability % | Business volume/ turnover % | Investments % | Number of employees % |
|------------------------|--------------------|-----------------------------------|------------------|-----------------------------|
| Increase: | 54 | 77 | 62 | 59 |
| +20% or more | x | x | 8 | x |
| +10% to less than +20% | 7 | 14 | 10 | 3 |
| +5% to less than +10% | 23 | 28 | 16 | 17 |
| less than +5% | 24 | 35 | 28 | 39 |
| No change | 25 | 9 | 28 | 24 |
| Decrease: | 21 | 14 | 9 | 17 |
| less than -5% | 8 | 8 | 6 | 12 |
| -5% to less than -10% | 9 | 6 | 3 | 4 |
| -10% to less than -20% | 4 | x | x | x |
| -20% or more | x | x | x | 1 |
| No response | x | x | 1 | x |
| | 100 | 100 | 100 | 100 |
| On average | +1.9 | +4.5 | +4.8 | +1.8 |

x = less than 0.5 percent

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (April 2015) © IfD-Allensbach

The positive mood is also reflected in Luxembourg companies' budgeting plans: In some areas of operations, more companies are now planning to increase their budgets than they were in any of the prior survey waves

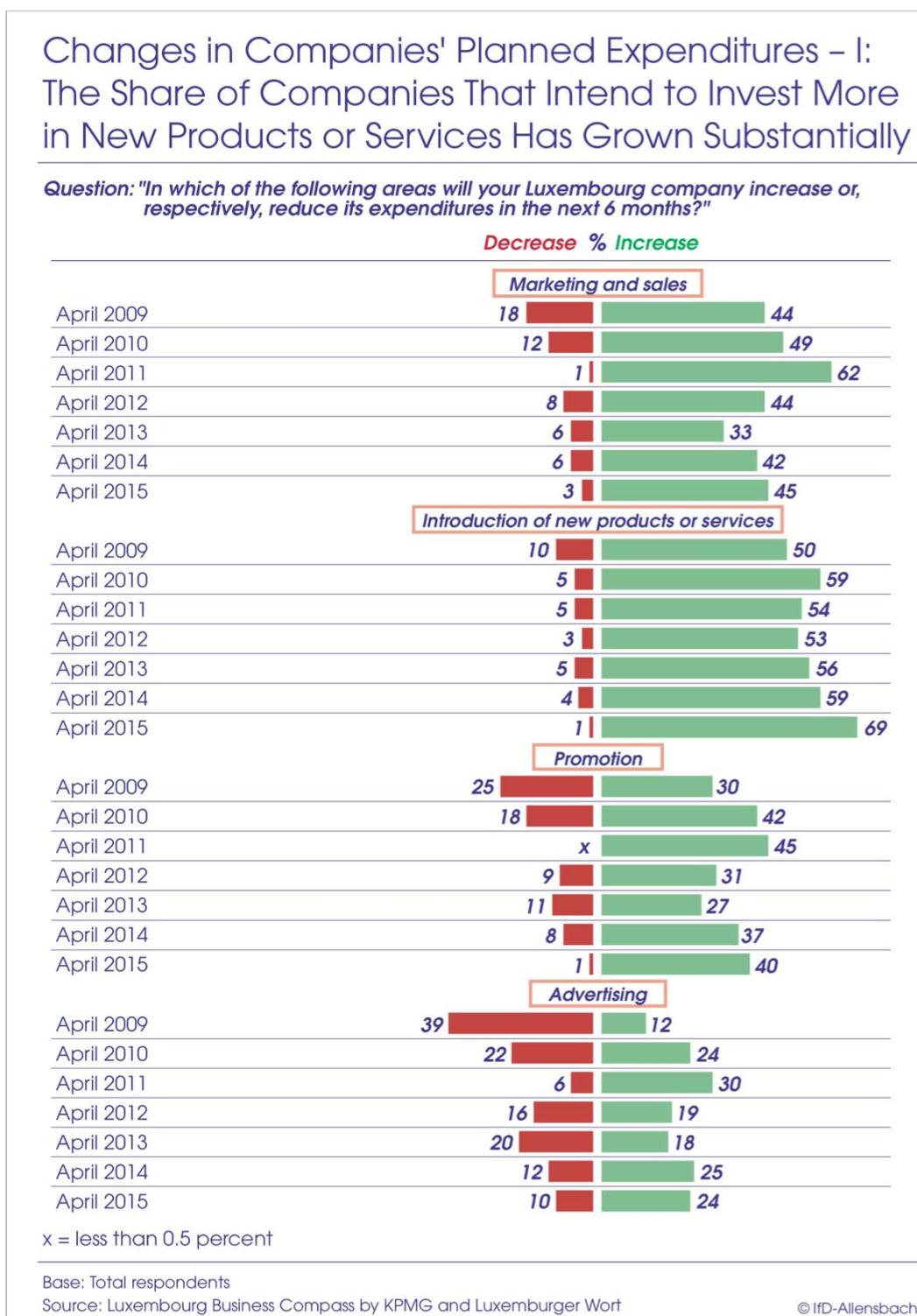
The largest Luxembourg companies are generally planning to increase rather than reduce their budgets for all areas of operations over the next six months. A particularly large share anticipates increases in connection with the introduction of new products or services (69 percent), as well as for IT and training (65 percent and 59 percent, respectively). When it comes to the budgets for all other areas of operations, the majority of companies are not planning to make any changes at all—although the overall trend is positive on balance. The most moderate budgetary increases are foreseen in the area of wages and salaries (Figure 14).

In comparison to the planned budgets for marketing-related activities in prior years, a clearly greater share of companies are now planning to increase their budgets for the introduction of new products or services (Figure 15).

Figure 14

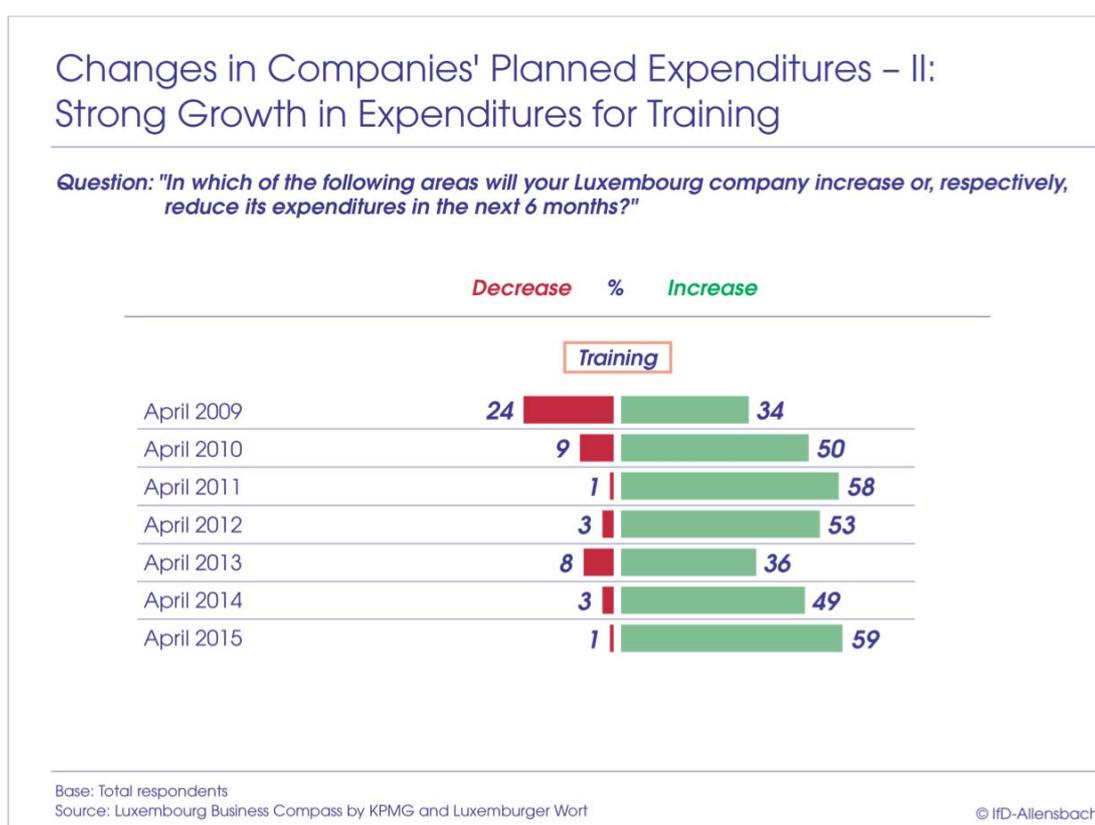


Figure 15



The expected increase in the number of employees at Luxembourg companies⁴ is reflected in the widespread plans to increase budgets for recruiting new staff (Figure 17). Moreover, the share of Luxembourg companies that are planning to increase their budgets for training is greater now than it has been in the past four years (Figure 16). When it comes to the budgets for wages and salaries, however, there are no signs of a similar trend (Figure 17), a finding which is probably connected to the currently less negative perception of the development of labor costs in Luxembourg.⁵

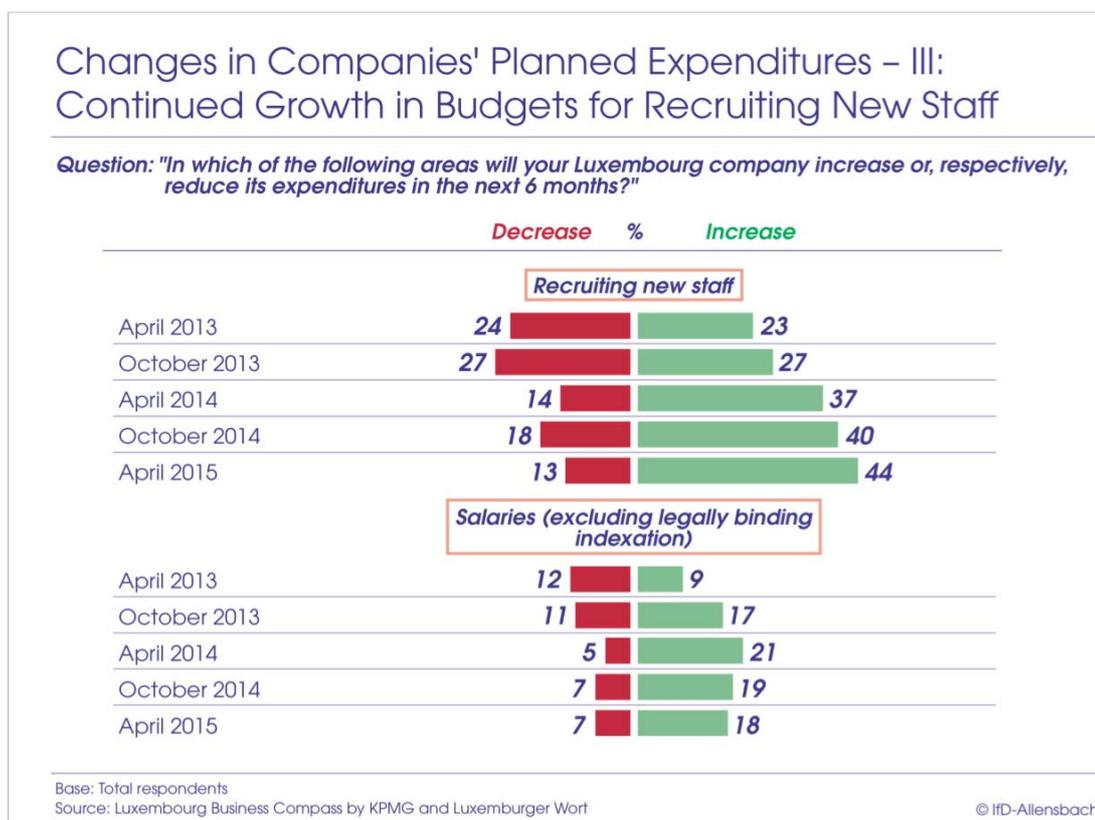
Figure 16



⁴ See Figure 12

⁵ See Figure 8 or, respectively, Figure 21

Figure 17



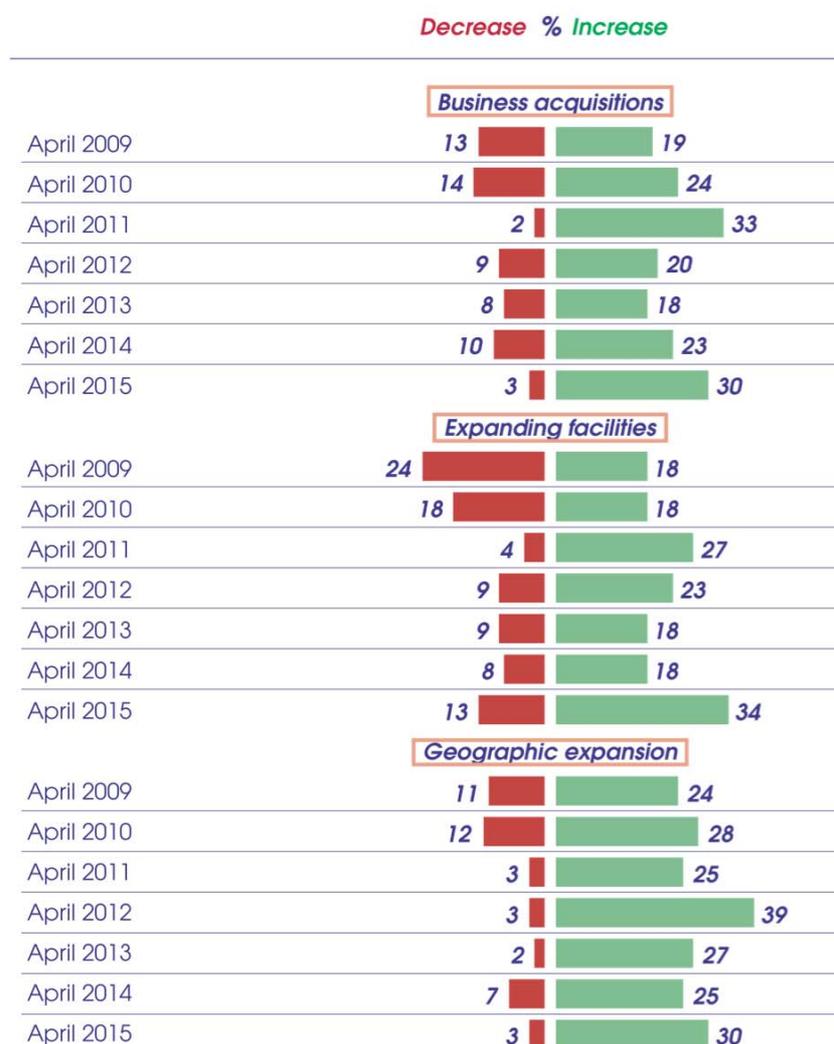
Similarly, there is a renewed tendency towards budgetary increases aimed at expanding capacity. The share of companies that intend to increase their expenditures for expanding their own facilities is the highest it has ever been since the very first wave of the *Luxembourg Business Compass*. Additionally, more companies are planning to increase their budgets in the areas of business acquisitions and geographic expansion than was the case in the past three or, respectively, two years (Figure 18).

Moreover, the share of companies that are planning to increase their expenditures for information technology and e-commerce is currently greater than it was in any of the prior survey waves. Plans to increase budgets for research and development, however, remain at about the same level as was found in past years (Figure 19).

Figure 18

Changes in Companies' Planned Expenditures – IV: Widespread Tendency to Increase Investments Aimed at Expanding Capacity

Question: "In which of the following areas will your Luxembourg company increase or, respectively, reduce its expenditures in the next 6 months?"



Base: Total respondents

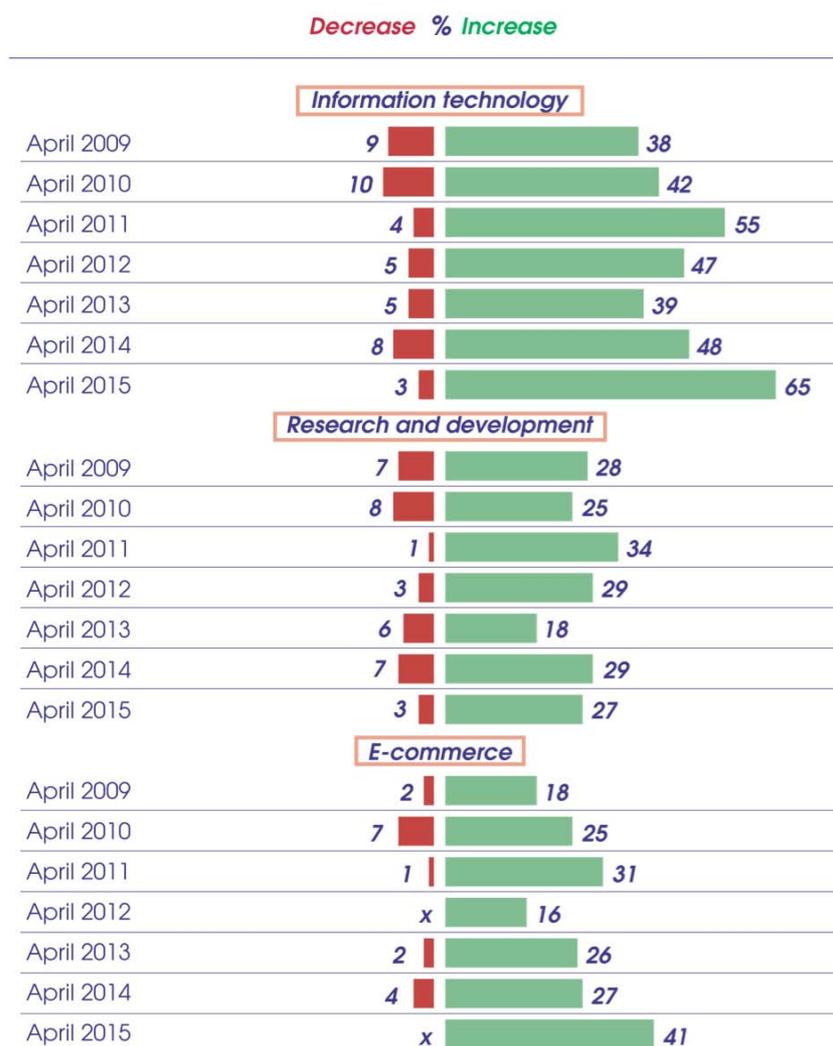
Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

© IfD-Allensbach

Figure 19

Changes in Companies' Planned Expenditures – V: A Boost in Investments in IT and E-Commerce

Question: "In which of the following areas will your Luxembourg company increase or, respectively, reduce its expenditures in the next 6 months?"



x = less than 0.5 percent

Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

© IfD-Allensbach

Fewer barriers to growth, particularly in connection with the labor market

In keeping with their positive economic outlook, the number of barriers to growth perceived by Luxembourg business leaders has also declined. In October of last year, an average of 3 factors were cited as barriers to growth at respondents' own companies. In the current survey wave, the corresponding number has dropped to 2.3 barriers.

The barrier to growth cited most frequently by business leaders are the legislative and regulatory pressures imposed by the state (44 percent), followed in second place by competition from foreign markets, which is cited almost as frequently. Lack of demand is viewed as an important barrier to growth by almost one out of three business leaders, while about one quarter cite the lack of qualified staff. Other barriers to growth are cited considerably less frequently (Figure 20).

In comparison to the findings obtained when this question was posed in 2009, 2010 and 2014, it is striking that factors relating to the labor market are now cited less frequently as important barriers to growth: a relatively small share of entrepreneurs currently view pressures for salary increases and the behavior of labor unions as barriers to their companies' growth. Moreover, the share of business leaders who say their companies' growth is impeded by a lack of qualified staff is considerably smaller now than it was either last year or in the year 2010 (Figure 21).

Figure 20

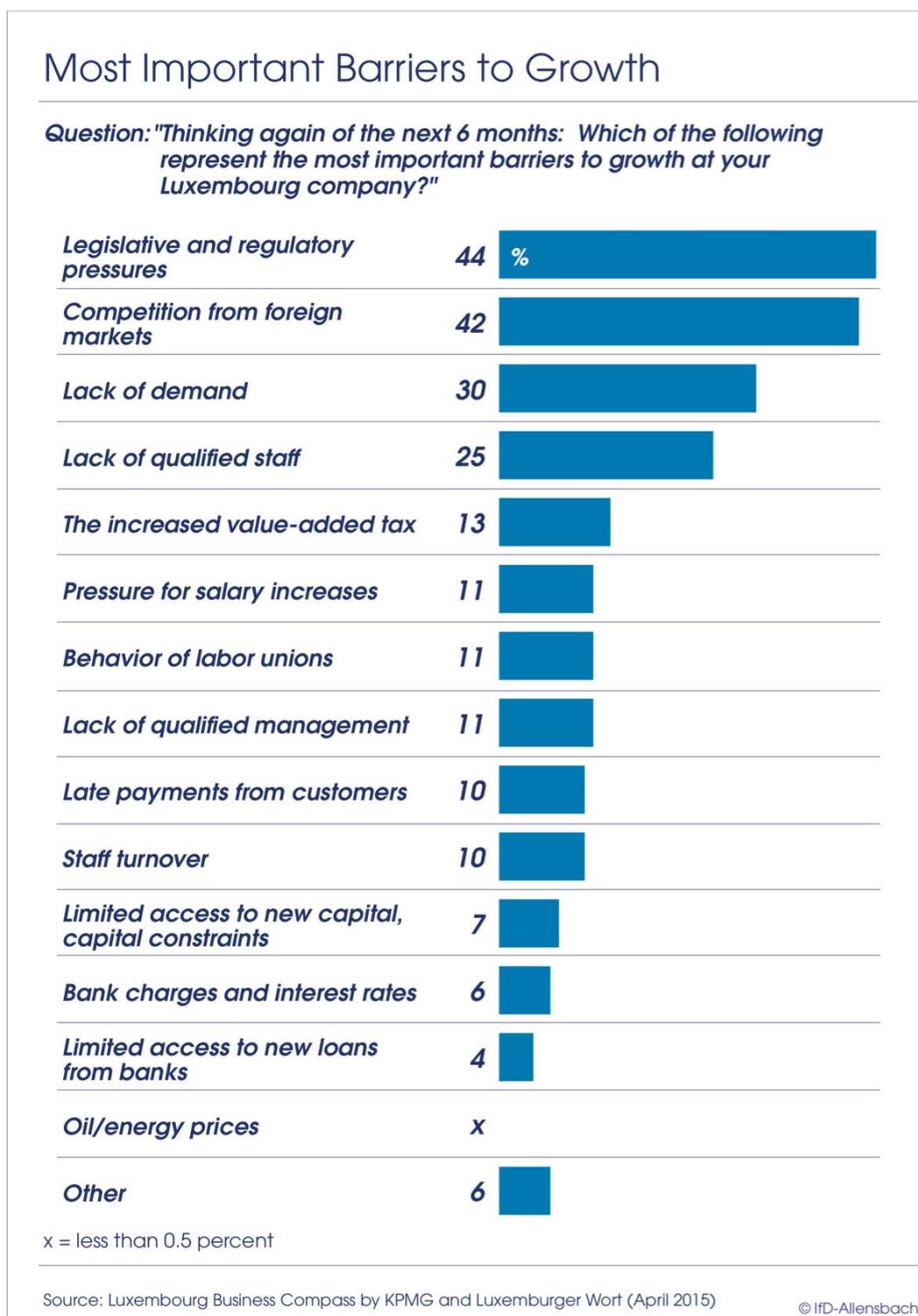
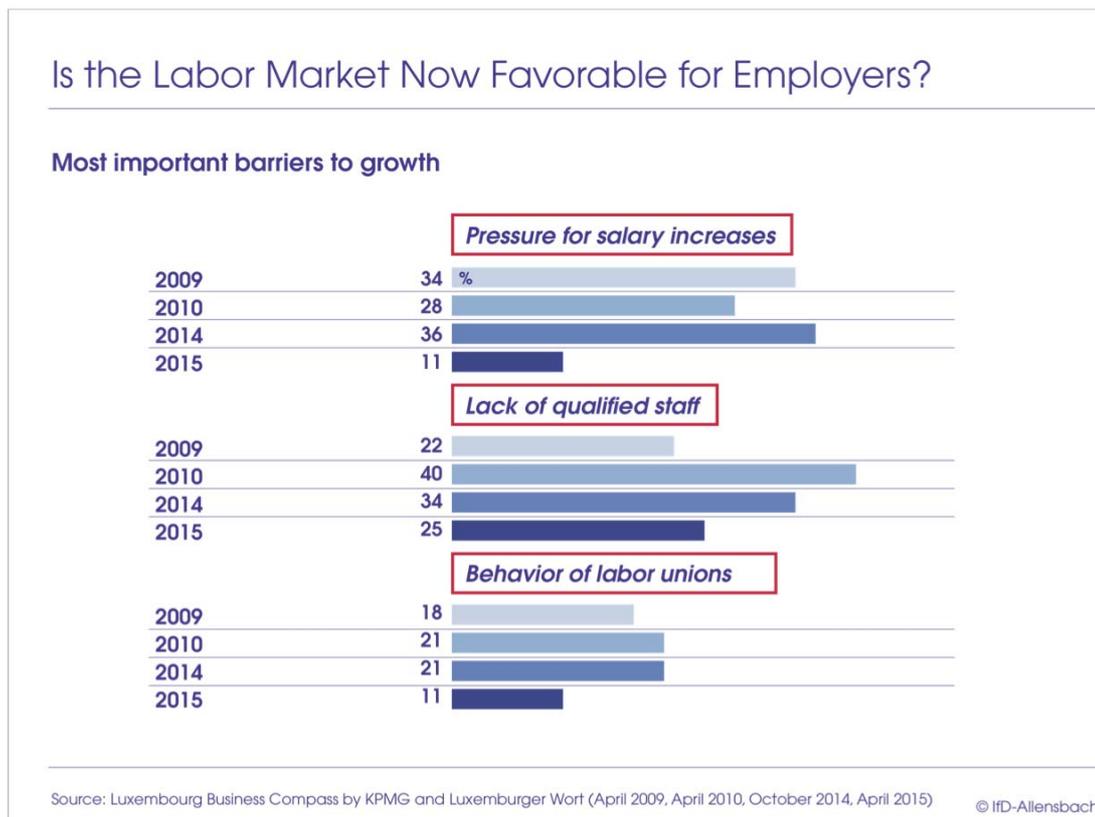


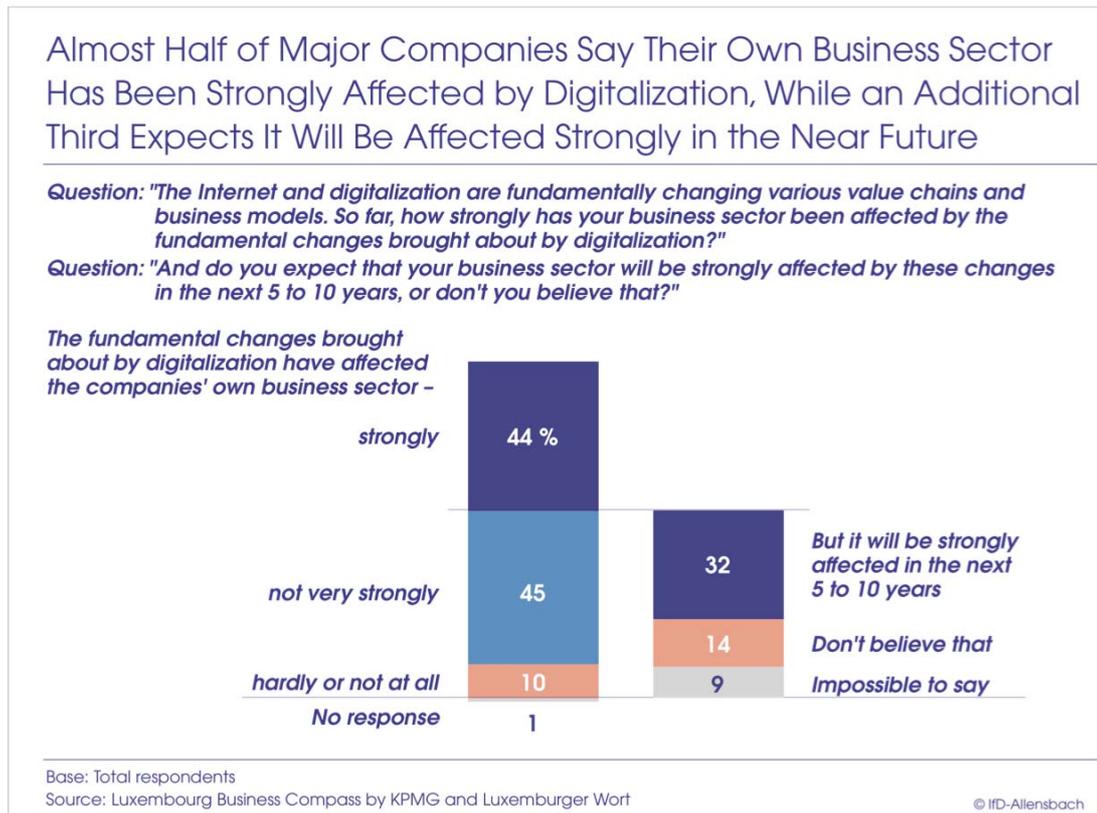
Figure 21



A "digital transformation" at Luxembourg companies: An important issue, but not all companies have made any significant effort in this respect so far

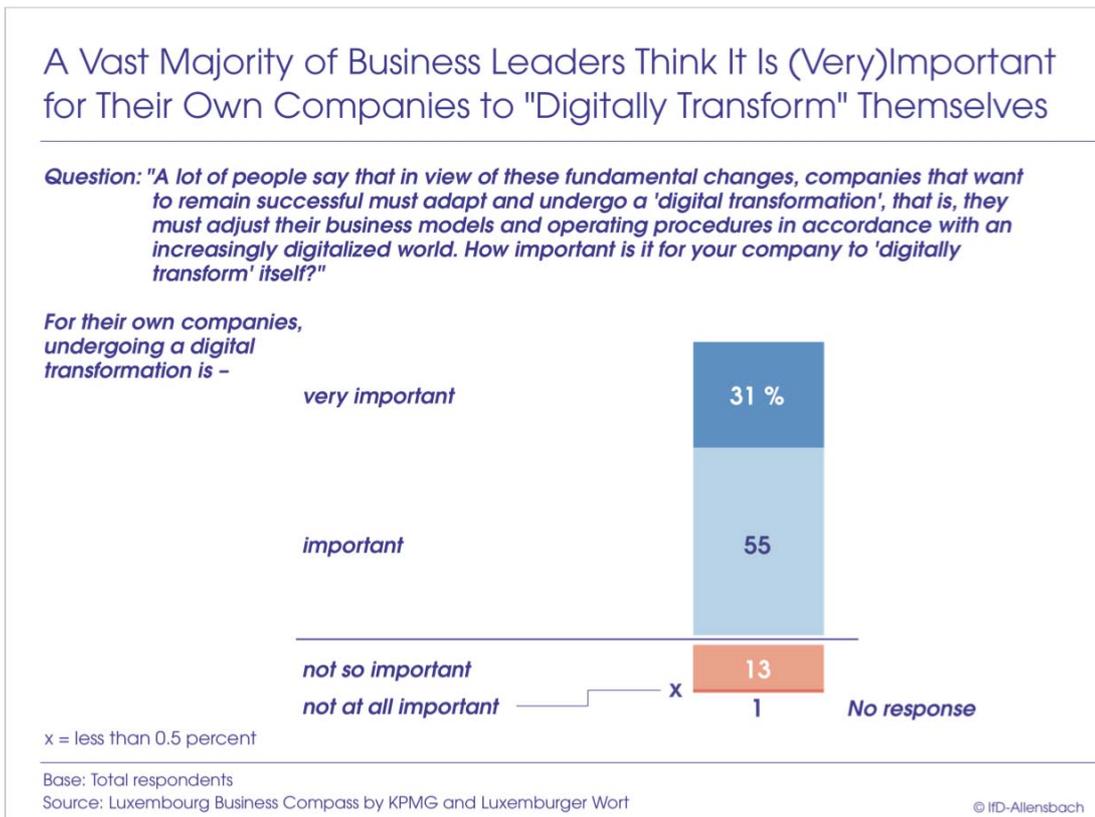
One crucial factor for the future development of Luxembourg companies will be the extent to which they are able to use the digitalization of the business world to their own advantage. 44 percent of major Luxembourg companies say their own business sector has already been strongly affected by the fundamental changes brought about by the Internet and digitalization—and the concomitant changes in various value chains and business models—while an additional 32 percent expect their business sector will be strongly affected in the next 5 to 10 years (Figure 22).

Figure 22



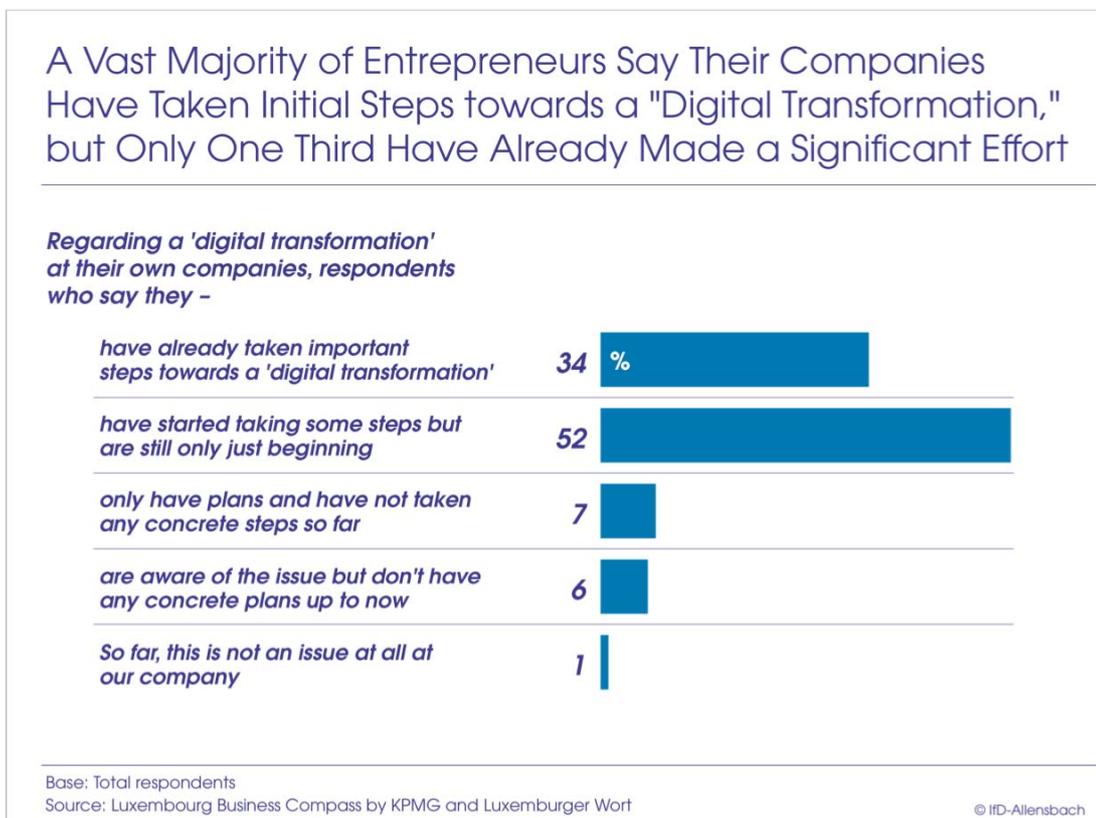
Consequently, a vast majority of business leaders believe it is important for their own companies to adapt to these changes and undergo a "digital transformation," that is, to adjust their business models and operating procedures accordingly: 55 percent of the entrepreneurs say this is important and an additional 31 percent even say it is very important (Figure 23).

Figure 23



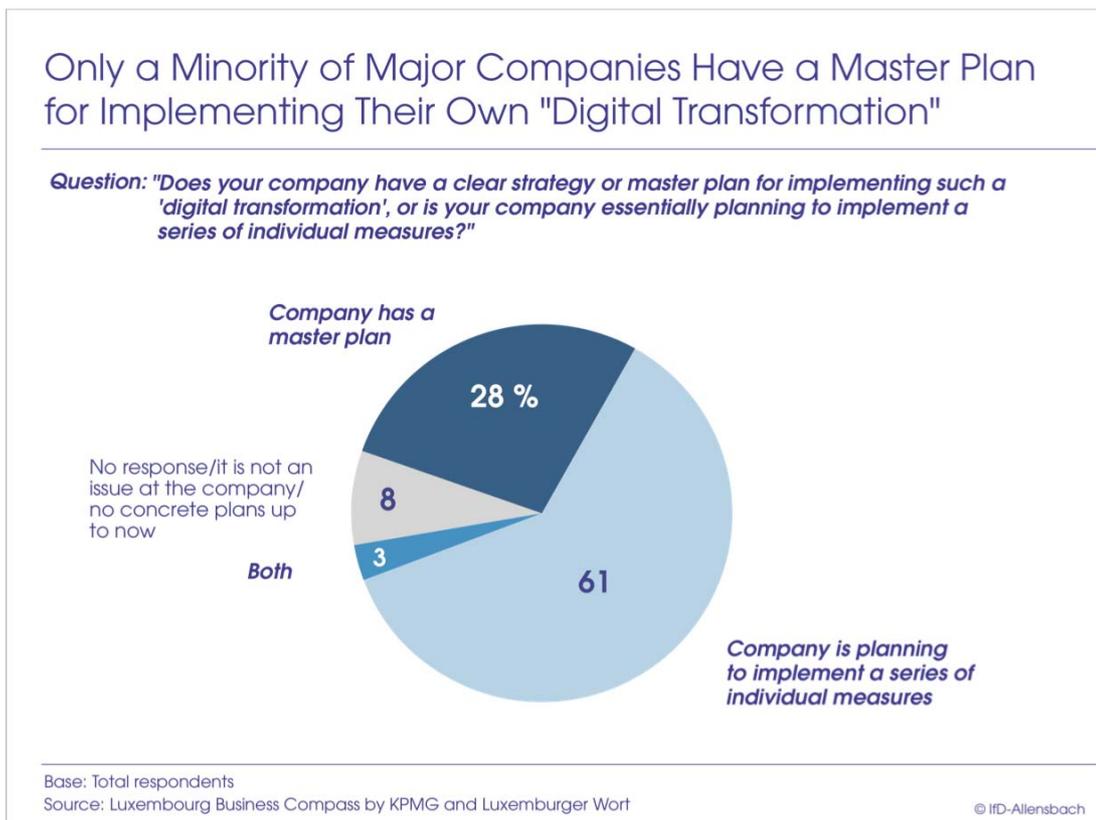
It seems doubtful, however, that the majority of companies have devoted sufficient attention to this issue so far. Although this is an important issue for almost all companies, only about one third of the entrepreneurs interviewed say their companies have already taken important steps towards a "digital transformation." The majority of companies have started taking some steps but say they are only at the beginning of the process. An additional 7 percent plan to undergo a "digital transformation" but have not taken any concrete steps so far, while another 6 percent do not even have any concrete plans (Figure 24).

Figure 24



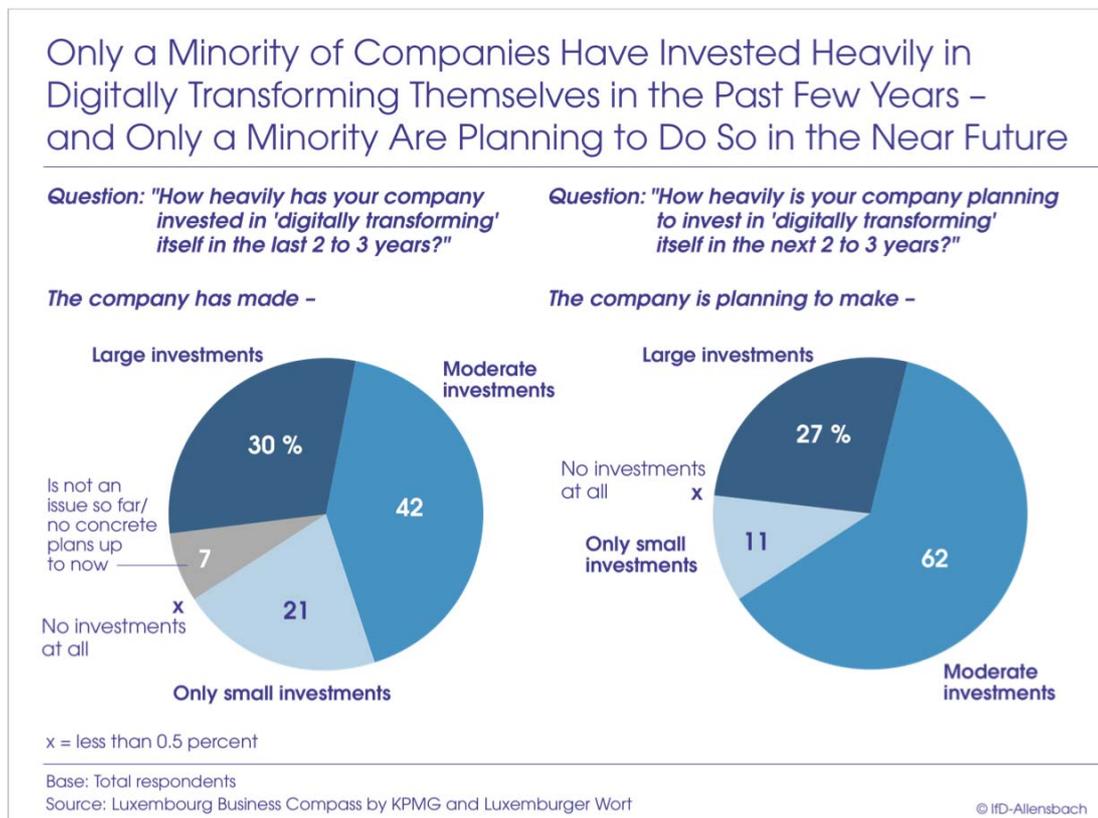
When it comes to how they intend to achieve a "digital transformation" at their own companies, the majority of companies say they are planning to implement a series of individual measures. Only a minority of major Luxembourg companies have a master plan in this connection: Of those companies that already have concrete plans with regard to this issue, about one third are planning to take steps based on a strategic plan, whereas about two thirds intend to implement a series of individual measures that are not based on any underlying master plan (Figure 25).

Figure 25



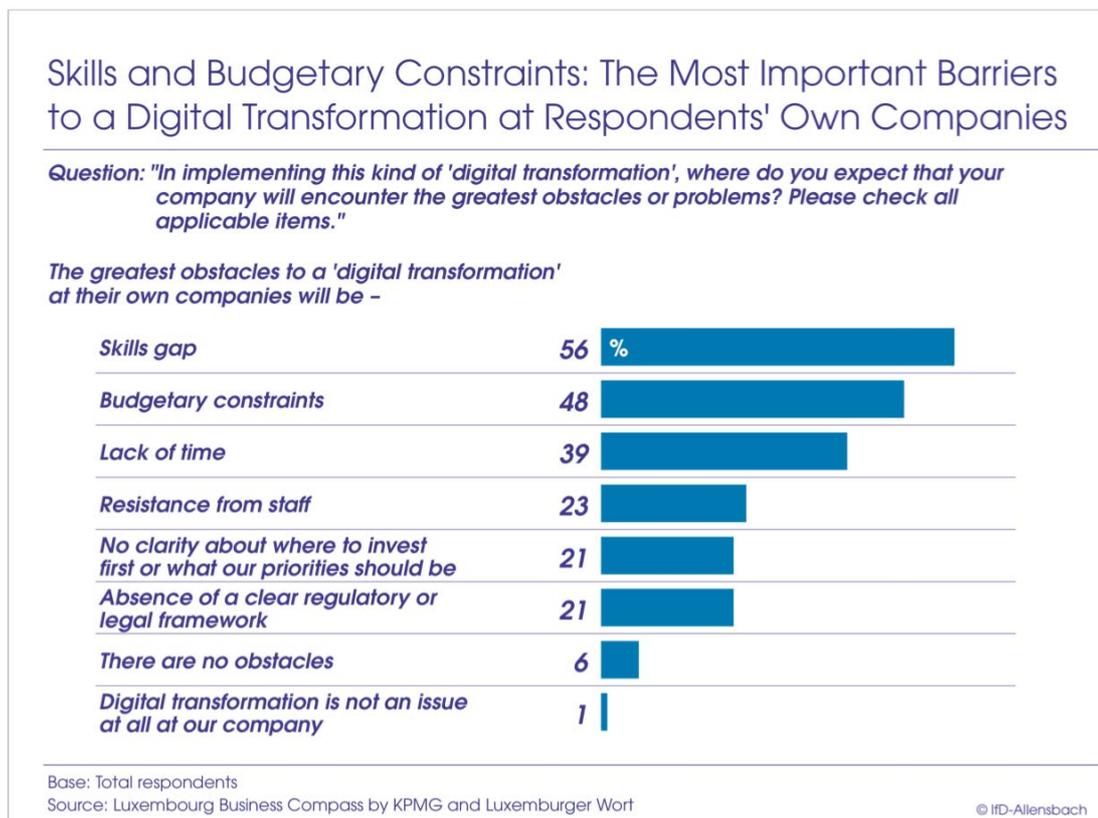
Many Luxembourg companies are apparently still somewhat hesitant about taking the actions needed to digitally transform themselves, as evidenced by their investments in this area. Although 30 percent have invested heavily in this area in the last two to three years, 42 percent of the companies surveyed made moderate investments, while the share that made only small investments was as high as 21 percent. Moreover, when it comes to their plans for the next two to three years, only slightly more than one quarter of companies are planning to make large investments in this area. In contrast, the majority intends to make only moderate investments and 11 percent are even only planning to make small investments (Figure 26).

Figure 26



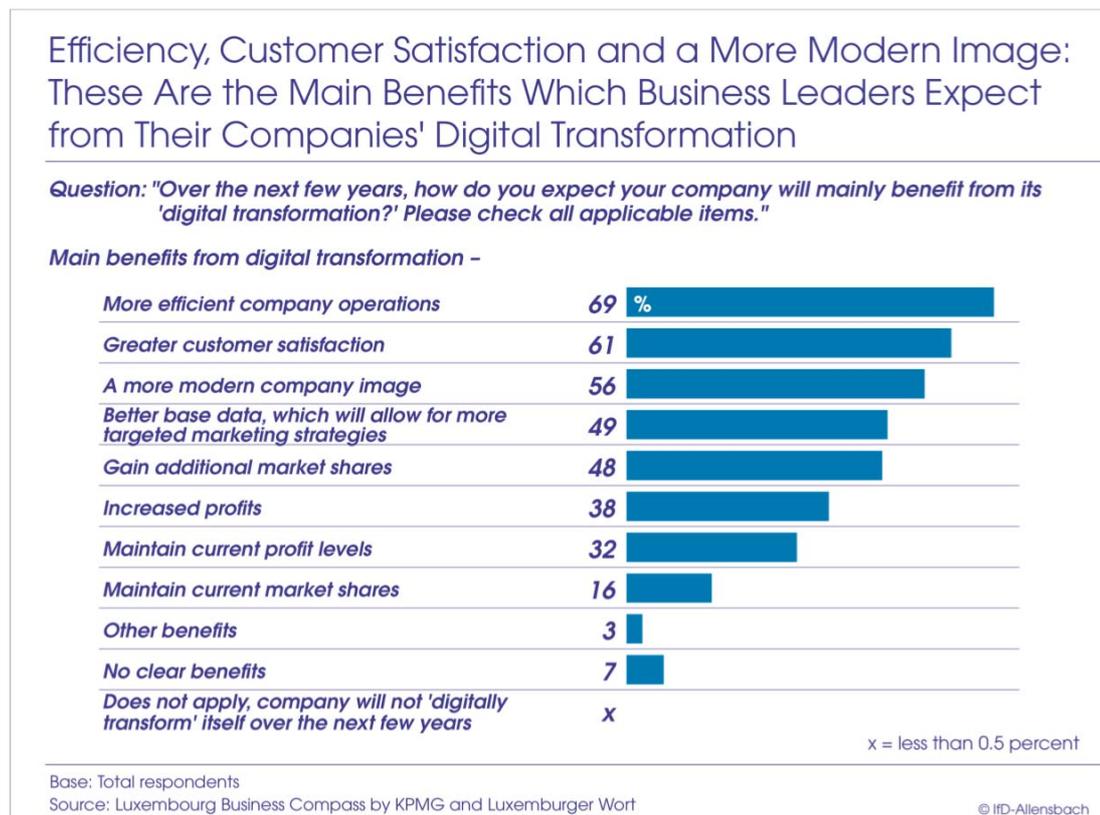
Given the hesitancy of many Luxembourg companies to make significant investments in this area, it is not surprising to find that budgetary constraints are one of the most frequently cited barriers to a digital transformation at respondents' own companies. About half of the business leaders interviewed expect major problems in this regard. Even more frequently, however, they point to a lack of skills as one of the greatest obstacles to their own companies' digital transformation (56 percent). In addition, many companies complain that they lack the time to implement such a transformation. In contrast, factors such as resistance from staff, unclear priorities or the absence of a clear regulatory or legal framework are of lesser importance (Figure 27).

Figure 27



In adapting their own companies to the increasingly digital world, business leaders primarily expect to benefit in terms of more efficient company operations and greater customer satisfaction, each of which are cited by about two thirds of respondents. In addition, they expect that undergoing a "digital transformation" will result in a more modern company image, as well as giving them better base data, which will enable them to market their own products in a more targeted way and ultimately enhance their market shares. At the same time, only about one out of three business leaders expect such a transformation will lead to increased profits. On the whole, in implementing a digital transformation at their own companies, Luxembourg business leaders clearly expect to achieve more active goals, rather than passive objectives such as maintaining their current profit levels or market shares, which are cited by relatively smaller shares of business leaders as the primary benefits of implementing a digital transformation at their companies (Figure 28).

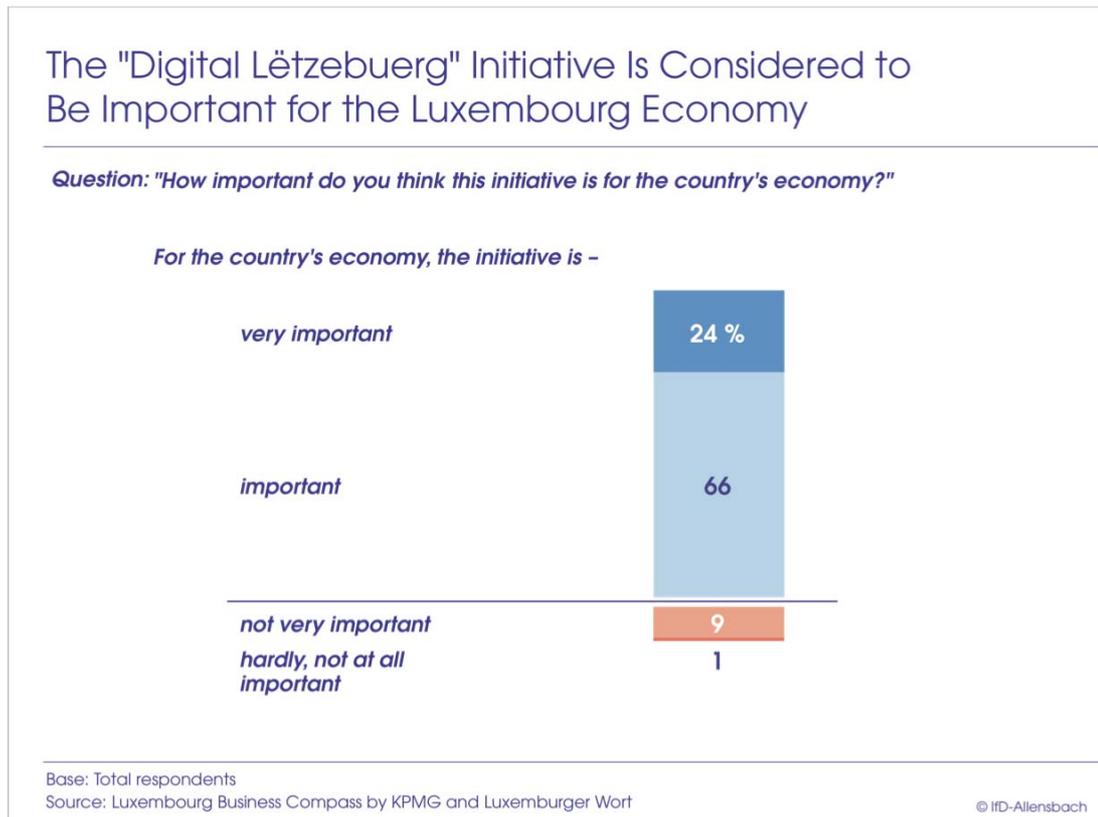
Figure 28



The "Digital Lëtzebuerg" initiative: Important, but many are not familiar with it

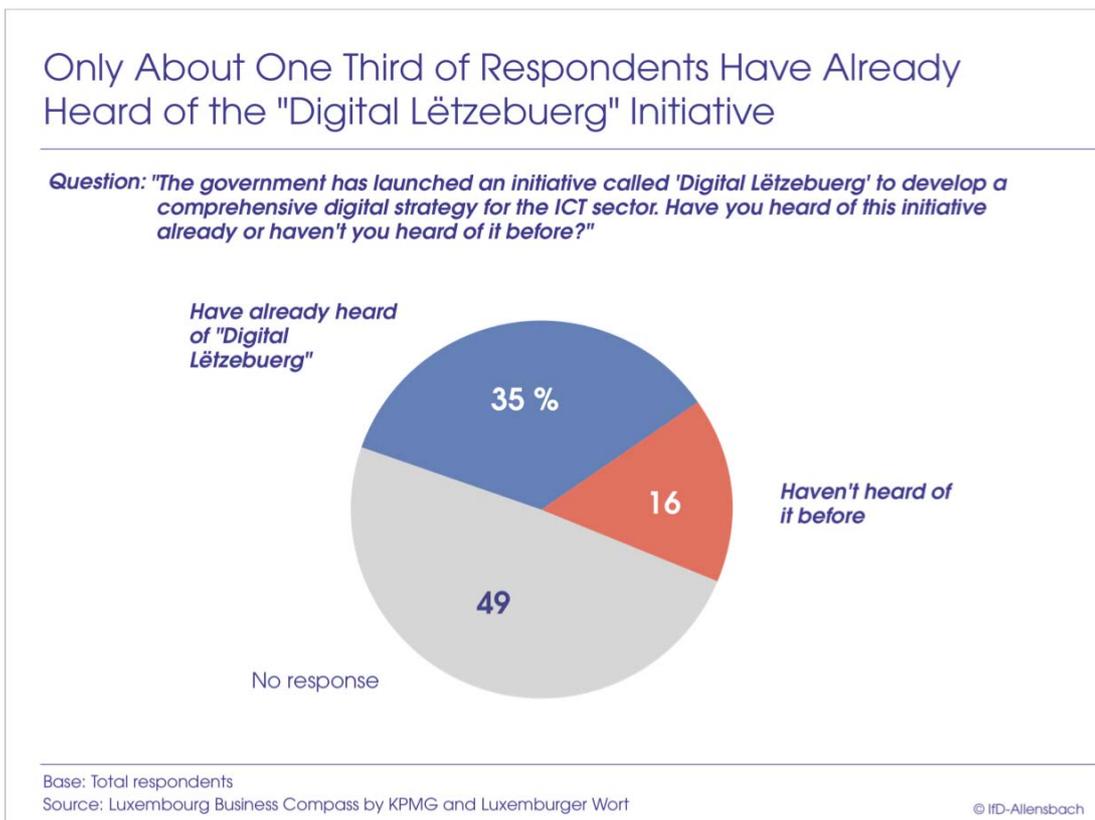
In view of the great significance which business leaders attach to a "digital transformation" at their own companies, it is not surprising to find that the government's initiative to develop a comprehensive strategy for the ICT sector in Luxembourg is also considered to be important or even very important by the vast majority of top decision-makers: specifically, two thirds of the entrepreneurs interviewed say that this initiative—known as the "Digital Lëtzebuerg" initiative—is important for the country's economy, while almost one quarter even believes it is very important (Figure 29).

Figure 29



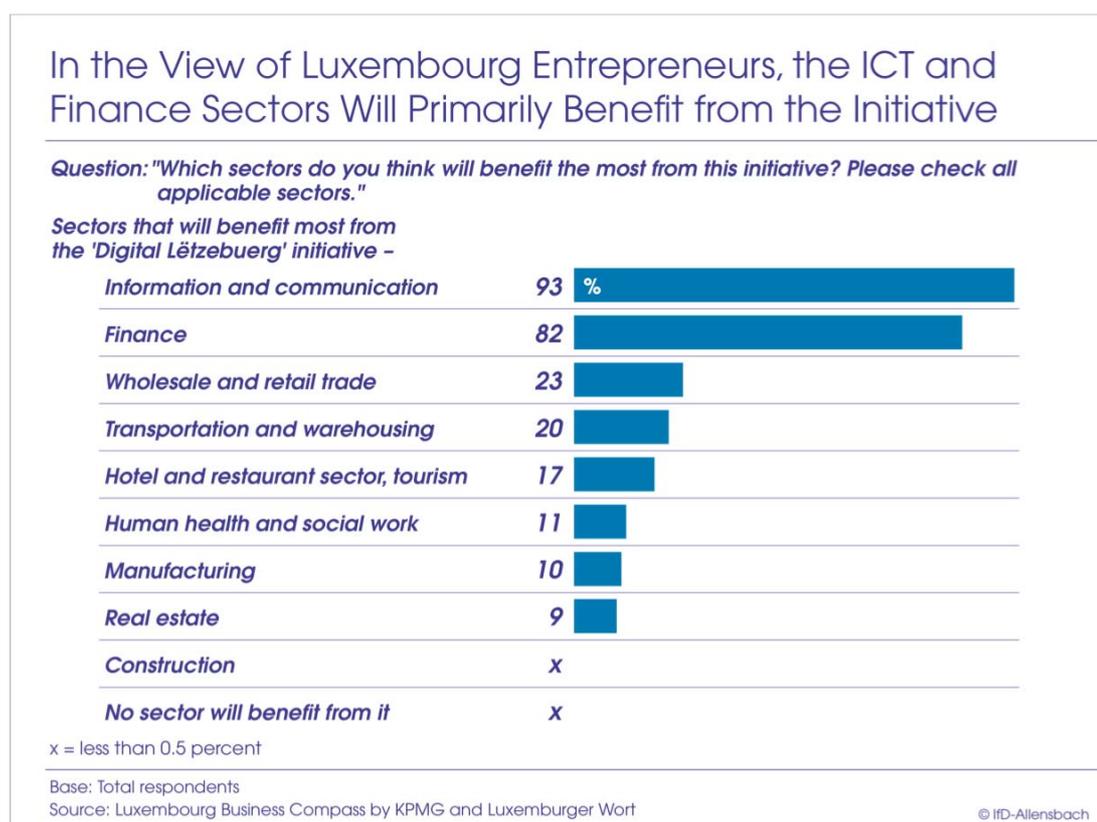
At the same time, however, it appears that a large share of Luxembourg business leaders are not familiar with this initiative. Only 35 percent expressly report that they have already heard of the initiative, while 16 percent say they have never heard of it before. About half of all respondents, however, provide no concrete response to this question. It seems safe to assume that this high level of refusals derives from that fact that respondents were unable to spontaneously associate anything with the name of the initiative (Figure 30).

Figure 30



In the view of Luxembourg business leaders, the "Digital Lëtzebuerg" initiative will be most beneficial for the ICT and financial sectors. Other business sectors are cited far less frequently as the primary beneficiaries of this initiative. One especially striking finding here is that only 10 percent of respondents expect the manufacturing sector to benefit substantially from the initiative (Figure 31).

Figure 31



APPENDIX

Survey data

SURVEY DATA

| | |
|--|---|
| Overall responsibility for methods: | Institut für Demoskopie Allensbach |
| Planning and drawing the sample: | KPMG Luxemburg |
| Group of persons interviewed (universe): | Top decision-makers at the largest companies in Luxembourg, as defined by the number of employees |
| Sampling method: | <p><u>Top-down approach stratified according to business sectors</u></p> <p>The sample was drawn based on the directory^(*) of the Luxembourg statistics bureau (Statec), which lists companies with 90 employees or more in Luxembourg. For each business sector, the number of companies included in the survey was roughly commensurate with the sector's share of the gross domestic product (GDP) of Luxembourg, whereby the companies were selected in descending order according to the number of employees.</p> <p>In the companies selected to participate, every effort was made to persuade a representative of the upper management (owner, CEO, CFO, COO, etc.) to complete the online survey.</p> |
| Number of respondents: | 71 |
| Type of interviews: | Online survey completed after prior notification in writing or by telephone |
| Fieldwork dates: | March 23 – April 14, 2015 |
| IfD Archives Survey No.: | 7225 |

(*) Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2 Situation au 1er janvier 2014 (édition juin 2014)