



# Now or never

CEOs mobilize  
for the fourth  
industrial  
revolution

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**U.S. CEO Outlook 2016**

[kpmg.com/us/ceooutlook](http://kpmg.com/us/ceooutlook)

# From the CEO



“Today’s top business leaders understand that long-term success in this era of fast-paced technological change and global economic shifts requires a new way of thinking and operating. In fact, the corporate playbook is being rewritten and replaced by one that takes business agility to a level we have never seen before.”

**When KPMG’s first CEO Outlook launched in 2014, our mission was to go beyond the short-term snapshots of other surveys in the marketplace, to uncover longer-term insights on what business leaders saw – and were planning for – over the next three years.**

**In our third CEO Outlook, after surveying 400 U.S. leaders of companies in a multitude of sectors, more than two-thirds said that the next three years will be more critical for their industries than the previous 50 years.**

This sentiment is rooted in the profound changes that continue to shape the concerns and priorities of CEOs – the evolution and integration of advanced technologies, a more informed and powerful customer, and the pressure to innovate, to name a few. External forces continue to create unique challenges for CEOs with Britain voting to leave the European Union being the latest example.

That said, over the three-year horizon of our study, the CEOs we spoke with remain confident that they can successfully navigate through those changes and transform their organizations to prosper. Business is nothing if not adaptable and the leaders of today’s enterprises will find ways to work through periods of uncertainty.

This ‘change-challenge-optimism’ balance permeates our CEO Outlook. Company leaders in 2016 know more about how products are used and where services are needed than at any other time in history, but they also name marketplace relevance and the threat of disruptive competitors among their greatest concerns. They are putting a stronger client focus at the top of their strategic priorities, and see opportunities in “collaborative growth” – the building of alliances and partnerships to swiftly add innovative capabilities to their operations.

KPMG’s CEO Outlook: Now or Never offers powerful insights into the greatest concerns of CEOs, and provides a clear picture of how today’s business leaders are moving to meet tomorrow’s greatest business challenges.

We sincerely thank the CEOs who took the time to share their views with us for this report.



Lynne Doughtie  
KPMG U.S. Chairman and CEO

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# Executive summary

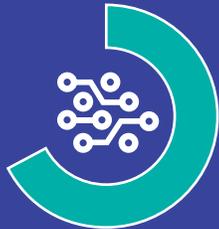
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**Two-thirds of chief executive officers (CEOs) believe that the next three years will be more critical than the last 50 years. The forces creating this inflection point will be rapidly evolving technology and the speed of transformation it unleashes. In three years' time four out of 10 CEOs expect to be running significantly transformed companies. Such change is causing some concerns about current capabilities. CEOs recognize that they are now handling issues that they have never grappled with before.**

CEOs believe their organizations will need to develop incredible agility to stay ahead of the disruption caused by the fourth industrial revolution: the proliferation of cyber-physical systems, machine learning, and the growing connections between everything with a sensor. This need for change is happening amid a slow and uncertain economy, geopolitical risks, and the ever-present threat that a new competitor could turn an established business model on its head overnight. At the same time, CEOs have never before had so much information about how their customers use their products and services, where their companies operate effectively—and where they don't. That transparency sometimes extends to regulators and the public, and CEOs must pay more attention to the optics of how they do business. Having recognized their tasks and needs, CEOs are bracing themselves for the next three years with confidence and realistic expectations.

# Key findings



**Two-thirds of CEOs believe that the next three years will be more critical** for their industry than the previous 50 years.



**Two-thirds of CEOs are turning to partnerships** and nearly as many are looking at acquisitions for the technologies that give their products and services a competitive edge rather than relying on organic growth.



**85 percent of CEOs admit vulnerability about the amount of time they have to spend strategizing** about the forces of disruption and innovation, and an overwhelming majority are apprehensive about the integration of basic automated business processes with artificial intelligence and cognitive processes.



The ability to know how their products are used and where their services are needed at a very granular level is already transforming many business processes and in some cases, the entire make-up of the organization. **Four out of ten CEOs (39%) believe that their organizations are likely to be transformed into significantly different entities.**



**Customer loyalty is a concern for 90 percent of CEOs.** Just over half believe they are not keeping pace with customer expectations.



**CEOs believe that technological change** will be one of the biggest factors impacting growth over the next three years, second only to economic factors.



**Two-thirds of CEOs are concerned that their organizations are not disrupting business models.**



**CEOs named cybersecurity as their top risk**, followed closely by regulatory risk—evidence that a more connected, always-on operating model is shifting the risk landscape.



**CEOs named data and analytics as a top three investment priority for the next three years.** CEOs plan to dive into ever-expanding data resources to develop new products and services as well as drive efficiencies and strategy.



**CEOs see the engines for potential growth** as India (44%), followed closely by the United States (37%) and China (36%).

# Leadership in the age of disruption

**It's now or never. Two-thirds of U.S. CEOs believe that the next three years will be more critical for their industries than the last 50 years. The next three years will be led by technology, speed, and convergence. These three forces will upend business models, blur lines between industries and companies, and demand a new way of thinking about business. Much of what will happen is unknown and unknowable. What is impossible today may become mainstream tomorrow. For many, this is a battle for relevance that could well be decided over the next few years.**

CEOs believe that technological change will be one of the biggest factors impacting growth over the next three years, second only to economic factors. "There is this elusive pursuit of growth and it is very difficult," says Gary Burnison, CEO of Korn Ferry, the executive placement firm. "I think that CEOs have only a few levers: You can innovate or you can consolidate but you have to do anything you can to tap this borderless consumer," he says. As with many other organizations, Korn Ferry's revenue sources are shifting dramatically. "We're trying to define an entire new industry," says Burnison. "We have to reimagine the future and maintain a mindset of 'how could we put ourselves out of business?'"

For CEOs the goal is clear: to create a more intelligent, data-driven experience for their customers, their innovators, and their partners. But the landscape is changing so fast that it's increasingly difficult to have a reliable long-term, or even medium-term, view. The lines separating industries, companies, technologies, and customers are disappearing. CEOs see far more collaborations between organizations taking place because of the need for speed and the realization that "rent" or "collaborate" is a viable and often preferable alternative to "build" or "buy."

Companies are forming partnerships with their competitors, who may be at the same time suppliers, universities, or start-ups. Customers are becoming part of the innovation process. This results in a diffusion of power and responsibilities. CEOs find themselves managing and monitoring an incredibly complex ecosystem that extends far beyond the walls of their business.

"Companies must evaluate their allocation of capital based on a radically different set of objectives in this environment," advises Scott Ozanus, U.S. Deputy Chairman and COO, KPMG LLP. "The need for continuous innovation, rapid integration of new technologies—including cutting-edge sensory capabilities—as well as the hiring and retention of a new breed of talent with sophisticated skillsets, calls for replacing conventional investment priorities."

## CEO concerns

Keeping up with new technologies

81%

New entrants are disrupting our business model

76%

Our organization is not disrupting business models in the industry

66%

An effective strategy to counter convergence in the market

59%

The amount of time I have to personally think strategically about the forces of disruption and innovation shaping our company's future

85%

The number of mission-critical issues that I have not grown up with or experienced previously in my career that require my leadership

69%

It is amid such shifting realities that CEOs are setting their short- and long-term strategies and executing them. The global and national economies add headwinds, with a very low interest rate environment, high volatility, and political uncertainties. No wonder then that CEOs' concerns about keeping up with the future have mostly increased since last year. They are anxious about all angles of disruption coming at their companies and ways to pre-empt them. They are also concerned about whether or not they are taking the lead in disruption themselves (see chart).

CEOs recognize that they are operating in a new world. Sixty-nine percent are concerned about dealing with issues that they never had to confront before (see chart). They are, for example, coming from a world of companies with very defined boundaries—one where they knew who their customers and suppliers were—to a much more porous business environment.

"Many of these changes are secular, not cyclical. Yet, when demand starts to shift, too many companies tend to plan around a return to normal that never happens," says Warren Stephens, CEO of Stephens Inc., a boutique investment bank and wealth management firm. Stephens' focus includes small- and mid-cap

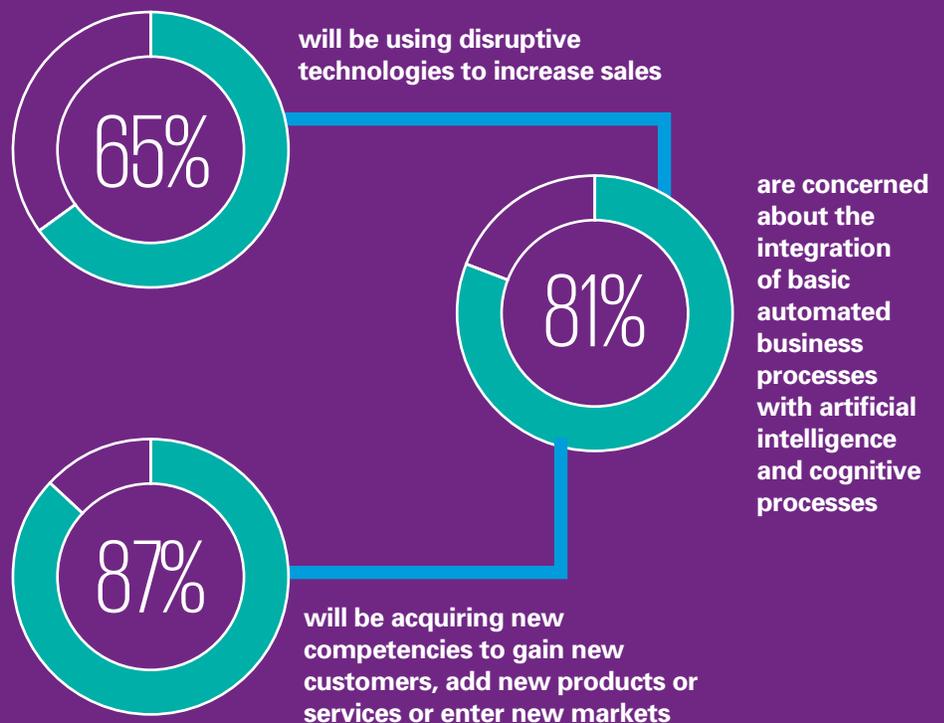
companies that are buffeted by the same macro trends affecting all businesses now. "One of my father's guiding principles was to be in business tomorrow, which I thought was kind of silly when I first started," he says. "But having seen a lot of firms go out of business in my career, it makes perfect sense."

Business model and technology disruptions certainly represent a threat, but more importantly, they offer an opportunity for CEOs to continually reinvent their businesses. To get this right, they must establish and maintain an organization with an environment that encourages, embraces, and rewards change and innovation and continually adapts to take advantage of new ideas and customer expectations, according to Steve Chase, KPMG's U.S. Management Consulting leader.

"While technology disruption has always been an issue, the difference today is speed. A new idea can gain traction and be into its third or fourth iteration in the time it used to take to go through the first cycle," says Chase.

"Firms that focus on the customer experience while bringing automation, speed, and agility to the back office will be well-positioned to respond to market dynamics." ●

**CEOs are also concerned about** the essence of the fourth industrial revolution, integration of cognitive computing and artificial intelligence. CEOs have recognized that their current skills and experience may not be enough to fully succeed in the digital world. But this is the know-how they need.



# Disruption fuels opportunity, innovation in manufacturing

Brian Heckler, National Sector Leader, Industrial Manufacturing, KPMG LLP

**Manufacturers are highly focused on achieving new growth. Yet, with limited baseline growth expected in most markets, only 19 percent of U.S. manufacturing CEOs are very confident in their companies' prospects for growth over the next 12 months. Companies are engaged in a brutal competitive fight to steal market share away from rivals—old and new. And to remain competitive, manufacturers will need to innovate and invest in new technologies, which CEOs believe will have the biggest impact on the growth of their companies over the next three years.**

In this aggressive environment, fostering innovation is the top strategic priority for CEOs today. Manufacturers are facing disruptive forces from many directions—new technologies and competitors are emerging, the speed of innovation is accelerating, and the technology innovation cycle is shortening. Collaboration with new and traditional players will become increasingly important in driving innovation at their companies, and may take many forms.

Some partner with their suppliers and vendors to develop new innovations at the product level, while others are joining forces with non-traditional players like start-ups and technology companies to identify, develop, and commercialize new innovations. Almost all (eight out of 10) of the U.S. manufacturing CEOs we surveyed agree that it's critical to connect with external parties such as suppliers, start-ups, and academic and research institutions to drive innovation.

However, innovation doesn't stop at the product level—today's manufacturers need to be equally innovative in the way

they adapt their business models. In fact, the overwhelming majority of CEOs admit that new entrants are disrupting their business models and, as a result, nearly half of CEOs (49%) acknowledge that their organizations will likely be transformed into significantly different entities over the next three years.

Innovation, sector convergence, and the entrance of non-traditional manufacturing companies are transforming the industry, creating both opportunities and threats in the shape of new markets, channels, and technologies. The pace of innovation will continue to accelerate as new disruptive forces and innovators revolutionize product development, manufacturing processes, automation, and business models.

Disruption creates opportunities for those with the vision, and the will and skill to move quickly. Innovation waits for no one; those who fail to embrace the new reality of the innovation cycle will soon find themselves left behind.

# Building agility

**Four out of 10 CEOs anticipate that their companies will be significantly transformed over the next three years. CEOs are building their strategic priorities around a focus on the customer, fostering innovation, and infusing their organizations with new talent. They are investing in new product development, cybersecurity solutions, and data and analytics capabilities.**

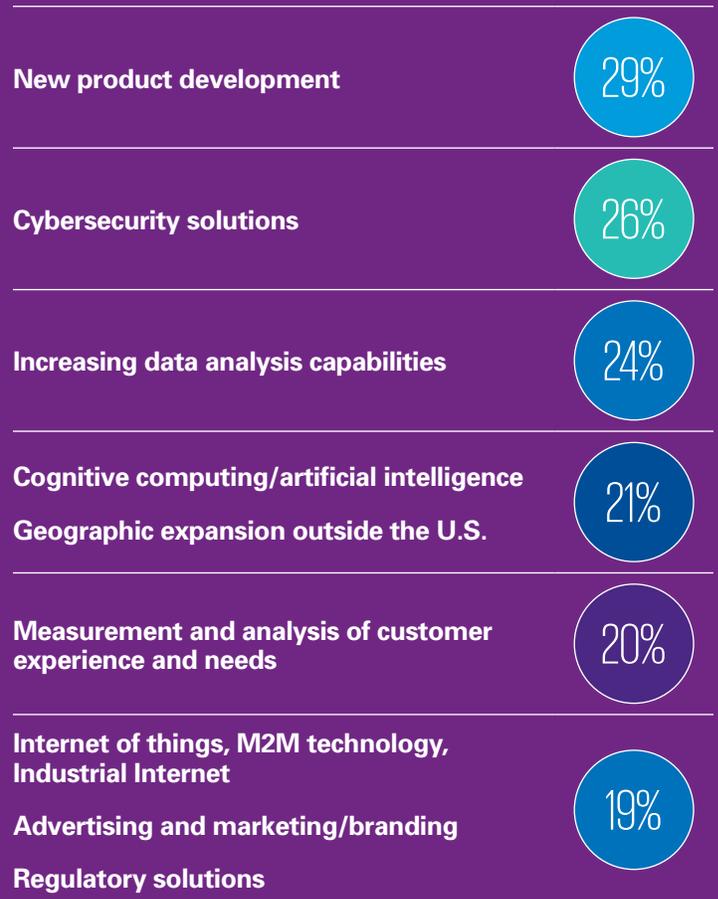
CEOs recognize that they must think beyond servicing their clients today, says Carl Carande, Vice Chair of Advisory at KPMG LLP. CEOs are worried about the bigger question: Is what we are doing today going to be relevant tomorrow?

That may be a hard question to answer, but Mike Nolan, Vice Chair of Innovation & Enterprise Solutions at KPMG LLP, believes that it is possible to spot opportunities if you have a systematic approach to understanding disruption—whether from demographics, innovation, or start-up activity. “If you can mine the signals of disruption early, then you can prioritize your investments to respond, and adapt your talent and business models to capitalize on it all,” he adds. “And I think business leaders who harness those trends accurately will stand to be the big winners in the marketplace while others inevitably will fall behind.” →

## Strategic Priorities



## Investment Priorities



## Building agility (continued)

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But for all the change that CEOs see ahead, the reality is that very large enterprises tend to become efficient at doing things a certain way. “One of the classic tradeoffs in efficiency is innovation and as a result, companies have historically not done a good job fostering talent that thinks differently, which is why they’ve become more attracted to M&A,” says Alex Miller, U.S. Service Lead, KPMG Strategy. He believes it would be more useful for companies to think hard about the true value that they bring to their customer, and then start with a blank piece of paper and ask: “How would you do this today if you were starting this business from scratch?”

The board of directors at one life sciences company that Miller worked with recently was convinced of their invincible position

because no competitor would be able to match their sales force, their distribution model, and their logistics and warehousing capabilities. “Most companies are paranoid that a new or existing business competitor would copy their historical strategy—that couldn’t be further from the truth. Most of today’s disruptors start with the customer and assess what they value the most and what is lacking in the current offer,” says Miller. “My client’s customers didn’t place value in the company’s traditional strengths, such as a strong in-stock position in numerous locations and a large field sales force. They wanted strong technical support to maintain uptime and efficient low cost products delivered with minimal management attention.” ●



# Restructuring business models to thrive

Q&A with Regina Mayor, National Sector Leader, Energy, Natural Resources and Chemicals, KPMG LLP

**Energy companies have come to terms with the fact that they need to make fundamental changes to business models in order to remain competitive. The prolonged commodity price situation, technological advances and other disruptive forces have been shaking up the energy industry for some time now, creating challenges and opportunities for companies across all energy segments and operational activities.**

Sixty-eight percent of energy CEOs plan to focus on inorganic growth activities — such as utilizing acquisition or joint ventures to achieve growth or expansion in geographies or capabilities — to drive shareholder value over the next three years. Regina Mayor, National Sector Leader, Energy, Natural Resources and Chemicals, offered her perspective on the situations CEOs are facing in the oil and gas and power and utilities sectors.

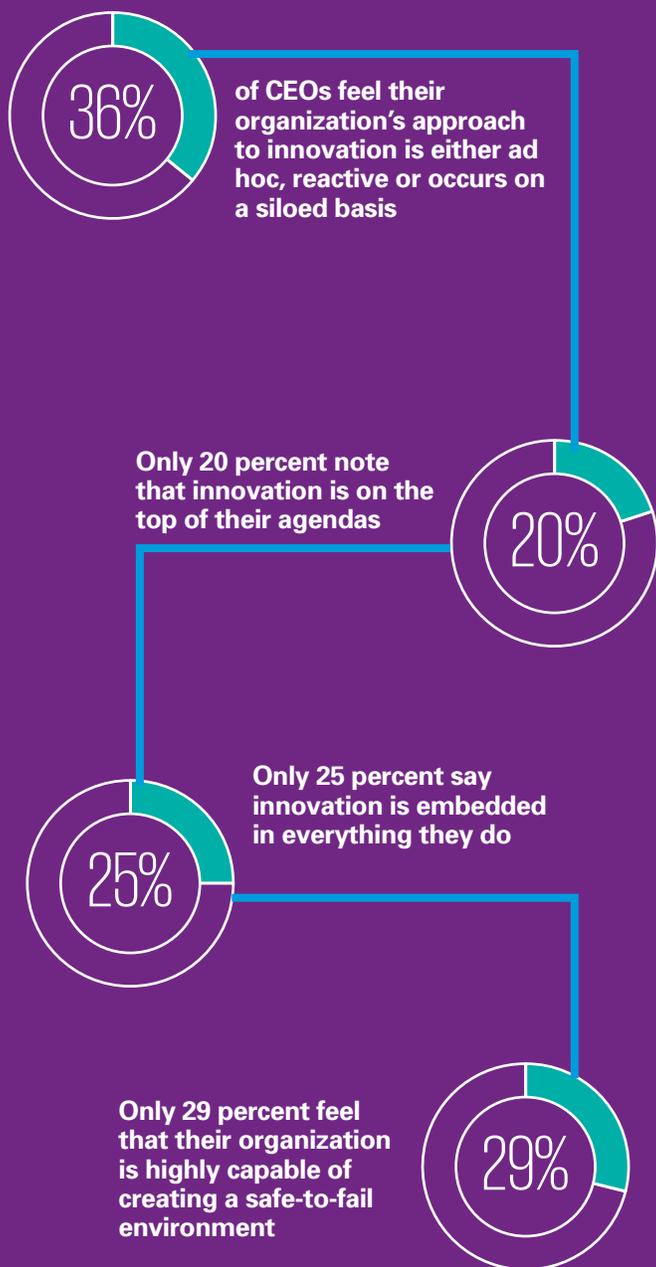
**Oil and Gas — How are CEOs of oil and gas companies adjusting to the commodity price environment?**

CEOs have realized that commodity prices are not going to return to pre-2014 levels in the near-term. They must get on with making the drastic, and sometimes painful, decisions about the future of their businesses. As former CEO of Ford Alan Mulally noted at KPMG's 2016 Global Energy Conference, companies do not often survive after witnessing a 70 percent decline in revenue. Despite this grim reality, oil and gas companies are showing resilience by undertaking the transformative changes needed to strengthen their businesses. Strategically, companies are looking at acquiring assets to build or restructure their businesses as competitors file bankruptcies.

**Power and Utilities — How are CEOs of power and utility companies preparing for the disruptive technology trends impacting the sector?**

Renewable technologies are growing at a rapid pace, and the industry model is shifting to a more distributed and unbundled operation that is redefining energy supply and delivery. Companies are accelerating investments in gas-fired generation, while investment and M&A in infrastructure are driving industry transformation. CEOs are grappling with how to adapt to this changing energy distribution mix and meet regional demand while adhering to regulatory requirements. This is underscored by the 44 percent of CEOs surveyed who completely agree that regulations will inhibit their growth. This will be a key obstacle as the industry structurally evolves to adapt to new technologies and market participants.

# Struggling with innovation



**CEOs recognize the connection between disruption and innovation, yet they struggle to foster innovation that doesn't fit effectively into their own planning, budgeting, and investment assessment models. CEOs in our survey said innovation was one of their top three priorities. But for more than a third of CEOs, innovation is either ad hoc, reactive, or occurs on a siloed basis with unpredictable results. Less than a third of CEOs believe their organization is highly capable of creating a safe-to-fail environment.**

Despite the ad hoc approach that many CEOs take to innovation, 79 percent rate their management teams as capable to highly capable when it comes to innovation acumen, and 74 percent believe they are capable of making the right investments and obtaining the right resources. CEOs express a great deal of confidence in their ability to respond quickly to market opportunities, but there are no quick fixes when it comes to ingraining innovation and addressing disruption, says KPMG's Carande. "Innovation does not have a really clear beginning, middle, and end," he says. "Innovation has to become part of the culture and the DNA of an organization but it's not always a natural fit," he explains. "It doesn't fit neatly into budget cycles and annual planning."

Instead, innovation has to be more of an ongoing process, says KPMG's Nolan. He believes CEOs should encourage experimentation but with enough stage gates so anything that's not working can fail fast. "You have to look at innovation as a portfolio of investments that aligns with your risk appetite and you need a process from idea to market," he explains.

For Justin Wheeler, CEO of Berkadia, a commercial real estate joint venture between Berkshire Hathaway and Leucadia National Corporation, innovation is a process that starts at the top. "If it's going to be given the right amount of focus, it's got to be the CEO who's driving it," he says. Berkadia established an innovation office and appointed a chief innovation officer with a technical processing background. "What we're trying to do is marry business processes with technology that really drives innovation," he explains. "It's not just about the computers and software," he adds. "There are probably 40 kids right now in Silicon Valley in their parent's garages trying to figure out how to disintermediate us and we want to disrupt ourselves before someone else does."

At Allison Transmission, a manufacturer of transmissions and propulsion systems for commercial vehicles, CEO Lawrence Dewey leads technology "scrums" with the company's engineers. "These scrums are a freewheeling exploration of how various emerging technologies might be incorporated into our product development process," explains Dewey. The company also has

a cross-functional committee for prioritizing development focus. Other examples of innovation include IT-enabled capabilities such as algorithms to improve performance as well as analytics to manage uptime and life cycle costs. This is important for a company like Allison that would have a hard time growing market share. “In some of our end markets, we have essentially reached the limits of market penetration so we also focus on increasing penetration in other applications for our products.”

Fostering innovation may be a top strategic priority for CEOs, but the reality is that many large organizations still have biases that

make real innovation difficult, and many of those challenges have to do with people and process, says KPMG’s Miller. “Companies aren’t good at hiring different talent and rewarding that talent to innovate and sometimes fail,” he explains. “But they are good at understanding what works in the market because they can see when their customers are buying things from other people.” They have two choices. They can hire similar people and develop more innovative products, or they can try to acquire those innovative products. “That’s become incredibly more valuable in recent years,” says Miller. ●





# Life sciences CEOs perceive innovation differently

Ed Giniat, National Sector Leader, Healthcare and Life Sciences, KPMG LLP; Alison Little, National Advisory Leader, Life Sciences, KPMG LLP; Liam Walsh, National Advisory Leader, Healthcare and Life Sciences, KPMG LLP

**CEOs at drug and device makers tend to view their industry as special with a higher purpose dedicated to improving patients' lives. As such, they place a different value on innovation compared with their peers and seem to grade it on a much more difficult curve than other industries.**

In most gauges of the survey, the 38 life sciences CEOs surveyed viewed their organizations' own abilities tied to innovation as "somewhat important" rather than "very important."

This may be surprising given their need to create new products to offset patent expirations and generic drug competition. However, nearly 40 percent of the life sciences CEOs described their organizations' approach to innovation as "foundational" and occurring on some

projects and another 29 percent said it was best described as "regularly occurring with a defined approach."

"Drug and device makers have so much intellectual depth that their leadership has an understated and much more nuanced view about innovation compared with other industries," said Ed Giniat, National Sector Leader, Healthcare and Life Sciences, KPMG LLP. "The drug approval process may not appear innovative, since it is highly regulated and driven by scientific protocols. This may mask the true levels of innovation underpinning the product development."

Presently more than 7,000 drugs are in development worldwide and more than \$500 billion has been invested in R&D since 2000, according to PhRMA, the industry trade group. In fact, life sciences CEOs said their process around developing ideas to commercialization — the essence of bringing drugs and devices to market — is "very important" (50 percent) and "somewhat important"

(39 percent). They also placed a high priority on "connecting in a beneficial way" with start-ups and universities.

"Alliances and research partnerships are important for building the life sciences' product pipeline, since in-house R&D departments cannot have a monopoly on all the interesting research," said Alison Little, National Advisory Leader, Life Sciences, KPMG LLP.

This seems to be paying off. After some slow-growth years in the life sciences industry from patent expirations, U.S. CEOs are far more upbeat about their industry as well as their own specific companies compared with executives in other industries.

"Improved data and analytic tools are having a role in helping to build drug pipelines and target patient groups for medicines," said Liam Walsh, National Advisory Leader, Healthcare and Life Sciences, KPMG LLP. "Questions remain about the industry's ability and willingness to transform to make the most of their product portfolios."

# Build, buy, rent, or collaborate

**CEOs can no longer rely solely on their organic strategies to produce corporate growth. They recognize that the opportunities and the pressures that they're under to grow are greater than what they can achieve internally. Two-thirds of CEOs said they are accelerating execution by forming partnerships and 58 percent said they plan to make strategic acquisitions (see chart).**

The reasons are clear. Most transformational technologies are outside the core competency of the average organization. Machine learning and artificial intelligence, for example, are already available in some vehicles, but they were not invented by automakers. To take full advantage of the technologies that give their products and services a competitive edge, CEOs are creating a network of alliances and looking to bring in the technology and talent they need through acquisitions.

Finding those acquisitions is proving difficult for many large organizations. For one thing, many firms no longer need the access to resources and distribution that was once a major enticement to be acquired by a larger company. A start-up with

promising technology can absorb enormous amounts of capital and resources today, says KPMG's Miller. "The rate of time it takes to get to a billion dollars of value has compressed over the last 25 years, to the point now where there are billion-dollar companies that are only a year old," he says.

Instead, CEOs are sometimes taking minority stakes when an acquisition is either not the best strategic option or is simply not possible. A minority stake can be a window on a potential competitor—as it is for a large, branded snack food company investing in start-ups that are making trendier snacks—or an entry into a new marketplace for target customers.

At the same time, some of the most promising technologies are controlled by organizations too big and too powerful to be acquired. No one is making a takeover offer for Google, Amazon, or Apple because they need the technology these firms can offer. Instead, companies are much more open to the concept of partnerships or joint ventures to give them access to technology or capabilities that either are not considered appropriate to acquire or not able to be acquired. →

## Three-year plan to drive shareholder value

Collaborative growth

65%

Organic growth

61%

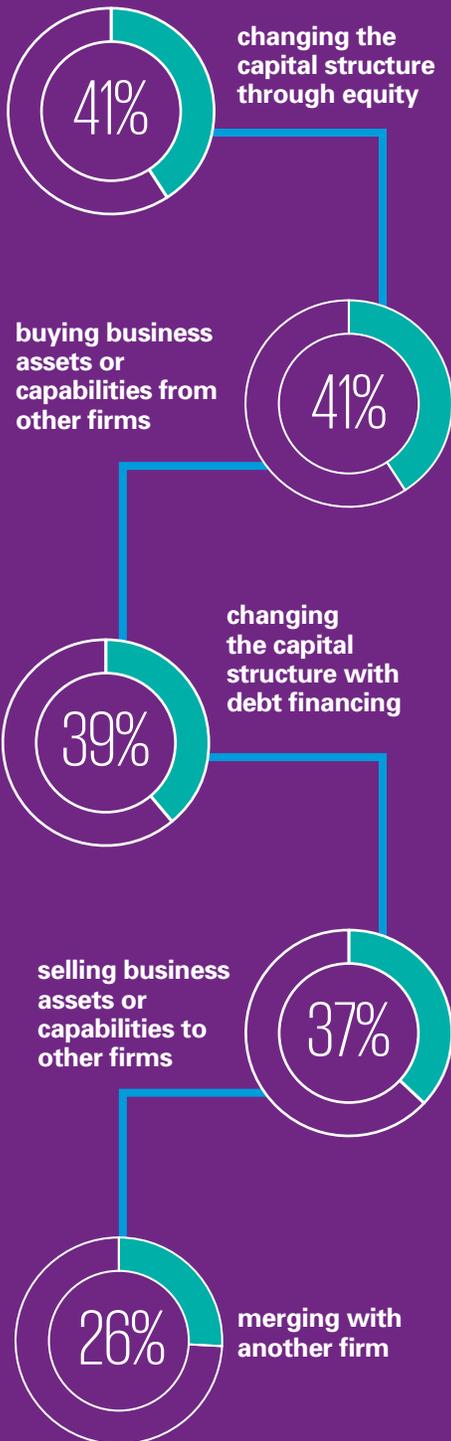
Inorganic growth

58%



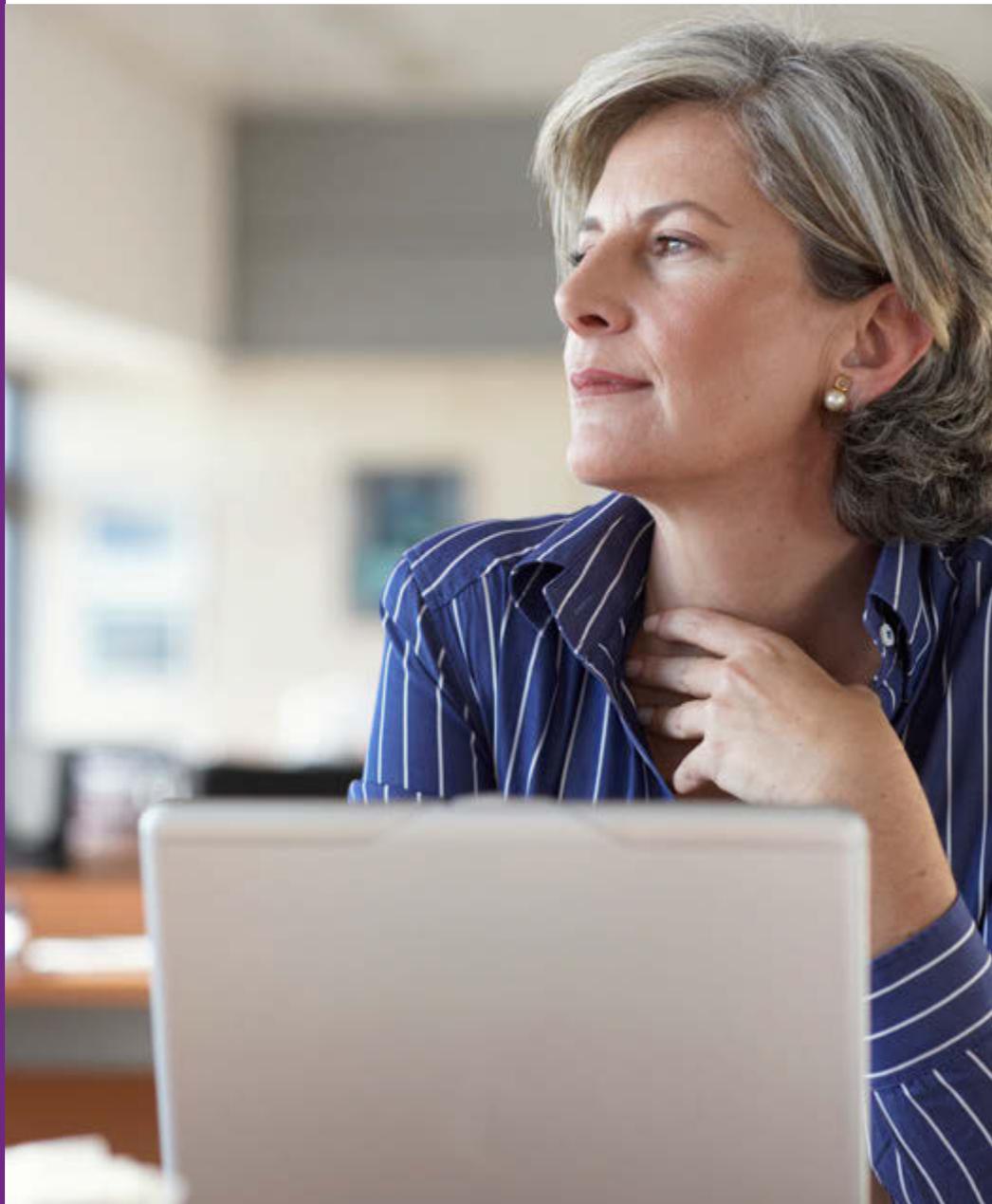
## Build, buy, rent, or collaborate (continued)

**CEOs are pursuing** a range of activities in pursuit of growth



According to Miller, as large companies look for greater access to the innovation happening outside their walls, they continue to rewrite the deal-making playbook. The mindset is changing from “We buy you. We own you. We control your operations.” to “We would like to buy access to your thinking and your perspectives. We can contribute our own capabilities to try to do something better or different.”

This overall level of deal making is changing the capital structure as well as the corporate structure at many organizations (see chart). CEOs seem just as ready to shed assets as they are to acquire them. “I think we’re in the early stages of what will be a longer cycle model of businesses acquiring and divesting assets at a much more rapid pace,” says Miller. He sees large organizations taking a page from the private equity playbook, determining where they can add value and exiting those areas that don’t add value. “Many of those portfolio management practices have begun to be accepted by corporations,” says Miller. ●



# Managing the ecosystem

**At a time when new technology is upending business models in every industry, many organizations don't have the luxury of developing the needed competencies in-house. "It's too much, too fast," says S. Singh Mecker, KPMG's Global and U.S. Alliance Leader and Head of U.S. Advisory Innovation. "And it's not only technology-driven; there are other factors like regulation." The key challenge for many CEOs is how to build networks that can leverage internal capabilities with external resources to create the bandwidth they need.**

"It's not just about removing cost, it's about anticipating change, removing latency from the way you react to changing market conditions and not tying up capital in places that could slow your response," explains Mecker. This race to stay ahead has already produced some unexpected alliances. Toyota and Uber, for example, or Goldman Sachs investing in the technology behind bitcoin.

Managing these new constituencies requires new capabilities, some of which are still a work in progress at many companies (see chart).

## CEOs who say their companies are highly capable at:

Connecting in a beneficial way with universities

30%

Connecting in a beneficial way with start-ups

32%

Collaborating with external parties, including customers, partners, and suppliers

44%

The best partnerships begin with a common definition of the value proposition and joint customer success. They are designed around clear strategic goals, aligned with the growth agendas of both organizations, and not a tactical reaction to some disruption point, says Mecker.

The business model that best exemplifies the new ecosystem is the platform company. Apple, Google, and IBM, and many others are putting their best technologies on open platforms that grow through mutually beneficial partnerships and input from a wide ecosystem of developers.

Companies sometimes do not even realize the potential of their own networks and inadvertently set up barriers to their own success. For example, a well-established rental service moved its listings online but stuck with its established business model, charging owners to list their properties and relying on them to sort out most of the leasing details on their own. Airbnb made it easier for owners and does not charge them to list. Airbnb was able to build a larger and far more valuable platform very quickly. ●

**"It's not just about removing cost, it's about removing latency from the way you react to changing market conditions and not tying up capital in places that could slow your response."**

S. Singh Mecker, KPMG Global and U.S. Alliance Leader



# Innovation and the clockspeed dilemma in automotive

Q&A with Gary Silberg, National Sector Leader, Automotive, KPMG LLP

## ***What is your perception of the future of the auto industry?***

Innovation in the current auto space will transform the very nature of transportation and change people's lives along the way, especially in the key areas of mobility-on-demand, autonomous vehicles, and connectivity. The auto industry doesn't have time to ignore its true innovators. They must collaborate with the new players to drive innovation. They must keep up with all the innovative forces inside and outside the industry. And finally, they must embrace the value of failure — fail fast in small ways and learn a lot from those failures.

## ***The automotive industry has undergone significant transformation in the past five years. What do you attribute that to?***

Several factors are driving change in the auto sector, not the least of which is that the automotive ecosystem has changed so drastically in recent history with the entrance of new, non-traditional auto companies. We're riding a wave of fantastic innovation that's changing

everything from product design to operations to customer interaction. That's why 74 percent of auto CEOs think the next three years will be more critical for their companies than the last 50. Car companies are no longer just competing with other car companies. They must now compete with the tech giants and start-ups that are changing the traditional way of operating in the auto sector and driving new consumer attitudes about what a car and mobility should be. In fact, 88 percent of auto CEOs acknowledge that these new entrants are disrupting their business models. Successful companies will embrace the new ecosystem and understand that the ability to be agile and nimble in this environment is critical.

## ***You mention the need to be agile and nimble. What does that mean for automakers?***

Changes in consumer behavior and changes in the competitive balance are together accelerating the pace of innovation in the auto industry. For companies to thrive in this new environment, they must solve what we

call "the clockspeed dilemma" — the need to balance traditional engineering ingenuity and quality with the faster clockspeeds of new players entering the ecosystem that fuels customer demands for new mobility experiences and for cars to be repeatedly new, exciting, and sexy. The impact is evident in the survey results, with auto CEOs saying their top strategic priorities are integrating disruptive technology, digitization of their businesses, and having a stronger client focus. These strategies are critical to compete in today's auto environment, but automakers can't do it all alone.

***"Companies must solve what we call the clockspeed dilemma —the need to balance traditional engineering ingenuity and quality with the faster clockspeeds of new players entering the ecosystem."***

# Is the customer always right?

**CEOs recognize that meeting customers' expectations is an ongoing effort. A vast majority are concerned about their customers' loyalty and about the relevance of their products and services three years from now. More than half think they are not keeping pace with meeting customer expectations (see chart).**

"Management teams should focus on delivering the best product or service possible but also must think about the best experience for their customers or clients," says Rob Arning, Vice Chair of Market Development at KPMG LLP. By understanding what their customers want, companies can better tailor the experience. "With customer loyalty clearly a trending concern among the C-suite, those that show empathy, innovation, expertise, personal attention, and exceed expectations will create lasting relationships," he says. "As customers, we stick with the companies that make us feel valued and provide a positive and memorable experience. Delivering the exceptional client experience is a clear and meaningful differentiator."



At Russell Investments, a global asset management firm, the investment products that clients own have not changed dramatically, but customer expectations have. "Investors are now far more articulate about the outcomes that are important to them as the focal point of their buying process. They are less focused on following the traditional benchmarking approach used

by asset managers and simply hoping that results add up over time," says CEO Len Brennan. "That historical buying process didn't necessarily achieve desired results for everyone." One way that the firm is providing a more outcome-oriented approach to investing is through its development of customized, individual retirement accounts for use by 401(k) plan sponsors.

MetLife's CEO, Steven A. Kandarian, subscribes to the value-driven approach. "Being customer-centric means spending more time thinking about what customers want and also about what needs they have, even if those needs aren't immediately apparent," he says. For Kandarian, it also means refining a more precise and efficient way to find new customers and assess the long-term value of each potential market. "One of MetLife's strategic initiatives involves calculating the value of new business on a much more granular level, looking at which customer segments are likely to provide the greatest value to MetLife's shareholders over time," says Kandarian.

Julio Hernandez, Head of the Global Customer Center of Excellence at KPMG LLP, says that, "You do need to understand what the customers say they want, but you also need to understand how they actually behave—and the value that they bring into the company. Too many companies spend too much money acquiring new customers or appeasing existing ones without a framework for assessing their potential profitability." ●

**"Being customer-centric means spending more time thinking about what customers want and also about what needs they have, even if those needs aren't immediately apparent."**

Steven A. Kandarian, CEO, MetLife



# Insurance CEOs to focus on new technologies and customer experience

Q&A with Laura Hay, National Sector Leader, Insurance, KPMG LLP; Matt McCorry, National Advisory Leader, Insurance, KPMG LLP; and Tom Nodine, National Strategy Leader, Insurance, KPMG LLP

## ***Insurance company CEOs are concerned with keeping current with new technologies and meeting customer needs. What are your thoughts?***

**Laura Hay:** The future of the insurance industry is driven by two factors: new technology and customer experience. The implementation of new technologies is fundamental to remain competitive as it helps to increase customer loyalty and decrease costs. Insurance companies need to identify and take advantage of new technologies such as mobile apps, sensors for autos and homes, and artificial intelligence. They need to understand the changing needs and expectations of their customers, identify where new technologies could enhance their competitive edge, and consequently implement the right technologies at the right place, at the right time.

## ***Cybersecurity is among the top three areas insurance CEOs are devoting funds to. How important is this in mitigating risk?***

**Matt McCorry:** Building cybersecurity capabilities has become essential to insurance companies, especially following high profile data breaches. The more information customers share with insurance companies, the higher the likelihood it can be hacked if not properly protected. Insurance companies must create and effectively fund a security operations center that is set specifically to monitor risk and address problems as they occur. However, cybersecurity investments need to be properly matched to the expected risk to avoid over investing or investing in the wrong areas.

## ***Acquisitions, joint ventures, and partnerships are among the top strategic priorities of insurance CEOs. Why is that?***

**Laura Hay:** These transactions remain an effective way for many companies to

quickly acquire new skills and capabilities necessary to thrive in the rapidly evolving insurance industry. In addition, we believe some companies will fall behind as technology helps some to rapidly improve their competitive positions causing consolidation in the industry. There is a need to decide what role each company will play in this consolidation by identifying the acquisition, partnership, or divestiture with the ideal characteristics.

## ***Insurance CEOs generally anticipate slow industry growth. How can insurance companies remain in business and grow?***

**Tom Nodine:** The survey indicates that 85 percent of the insurance CEOs globally expect top line industry growth in the next three years to be between 0.01 and 4.99 percent. To foster more rapid growth insurance companies need to embrace new technologies and business models.

# The data-driven enterprise

**“Organizations have always gathered data on their customers, products, and markets, but never before have they had such a breadth and detail of data and the ability to measure and analyze it so exquisitely,” says Wilds Ross, Principal, Data & Analytics at KPMG LLP. It’s no surprise that CEOs named data and analytics as a top-three investment priority for the next three years. CEOs plan to dive into ever-expanding data resources to develop new products and services as well as drive efficiencies and strategy.**

For most organizations, data and analytics are a means to help their customers do their jobs, make their products more valuable to their customers, or remove pain points for their customers. Berkadia, for example, is investing heavily to bring together massive amounts of information—much of which is proprietary—analyze it, and get it out to customers. “We want to be a more valuable partner, not just with the products we sell to them, but actionable insights that they can use to build their business,” says Wheeler.

Active International, a global corporate trade firm, creates value for brands through its investment and trading model. “By employing predictive analytics, we can help clients take some of the guesswork out of their business,” says CEO Alan Elkin. “Active is developing a proprietary technology platform, which will include a suite of predictive and analytic capabilities for clients to forecast their media needs,” he says.

CEOs are also applying analytics to drive efficiencies. Clearwater Paper, a tissue and paperboard maker, recently upgraded its core enterprise system to include advanced predictive analytics in the supply chain. “We are beginning to see improvements in our inventory management capability by using these advanced toolsets,” says President and CEO Linda K. Massman.

Companies are only beginning to embrace analytics for greater capabilities and broader possibilities of data analysis, says Brad Fisher, Partner, U.S. Leader, Data & Analytics at KPMG LLP. “Analytics in the strategic planning process can use a lot more and sophisticated external data points for a more scientific look forward,” he explains. For example, is the market shifting? How will a rising middle class in India or a declining middle class in Japan affect my business? These types of questions go beyond basic predictive analytics with more dynamic responses.

CEOs also have a tremendous and sometimes overlooked resource in their CFOs and an underused resource in their ERP systems. “It is the CFO’s deep understanding of the company’s financial and non-financial information, knowledge of enterprise-wide risks, experience with the external auditor, direct connectivity with investors, and involvement in setting the company’s investment direction that allows her or him to have

## How is your organization using data and analytics?

To develop new products and services

51%

To drive process and cost efficiency

50%

To find new customers

49%

To drive strategy and change

48%

To manage risk

46%

To analyze how our products are used

45%

To analyze our existing customers (their needs, value, profitability, likelihood to defect)

44%

To improve financial reporting

To monitor the market

such a significant impact,” says Scott Marcello, Vice Chair of Audit at KPMG LLP. The CFO understands all of the information flows within the business and can offer a variety of data analyses and interpretations to promote growth. Regular discussions with the external auditor can deliver even greater insights on the company’s financial information, processes, and controls. →

## The data-driven enterprise (continued)

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Meanwhile, with over half of CEOs looking to utilize disruptive technologies to improve non-financial reporting, CFOs' oversight of corporate investments can help guide the right spending on data analysis and cognitive technologies. "That can help allay concerns about staying current with technology, remaining in front of customer trends, maintaining continued relevance of products or services, and keeping abreast of organizations not currently viewed as competitors," says Marcello.

Despite the exponential advances in data and analytics, some CEOs clearly feel they are struggling to keep up. Only 31 percent feel their organizations are leaders in data and analytics usage. One out of ten CEOs actively distrusts their organization's use of data and analytics. Only a third have a high level of trust in the accuracy of their data and analytics, and one out of five have limited trust for nearly every aspect of the way their organization uses data and analytics. Life sciences and banking CEOs expressed the highest degree of distrust in their data while technology firms expressed the highest degree of confidence.

Privacy is also an issue. Eighty-four percent of CEOs are concerned that their customers may be more worried about their privacy than their organizations are. As the volume of data grows exponentially, so do the opportunities to use it. "We're in the middle of a social change," says Ross. "Some of it makes us a little uncomfortable because it didn't work like that when we were young. But the truth is it is making everything better." ●

**Only 31 percent feel their organizations are leaders in data and analytics usage. One out of ten CEOs actively distrusts their organization's use of data and analytics.**





# Banks need to be agile and high-tech to stay competitive

Brian Stephens, National Sector Leader, Financial Services and Banking, KPMG LLP

**The next three years will be more critical to the banking industry than the previous 50 years. That's the view of the majority of bank CEOs surveyed in KPMG's latest CEO survey.**

**Brian Stephens, National Sector Leader, Financial Services and Banking, KPMG LLP, couldn't agree more and provides his thoughts on some of the key findings in KPMG's 2016 global CEO survey.**

The banking industry continues to face many difficult challenges as the costs and resources needed to comply with new regulations continue to rise, all the while revenues and profits have remained flat over the past several years.

However, this year's CEO survey finds that more than 80 percent of the bank CEOs polled are confident or very confident about the growth prospects for their company and the banking industry over the next three years.

But to achieve that growth, traditional banks must become more agile and

determine whether they want to compete with or partner with the more nimble marketplace lenders.

We believe recent announced partnerships, alliances, and joint ventures between the traditional banks and new marketplace lenders will benefit both as they take advantage of each other's strengths.

But the banks face another challenge — gaining a better understanding and relationship with their customers. And in order to accomplish this, they must overhaul their technology and streamline their internal processes to simplify the customer experience applying for loans and opening checking, savings, wealth management, and other accounts.

But are they serious about making the investments and commitment necessary to complete this transformation?

The CEO survey reveals that digitizing their business is last on the list of strategic priorities over the next three years, with only 19 percent of those polled indicating that as a strategic priority.

That is interesting when you consider that 60 percent of the CEOs are concerned that they are not keeping pace with customers' needs and expectations, and 70 percent are concerned about the relevance of their products and services over the next three years. In addition, 91 percent of the CEOs polled are concerned about the millennial generation and how their different wants and needs will change their business.

While the future of the banking industry remains cloudy, we agree that the next three years will be more critical than the past 50 years. But we also believe there are great opportunities ahead for all sides.

The winners will be the ones who are agile and embrace new technology and innovation and commit to digitizing their business across the board to meet their changing customer needs. The winners will also be the ones who look to form alliances and joint ventures to build on each other's strengths to provide customers with the innovative services they are demanding.

# Talent management

**In identifying strategic priorities in the next three years, CEOs ranked talent development and management at the top of the list, right behind stronger client focus and on par with fostering innovation.**

“These CEOs see the need to determine the right balance of organizational investment in their people as well as in their technology,” says Claudia Saran, KPMG’s U.S. Leader for People & Change. “They have a corporate responsibility to allow both not only to coexist, but to thrive in the presence of the other.”

“With respect to talent, CEOs are looking to develop the skills and provide the experience that enable their people to better identify and connect with the global market, including customers and competition that are becoming increasingly diverse and complex,” says Saran. “With respect to technology, they are looking to prioritize investment in those areas that are the most growth-enabling for the organization.”

When it comes to attracting and retaining employees, money still talks: financial incentives are seen as the best way to attract and retain employees. Giving employees the chance to innovate and work in an entrepreneurial or collaborative environment is also important, say more than a third of CEOs. They also rated very high the opportunity to learn and develop with leaders in one’s field.

Location also matters. Rather than try to attract the best and the brightest to existing corporate campuses, some of the largest companies in the United States are moving closer to colleges and universities and into the urban areas where millennials like to live and play. When GE, the largest industrial company in the United States, announced plans to move its headquarters to Boston’s Seaport District, CEO Jeffrey Immelt said: “Boston attracts a diverse, technologically-fluent workforce focused on solving challenges for the world.” GE plans to establish a digital foundry for co-creation, incubation, and product development with customers, start-ups, and partners. “We want to be at the center of an ecosystem that shares our aspirations,” says Immelt.

**“These CEOs see the need to determine the right balance of organizational investment in their people as well as in their technology.”**

Claudia Saran, KPMG’s U.S. Leader for People & Change

To manage skills gaps, the CEOs intend to organize internal training (29%), focus on automation (27%), and increase focus on agility and problem solving versus proven competencies (22%) as well as create outposts in high-skill areas (20%), such as university clusters.

Saran sees the convergence of technology and data and analytics as providing HR leaders with “an unprecedented opportunity to move HR from its traditional instinctive, intuitive function to a data-driven, fact-based, decision-making function similar to Finance and IT.”

“HR has an opportunity to leverage technology and data in order to demonstrate its ability to deliver against these issues. For the first time ever, organizations can draw a clear line of sight between HR activity and business insight,” she says. ●

## Most effective ways to retain employees:

**Financial incentives**

40%

**Non-financial incentives (benefits, vacation time, etc.)**

38%

**Promotion possibilities**

35%

**Chance to work in an entrepreneurial or collaborative culture  
Opportunities to learn, develop, and work with leaders in one’s field**

34%

# Tech CEOs collaborating on innovation as growth slows

Gary Matuszak, Global and National Leader, Technology, Media & Telecommunications, KPMG LLP



**With uncertainty rising, collaboration and partnering may replace mergers and acquisitions as the leading strategy for U.S. tech CEOs as cloud, artificial intelligence, the Internet of Things, data and analytics, and other developments blur traditional lines among hardware, software, cloud, internet, and IT services companies.**

In an industry known for enabling disruptive innovation, the technology sector CEOs are driving an accelerated approach to innovation (48% vs. 40% in other industries). The top three factors in their organizations' success include:

- Fostering a culture of innovation (90% tech vs. 84%)
- Management's innovation acumen (91% tech vs. 86%)
- A formal process to progress ideas to commercialization (90% tech vs. 85%).

Tech industry CEOs understand the need for a disciplined strategy to foster innovation, enable faster decision making to gain customer insights, and identify new revenue streams. Their top strategic priorities over the next three years include:

- Digitization of business
- Stronger client focus
- Implementing disruptive technology.

"As the global technology landscape continues to evolve, market leadership will depend not only on innovation, but also on a company's ability to integrate emerging technologies," said Gary Matuszak, Global and National Leader, Technology, Media & Telecommunications, KPMG LLP. "Innovation, client focus and the implementation of disruptive technologies are key to tech market leadership."

U.S. tech CEOs will continue to drive innovation even in uncertain market conditions. CEOs are more confident in growth prospects globally than in the United States over the next 12 months, with about half taking a neutral position about opportunities in the U.S. CEOs remain optimistic about growth, albeit at a slower pace than in recent years. Nearly 60 percent expect two percent to less than five percent annual revenue growth

for their organizations over the next three years, while 17 percent expect growth between five and 10 percent.

But this uncertainty is expected to be a short-term condition, as the percentage of U.S. tech CEOs expressing confidence more than doubles (to 97%) when they consider revenue growth prospects over the next three years. Almost 90 percent are confident about global growth as well.

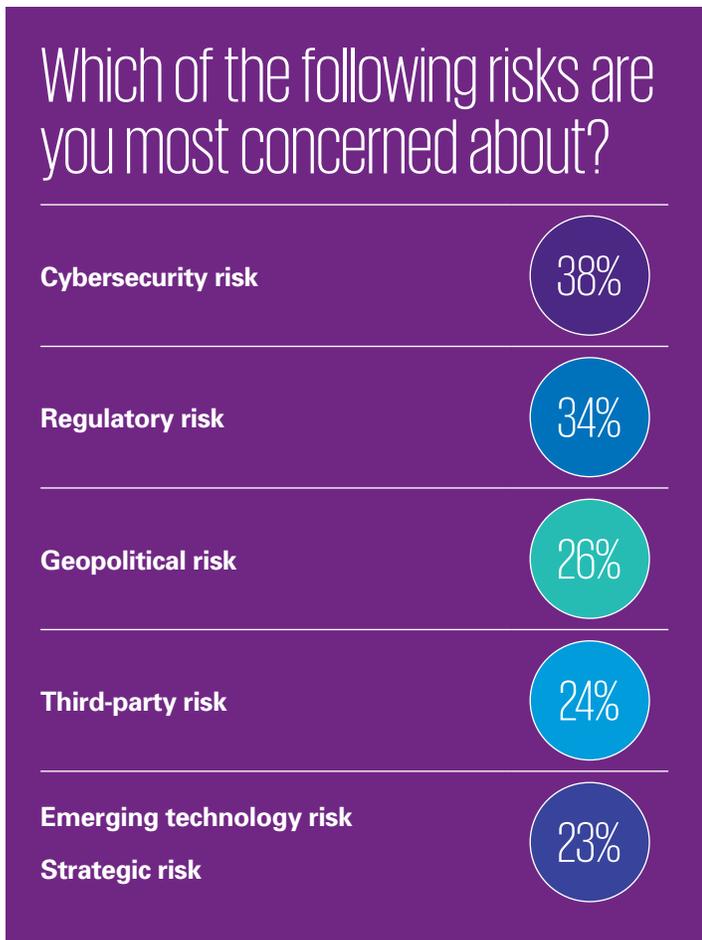
The results point to a similar pause in the torrid pace of tech M&A transactions in the past two years. M&A has become increasingly challenging for all but larger companies because of valuations, regulations, and financing required. More than half of the U.S. tech CEOs are planning to create partnerships, joint ventures, or collaborative efforts with other companies.

In this environment, innovation, client focus, and the implementation of disruptive technologies are key to tech market leadership.

# Cybersecurity

**A more connected and open organization also raises concerns for security—cybersecurity, regulatory risk, supply-chain resilience. All of these risks are potential threats to brand and reputation and, unlike strategic and operational risk, CEOs are often left feeling they have limited control. CEOs recognized cybersecurity as the top risk faced by their organizations. Last year, cyber risk did not even rank in the top five risks.**

But CEOs enter this new era with some trepidation. Eighteen percent are uncomfortable with the degree to which mitigating cyber risk is now part of their leadership role.



Only 26 percent of CEOs consider themselves fully prepared for a cyber event. In interviews CEOs have told us: “We are as prepared as we can be,” or “You can never be fully prepared.”

CEOs are already devoting significant investment to cybersecurity solutions and sometimes the fears over cybersecurity can get overblown, says Greg Bell, U.S. Leader, KPMG Cyber. “While it’s true that there are really key risks here, there is a bigger risk in being afraid to adopt new technologies and new processes for fear of cybersecurity,” he says. More organizations are realizing that there is a risk to innovation and delayed reaction to markets. Cybersecurity is a risk and like any other risk it needs to be measured, managed, and understood. “Unfortunately most businesses accept a lot of risk they don’t fully understand and that’s unhealthy,” he explains.

One thing is clear: CEOs are looking for new products, new customers, new geographies, and new partners and channels to help them support that growth. “Each one of those, if you think about it, introduces a different lens of cyber risk,” says Bell. But in many organizations, cyber risk is seen as an IT problem so it doesn’t come into the conversation until late in the process.

## How prepared is your company for a cyber event?

Fully prepared	26%
Somewhat prepared	70%
Not where we need to be/unsure	4%

For example, the Chief Security Officer (CSO) of a large insurance company is focusing most of his time and a lot of budget on securing the insurance dealer network—a disparate group of thousands of brokers that have a direct relationship with end-user customers. They are not employees of the organization, and the systems that these brokers use are not controlled by the organization, even though they collect and process customer data. This is a real dilemma faced by many IT security specialists: “How do I protect something that’s not in my environment, which could impact the brand and the trust our customers have in us?” What the CSO does not know is that his company is developing a new front end and is planning to dismantle the dealer network within two years.

“Companies that can talk about this up front and understand where the business is going and plan for that change, can build a much more adaptive and agile cyber program that aligns much more to the business,” explains Bell. ●

# The Cognitive Future

Q&A with Cliff Justice, Innovation & Enterprise Solutions Leader, KPMG LLP

***We are just entering the fourth industrial revolution, and the speed of change is exponential. But are we ready for it? Eighty-one percent of surveyed CEOs said they are concerned about having to consider the integration of basic automated business processes with artificial intelligence and cognitive processes.***

It's in our nature to get fearful of what has never happened before. What we are living through today is on a scale of the industrial revolution. The only difference is that then we automated muscle power and today we are automating brain power.

At call centers, for example, cognitive systems are designed to take in information just like a human brain would, from visual images, conversations, reading books or texts, and inferring intent. This enables them to perform judgment-based tasks. Some of the technologies are introducing emotional intelligence into the systems, to be able to detect the mood of a customer.

***Won't that put many humans out of work?***

I don't buy into the doom and gloom scenario that there is going to be massive unemployment caused by artificial intelligence. Big disruptions in the past always produced new opportunities. The challenge is figuring out in advance what those opportunities are. Nobody has all the answers yet, but net/net, this is going to be positive. Cognitive computing will relieve humans of many tasks so that we will have more time to spend on innovations that are going to advance technology.

***What are some of these positives?***

In healthcare, the cancer diagnosis and treatment options are improving as a result of cognitive computing. Every week hundreds of articles are being published in medical journals around the world with significant findings. No human can read that. But a cognitive system can, and it can also find correlations between different articles. This may have relevance for a patient who needs the most appropriate drug regimen today.

At KPMG we are looking at cognitive systems to improve quality in the audit. With cognitive systems it is theoretically possible to cover 100 percent of data, instead of a statistically valid sample as is the standard today. This helps increase confidence in the capital markets.

***But any system is only as good as the data it is being fed. Are you satisfied with the quality of data we have today?***

Data quality is a fundamental issue and challenge for every company. Companies that are on standardized ERP systems can compile data more easily, while companies that are very fragmented may have issues. We also need to change our understanding of what constitutes data. It is no longer only a tabular structure of rows and columns that are machine readable. Eighty percent of data resides in e-mails, social media conversations, or images, the so-called dark data. Cognitive systems can access and interpret this unstructured data, which allows for making more data-based decisions derived from a much bigger pool of data.

# Regulation and transparency

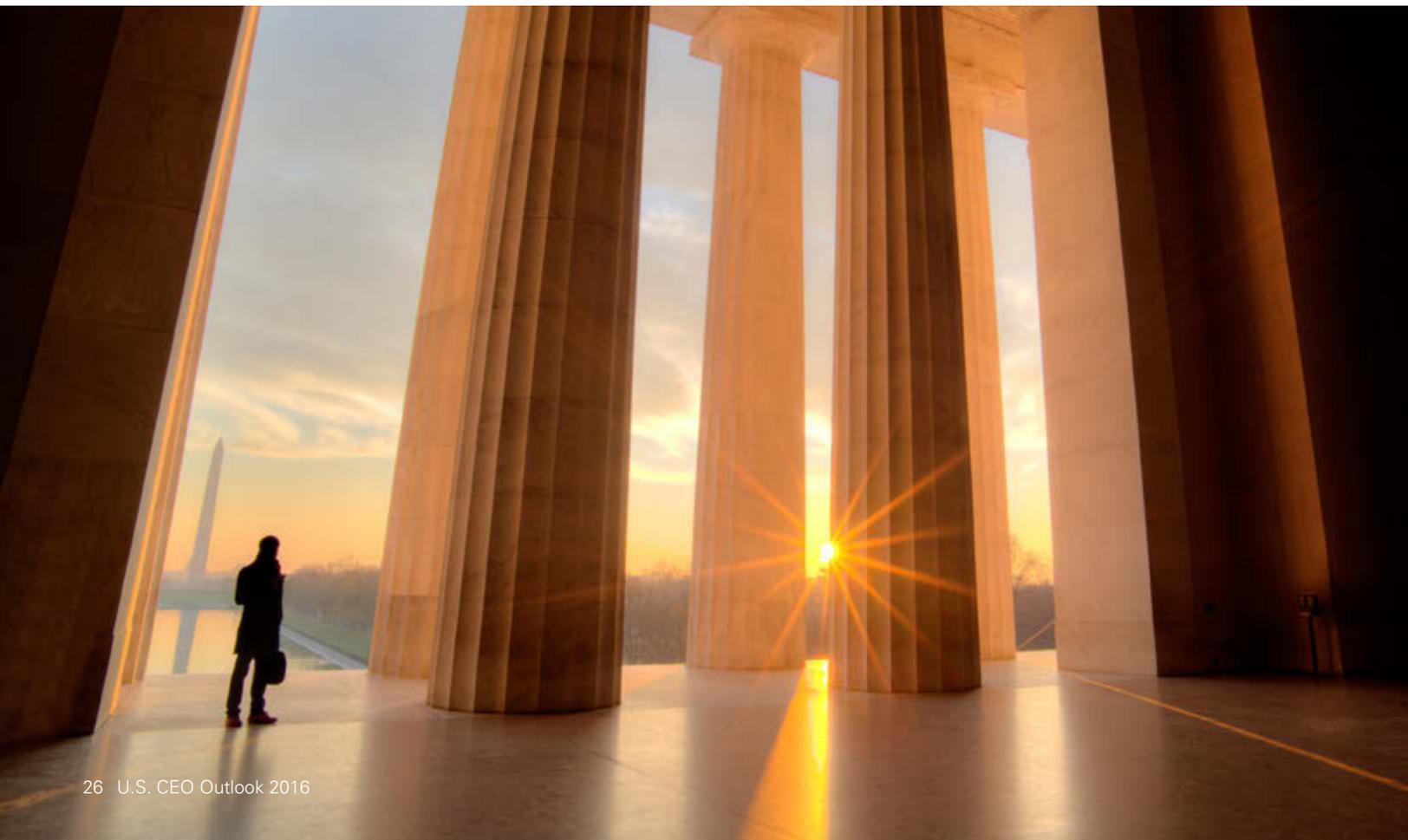
**An overwhelming majority of CEOs believe that regulations will inhibit growth going forward. But the impact of some new regulations will mean far more than a drag on growth for many firms. The Base Erosion and Profit Shifting (BEPS) framework proposed by the Organisation for Economic Co-operation and Development (OECD) and proposed tax regulation related to inter-company debt out of Washington could prove very disruptive, adding uncertainty and complicating the tax and business planning process at many organizations, says Jeff LeSage, Vice Chair of Tax at KPMG LLP.**

BEPS in particular will have a profound impact on how companies choose to structure themselves going forward, says LeSage. Under the proposed framework, companies would have to disclose far more about where they do business globally and where they pay taxes. This transparency is changing the nature of tax arbitrage, says LeSage, even for companies that have done proper and legal tax planning. The problem, he says, in many cases, is optics.

“Many companies are restructuring their global operations and looking at their supply chains, with a view to minimizing any potential brand or reputational risk,” he says. “They don’t want to deal with the potential fallout of negative publicity should a tax arrangement attract attention from media or shareholders.”

But complying with new regulations can also provide an opportunity—particularly when they require companies to gather information that can be used to improve the business. KPMG worked with a major pharmaceutical company that was complying with the medical device excise tax, for example. The firm needed to gather a lot of data that ultimately helped highlight the true value to the company of the medical devices. It showed where the company was underperforming, and helped identify the most promising industry segments for it to pursue. “The tax compliance process generates a huge amount of data,” says LeSage. “Putting systems in place that can unlock that data and put it to work for the entire organization, not only the tax department, can give companies a competitive advantage.”

The Affordable Care Act is also forcing many healthcare providers to adopt a more sophisticated approach to patient health data and a more customer-centric model, says Wilds Ross. “Healthcare was in the fee-for-service game forever,” he explains. “Healthcare providers didn’t have to know what was going on.” Patients were treated and their insurers were billed. “With the Affordable Care Act we are moving away from fee for service. You pay for quality.” This will require a level of data collection and analysis never seen before in healthcare—data that could have profound implications not only for creating a more efficient and effective organization but for aggregate data on public health as well. ●





# Confidence and future growth

**Economists are concerned that global growth is insufficient to escape the current and expected burdens of government and private sector debt and that businesses are not investing at levels consistent with previous economic recoveries. Major central banks have responded with ever more aggressive monetary policies such as negative interest rates and bond purchase programs known as quantitative easing. “We’re in one of the most significant monetary experiments in history with negative interest rates in Europe and Japan,” says Constance Hunter, Chief Economist at KPMG LLP. “Additionally we are at a tipping point with the convergence of declining working age population growth and an aging of the global population. It is critical for CEOs to make decisions and investments that will support future growth,” she adds.**

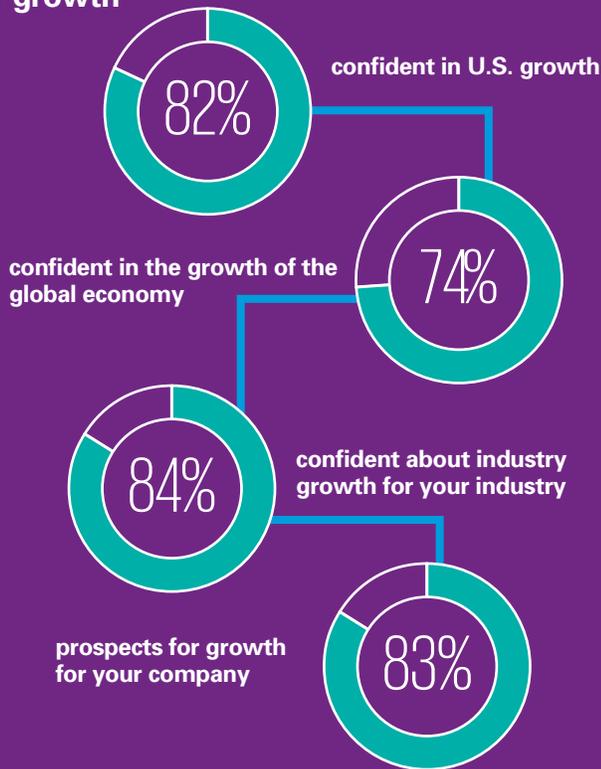
**“We are at a tipping point with the convergence of declining working age population growth and an aging of the global population.”**

Constance Hunter, Chief Economist at KPMG LLP

For all the technological and regulatory disruption that CEOs are facing, the economy still matters. CEOs named the global economy and its effect on business as their top concern, and global economic factors will have the largest impact on growth over the next three years, say 21 percent. The majority of CEOs are confident in company prospects in the next three years, but they do not expect to outperform their markets and many CEOs expect growth that is in line with expectations for their industry and for the U.S. economy as a whole. Three-quarters seem to believe that extraordinary monetary policy will eventually benefit global growth and as such they expect a significant pick-up in the global economy in the next three years, but they are more cautious about the next 12 months with just over half expressing confidence in global economic prospects. →

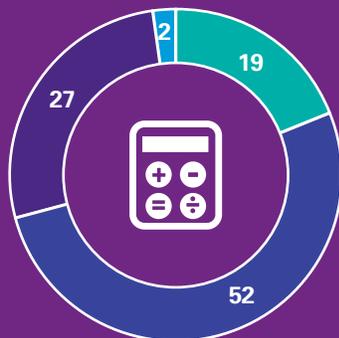
## Prospects over the next three years...

### ...for growth



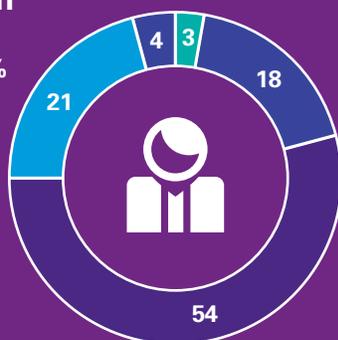
### ...for topline growth

- 5% or more
- 2% – 4.99%
- Under 2%
- No growth/negative growth



### ...for headcount growth

- Increase by more than 25%
- Increase 11% – 25%
- Increase 6% – 10%
- Increase under 5%
- Stay the same or decrease



## Confidence and future growth (continued)

The United States is second only to fast-growing India as the area with the greatest potential for new growth, with China a close third. India currently tops the list of favorable investment destinations globally.

“India aims to be a front runner in the new world order, which demands economies to be resilient and have strong business fundamentals,” says Richard Rekhy, Chairman of KPMG in India. “India has taken steps to showcase its progressive mind-set—the Ease of Doing Business initiatives, focused tax reforms, encouraging start-ups and entrepreneurship—thus creating a favourable business ecosystem. The world is now acknowledging India. I believe ‘Make in India’ is a great initiative to help India emerge as a global manufacturing hub. The ‘Digital India’ program aligns the country with the fourth industrial revolution, focusing on building robust digital capabilities and creating meaningful prospects for Indo-U.S. business possibilities. All these initiatives, combined with India’s consumption story make India an attractive destination for U.S. companies looking to expand beyond their boundaries.”

When compared to other economies, KPMG’s Hunter refers to the United States as “the nicest house in a bad neighborhood.” This stronger growth in the United States is illustrated by a greater rate of consumption and higher interest rates than other developed, and even some emerging markets. Compared with last year, “there is a higher probability that interest rates will rise and the uncertainties associated with the elections have grown stronger,” says Hunter.

But the U.S. economy is still seeing some advantages. For example, global conditions are now influencing U.S. interest rates, and the stimulating effect of low rates continues to boost growth and hiring especially over the medium term, says Hunter. CEOs seem to confirm this interpretation with 75 percent expecting an increase of employment of six percent or more in the next three years. As the rest of the world lowers interest rates, this keeps U.S. rates from rising in longer dated bonds even as the federal government continues to gradually raise short-term rates.

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## The countries with greatest potential for new growth

India	44%
United States	37%
China	36%

“Part of the source for U.S. growth is what economists call business dynamism, or, to use Silicon Valley parlance, failing fast,” says Hunter. In life sciences, for example, 47 percent of CEOs cite the United States as the number one growth market, ahead of India and China. “The U.S. has a financial system that provides capital to life sciences, plenty of start-ups, the latest technologies, and solid patent protections,” says Hunter.

The overall confidence in the three-year outlook is a testimony to CEOs’ resilience as leaders, and their belief in the possibility for technology and innovation to not only improve productivity but to create new markets and new ways to define their business.

The insurance industry, for example, is in the eye of the economic storm, buffeted by economic uncertainties, interest rates and the regulatory environment. But for John Schlifske, Chairman and CEO of Northwestern Mutual, it’s a question of positioning, strategy, and meeting the evolving needs of a changing market. Northwestern Mutual defines its business as more than selling insurance. Rather, the company focuses on what its customers need: a holistic approach to building financial security in an era when many feel they can’t rely on a traditional pension or Social Security. Northwestern Mutual also looks to cutting-edge technology, which is particularly appealing to millennials, who can be more aware than their parents that they will need to provide for their own financial security, says Schlifske. “For us, the growth potential is almost unlimited.”

Nancy Schlichting, CEO of Henry Ford Health System, also sees a positive future for the healthcare industry but not necessarily as a direct result of economic growth. The intertwining forces driving change in many industries—demographics, regulation, technology, and innovation—will engender more innovative treatments, including less invasive surgical techniques with quicker recovery, new medical procedures for heart disease,

and significant advances in pharmaceuticals, says Schlichting. “We have also seen remarkable changes in the last five years, stemming from the Affordable Care Act, advances in medical technology, and consolidation of providers, hospitals and insurance companies,” she says. “I believe the healthcare industry will continue to grow due to the aging of the population, and remarkable new capabilities to treat illness and injury that continue to emerge,” says Schlichting.

No matter the shape of the industry or economy, the disruptive forces will not subside. CEOs need to contend with the need for action in a slow-growth economy. ●

**“We have also seen remarkable changes in the last five years, stemming from the Affordable Care Act, advances in medical technology, and consolidation of providers, hospitals and insurance companies.”**

Nancy Schlichting, CEO, Henry Ford Health System

# Conclusion

**The pace of change continues to accelerate as the fourth industrial revolution ushers in the era of machine learning, cognitive computing, and artificial intelligence. The next three years will be critically transformative. This speed of change means that CEOs need to act now. They must also act knowingly, taking into consideration the following ideas:**



## Vulnerability

You are not alone. CEOs are revealing their concerns about meeting the demands of the future, facing all angles of disruption coming at their companies, and finding ways to pre-empt them. It is in our nature to be fearful of what has never happened before. And much of what we are living through today is on the scale of an industrial revolution. Knowing what you don't know and admitting it shows openness and maturity.



## Ecosystems

Traditional boundaries and roles no longer apply. The lines separating industries, companies, technologies, and customers are disappearing. Due to the need for speed, CEOs are realizing that renting or collaborating is a viable and often preferable alternative to building or buying. As a result of these collaborations, competitors may be suppliers as well as customers. This results in a redefinition of power and responsibilities and the need for a different type of leadership. CEOs need to become comfortable with ambiguity and undefined spaces.



## Agility

The speed of change is limiting visibility into the future, making short- or medium-term strategies risky. The solution is to strategize and execute change in an agile manner, to account for the unknown and unknowable. The time of once-and-done transformations is over. Today's transformation is a continuous flow of incremental steps, which allows for quick adjustments and corrections, speed to market, and measurement.



## Trust

The idea of trust takes on additional importance in the age of data. This trust has to be manifold. With so many strategic decisions now riding on the output of data and analytics or algorithms, there must be a heightened focus on the accuracy of data. At the same time data needs to be utilized without violating privacy. This trust needs to be upheld throughout the whole ecosystem, including the supply chain, partners, and customers.



## Customer-centricity

With the ability to communicate with the customer via digital channels, it is crucial to listen to customers and meet their expectations. But it is equally important to discern what customers truly want. This need has to be balanced with the value these customers generate.



## Risk

The fourth industrial revolution, the age of the Internet of Things, machine learning, cognitive computing, and artificial intelligence, increases security risks exponentially. Companies need mainstream cyber capabilities: people in all parts of the organization who understand cyber issues. Each major decision needs to be looked at through the cybersecurity lens.

**While a majority of CEOs foresee the next few years to be challenging, with expected moderate economic growth, they are optimistic they can successfully manage through this environment. It's now or never.**

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## Methodology

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The survey data published in this report is based on a survey of 400 chief executives from the United States. Eleven key industries are represented, including automotive, banking, infrastructure, insurance, investment management, life sciences, manufacturing, retail/consumer markets, technology, energy/utilities, and telecom. Ninety CEOs came from companies with revenues between US\$500 million and US\$999 million, 182 from companies with revenues from US\$1 billion to US\$9.9 billion, and 128 from companies with revenues of US\$10 billion or more. The survey was conducted during March and April of 2016.

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and how KPMG can help your business,  
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