



Growing Pains

2018 U.S. CEO Outlook

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#CEOoutlook

High confidence. Measured expectations.

This year's U.S. CEO Outlook finds CEOs ardently pursuing growth and technology-driven disruption, buoyed by high confidence in the U.S. economy and their own growth prospects.

What's changed since last year? The need for disruption has intensified further, and technology has emerged as the only driver of transformation for a majority of U.S. CEOs. These developments have brought up some "old" issues but with a decidedly new twist.

Cybersecurity risk this year makes it back to the top of the list of risks, but it is no longer seen as a matter of implementing the basic blocking and tackling activities. CEOs now realize that full preparedness requires longer-term sustainability of cyber risk mitigation versus point security projects.

The always important customer experience is this year viewed through the lens of personalization. It takes on a new meaning amid the intensive scrutiny of customer data, as exemplified by new laws about customer data protection.

Despite these new challenges, U.S. CEOs feel confident about their abilities to steer their companies through transformations, while realizing that they need to proceed judiciously. You'll find a great deal of data and insights to draw from in this report, as leading CEOs and KPMG leaders share their strategic and tactical challenges as well as solutions.

As always, we sincerely thank the CEOs who took the time to share their views with us.



Lynne Doughtie
KPMG U.S. Chairman and CEO



Key findings



Economy and growth: tailwinds and turnarounds

Eighty-four percent of U.S. CEOs express confidence about economic conditions and growth prospects for the U.S. economy, and **98 percent** are confident about the growth of their companies. Yet their revenue growth forecasts are moderate.



Cybersecurity: from remediation to prevention

Sixty-eight percent of CEOs believe that a cyberattack is a matter of when and not if. **Ninety-two percent** feel prepared in terms of their ability to identify new cyber threats, but only **41 percent** consider themselves very well prepared.



CEOs as leaders of radical transformations: who will succeed?

Ninety-one percent of U.S. CEOs believe they are personally prepared to lead radical operating model transformation. But many still have an ambivalent relationship with data when making critical decisions.



Delivering for customers: permission and presumption

Ninety-three percent of U.S. CEOs believe technology investments to personalize the customer experience have delivered on their promise, and yet almost a quarter (**22 percent**) say their companies do not meet customer expectations for a personalized experience.



Technology-driven disruption: scope, speed and timing

Eighty-six percent of CEOs consider their companies to be active disruptors, and for a vast majority, technology is the only significant disruption their business faces. For some companies, the change driven by technology will be nothing short of a full rethink, while others may need to proceed more judiciously.



Workforce development: balancing urgent needs with long-term vision

U.S. CEOs are almost evenly split about whether technology will create or eliminate more jobs. Almost all (**99 percent**) use contingent workers. CEOs are focused on prioritizing the importance of urgently needed technical skills, but they also must think about the long-term development of the workforce.

Economy and growth: tailwinds and turnarounds

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To stay competitive, companies need to at least match their competitors in the use of advanced technologies.”

– P. Scott Ozanus,
KPMG U.S. Deputy Chairman
and COO

U.S. CEOs express high confidence about economic conditions and growth prospects for the U.S. economy, as well as for their industries and companies. Several factors are converging to create optimism.

“The economy is now tied for the second-longest expansion cycle on record. For the first time since before the financial crisis, all developed economies are experiencing growth, which is an additional tailwind. Finally, the Fed has projected that it will continue raising rates at a gradual pace, meaning the low-interest rate environment is expected to continue,” says Constance Hunter, KPMG’s Chief Economist.

For the restaurant industry, which is highly dependent on discretionary income, consumer confidence approaching 20-year highs indicates the economy is in a fantastic place, according to Michael Osanloo, CEO of P.F. Chang’s: “I am bullish on the economy overall, but especially so for the restaurant industry.”

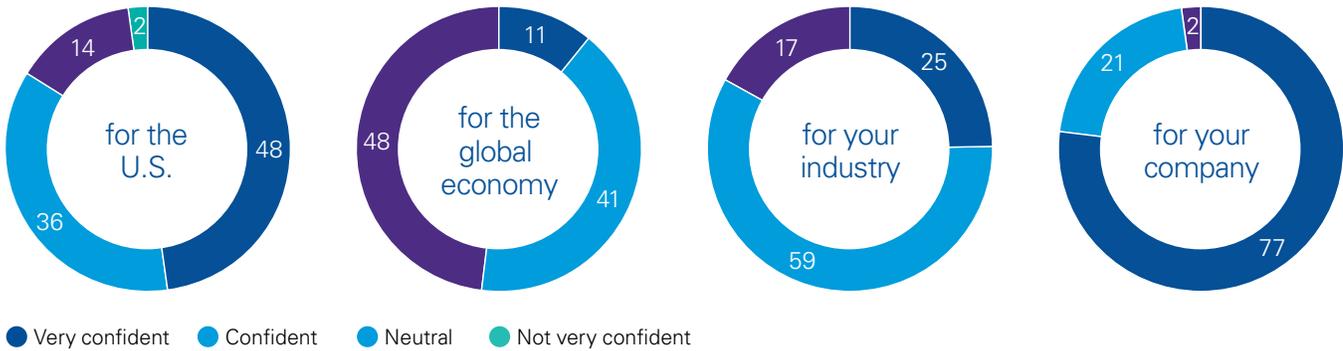
The pharmaceutical sector, on the other hand, follows its own cycles of innovation, driven more by science than by the economy itself. Tarek Sherif, CEO of Medidata, a provider of analytics software solutions for clinical trials, believes that we’re at the early stages of a huge wave of innovation in pharma and biotech, with trends such as personalized medicine, immunotherapies and biologic drugs.

And yet, despite the bullishness, the CEO projections for revenue and headcount growth are much more measured. Almost half (49 percent) of companies expect to have revenue increases of at least 2 percent, which is below long-term averages of 3.8 percent since 1990.

How to reconcile this bullishness with moderate growth prospects? “Disruptive innovation has shifted expectations of ROI (return on investment) from linear progression to wildly varying, based on a technology’s potential, forcing companies to accept greater volatility in their growth projections,” said Carl Carande, Vice Chair, KPMG Advisory.

Jim Kavanaugh, CEO of World Wide Technology, advises taking a long-term view on technology investing: “You can no longer evaluate technology investments through only a traditional lens. When the goal is market disruption or to create a new business model or level of engagement, understand that the return is more complex and may materialize over time.”

Growth prospects (in percentages)



Measuring the returns on technology investments defies traditional definitions of ROI. At one extreme, that return may be, to put it bluntly, the company's survival. "Sometimes the investments that you have to make in your business are to keep it alive and competitive, and not necessarily for traditional notions of timing or metrics for return on investment," says Steven Hill, KPMG's Global Head of Innovation.

Evaluating the benefits of digital transformation calls for a new value-measurement taxonomy that looks at both quantitative and qualitative measures.

P. Scott Ozanus, KPMG's Deputy Chairman and COO, points out that "to stay competitive, companies need to at least match their competitors in the use of advanced technologies, applying them in all relevant functions to optimize often untapped areas for technology investments, such as supply chain."

Percentage of CEOs who strongly or very strongly agree that their organizations understand how to calculate the rate of expected return on investment (ROI) from the following technology investments



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When
government
institutes
new rules,
businesspeople
will always
adapt, but it
does take
time.”

– Daniel Tiemann,
National Service Group
Leader, Deal Advisory
and Strategy

Types of growth strategies

U.S. CEOs favor inorganic growth strategies, and specifically mergers and acquisitions, more than CEOs globally.

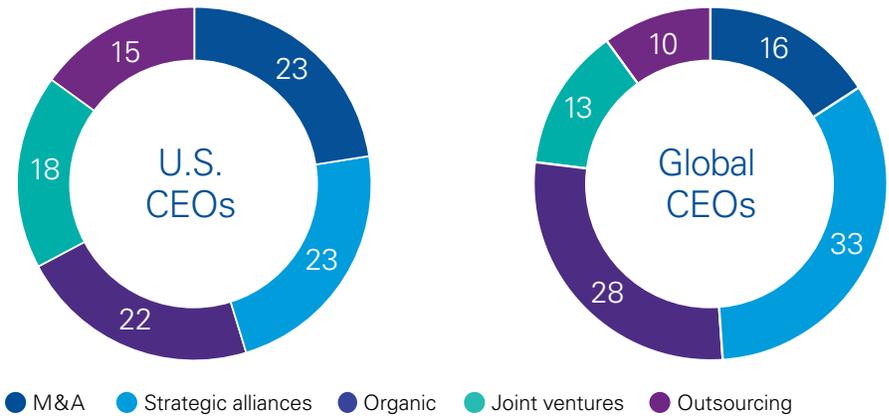
This points to a more aggressively pro-growth strategy, aiming to grow faster than the GDP, which has been hovering just under 3 percent in the United States. Daniel Tiemann, National Service Group Leader, Deal Advisory and Strategy, attributes this more aggressive stance to several factors. One is the high confidence in the economy and markets. Companies feel richer thanks to the tax reform, and CEOs appreciate the stability in the regulatory environment. “When government institutes new rules, businesspeople will always adapt, but it does take time,” says Tiemann.

The speed of digital transformation has also created the need to buy technology capabilities across all industries, with FinTech firms being

swallowed up by banks, for example. “Financial institutions are acquiring or partnering with AI startups—often for the technologists and data science teams those startups possess,” says Margaret Keane, CEO of Synchrony Financial. “We are focused on companies in areas of strategic importance, including enhancing customer experience, fraud detection and identity authentication.”

Still others fuel growth by working with strategic partners in different markets at home and abroad. Alex Maturri, CEO of S&P Dow Jones Indices, says: “Part of our global strategy is to help local markets grow inherently from within. Rather than coming in as an American company trying to do business, we’re sitting side-by-side with the local exchanges, our partners, and people appreciate that.”

Types of growth strategies pursued (in percentages)



CEOs as leaders of radical transformations: who will succeed?

We are at the beginning of the Fourth Industrial Revolution—characterized by technology-based disruption, the full potential of which cannot yet be defined, happening at unprecedented speed. And yet a vast majority of U.S. CEOs, having not grown up as digital natives, are confident about their ability to lead their companies through radical transformations.

For P.F. Chang's Osanloo, confidence is tempered by an awareness and realization of what's at stake, the gravity of change that new technologies are bringing about. "I think I'm appropriately nervous about the disruptive role of technology in the restaurant business," he says.

With new advanced technologies leaving behind those who are not transforming fast enough, being appropriately nervous may be just the right state of mind—the current version of Andy Grove's famous saying that only the paranoid survive. Says KPMG's Cliff Justice, U.S. Leader, Intelligent Automation: "They are the ones who really understand the external environment, and they also understand the tools they have to work with in their industry, in their own organization, and the gravity of change that this entails."

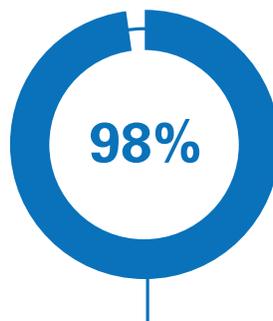
For example, PW Power Systems CEO Raul Pereda says navigating the power industry means thinking differently than in the past. "Ten, 20 or 30 years ago, wind and solar weren't really of the scale in the industry to make an impact. We don't necessarily see renewable technologies as competition, but as an opportunity where our aero-derivative gas turbine products can coexist in a power producer's portfolio in a complementary manner."

Some CEOs make the difficult choice and disrupt what does not seem to be broken. Western Union's CEO, Hikmet Ersek, started Western Union Digital at a time when the company's core business was doing well operating in a traditional way. "It took confidence," remembers Ersek. Now a half-billion-dollar business, Western Union Digital has been growing by 20 percent-plus every year.

"Many companies are implementing the tech industry playbook as the model for growth and sometimes, survival," Tim Zanni, Global and U.S. Technology Sector Leader says. "The tech industry approach to solving problems is groundbreaking with an acceptance to fail fast and pivot quickly."

Decision making in the digital age

The survey reveals that U.S. CEOs have an ambivalent relationship with data. On one hand, a majority profess having the same trust in predictive analytics that they have in historical data. They also have trust in unstructured data. At the same time, however, they do not plan to increase their usage of predictive analytics models or their usage of unstructured data.



See technological disruption more as an opportunity than as a threat



Are confident about their ability to lead their companies through radical transformations

Most tellingly, when confronted with a critical decision and data-driven insights contrary to their experience, a majority (78 percent) have overlooked data-driven insights and gone with their intuition at some point over the last three years.

Perhaps the best explanation of that dichotomy was offered by Medidata’s Sheriff, whose company gathers and analyzes data from clinical trials. Even though he represents a very data-driven service, Sheriff says that it is never just the data itself but how you think about it. “Everybody looks at data,” he adds, “but then they parse data to understand data quality, follow instincts around risk taking and apply their own judgment.”

Many CEOs also trust social media to drive their strategic decisions, more than they trust traditional media or research institutions. Though this may seem strange at first glance, Traci Gusher, KPMG Principal focusing on artificial intelligence, explains: “Social media is direct, from the customer. Traditional media can be filtered through the lens of a reporter. Removing the

layer of interpretation increases the trust factor, because CEOs don’t have to sift through the bias.”

There is one data source that may be underused in terms of strategic decision making—financial information gathered during the external audit. “There are ways to marry audit-generated data with other types of data to identify where there may be gaps or spikes in performance,” says Frank Casal, Vice Chair of KPMG’s Audit practice. “That’s where technology can help create insights from that blend of data from multiple sources.”

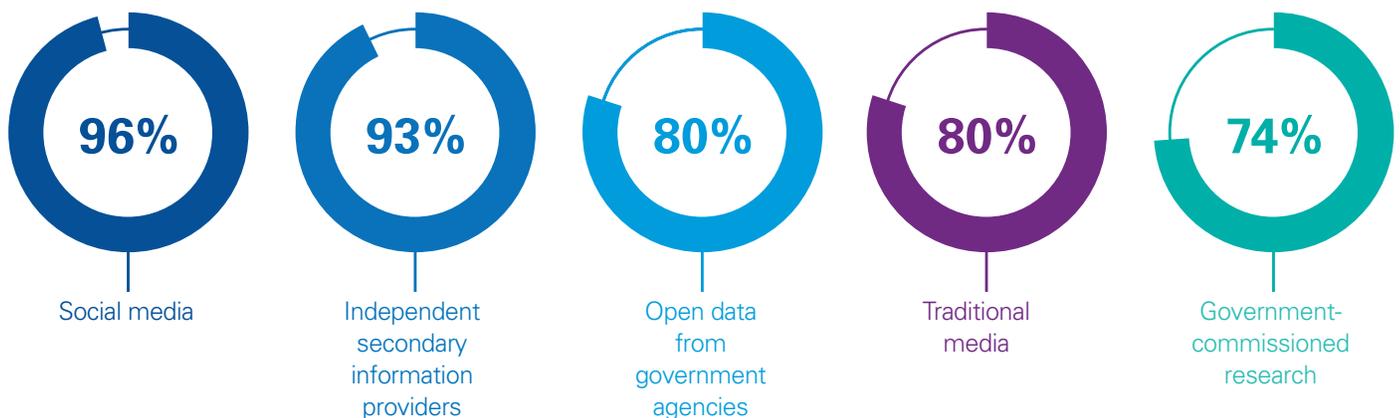
The reporting obligations and the opportunities presented by the new U.S. tax law are driving the need for very detailed data and offering opportunities to derive value from the corresponding analytics, says KPMG’s Brad Brown, Chief Innovation Officer and Technology Leader for Tax. “The data can be used not only to comply with the requirements of the law,” he says, “but also to manage risk and drive value for the organization.”



Have overlooked data-driven insights when they were contrary to their experience, when making critical decisions

What is critical is to be able to control data, and not get lost in the weeds. Sums up Patricia Kampling, CEO of Alliant Energy: “There is more data today, without a doubt, but it is important to focus on the data that helps decision making or reveals trends, and not get overwhelmed with the quantity.”

Number of CEOs who express strong or very strong trust in the following types of data when it comes to informing strategic decisions



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The data can be used not only to comply with the requirements of the law, but also to manage risk and drive value for the organization.”

— Brad Brown,
KPMG U.S. Chief Innovation
Officer and Technology
Leader for Tax



Technology-driven disruption: scope, speed and timing

U.S. CEOs are aggressively pursuing digital disruption. Eighty-six percent consider their companies to be active disruptors, up from 72 percent last year. And there are no doubts about what is fueling this disruption—for a vast majority, technology is the only significant disruption their business faces.

For some industries, the change, driven by technology combined with rapidly changing demographics, will be nothing short of a full transformation. Regina Mayor, KPMG's Global and U.S. Energy Sector Leader, points to energy and car companies as being at the crossroads. "As an energy company," she asks, "how do you stay relevant in a world with new sources of energy and focus on carbon footprint reduction?"

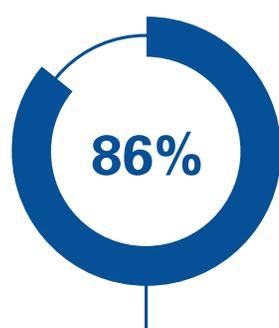
Disruption means different things for different CEOs, as they strive to replace what's fast becoming obsolete and keep what works for their companies.

Deciding what to disrupt, to what degree and when may be the most difficult decisions any CEO faces. So, while a vast majority of U.S. CEOs consider themselves disruptors, they are nuanced about their approach. "It's not always an all-out transformation, but a focused introduction of technology that can create value and secure competitiveness," explains Mike Nolan, KPMG's Vice Chair of Innovation and Enterprise Solutions.

Michael Lamach, CEO of Ingersoll Rand, a global industrial manufacturing company, explains: "Technology is the

disruptor, and digital is the area of technology that we're investing in most heavily."

While the intensity and scope of change may vary by industry, it is inevitable for all CEOs. Sums up Susan Story, CEO of American Water: "Today business is technology. Everything has technology threaded through it. How you most effectively and efficiently incorporate technology within business is what distinguishes digitally transformed companies from those companies that aren't."



Consider their companies to be active disruptors



Believe technology to be the only significant disruption their business faces



See their technology investments in digital transformation to be strategic (and not tactical)

Cybersecurity risk: from remediation to prevention

CEOs recognize cyber as a top risk but feel confident about their companies' ability to handle it. Cyber risk (33 percent) is back at the top of the risks facing organizations, after falling to third place last year.

Cyber security preparedness varies based on the size and complexity of the organization and is generally sector-specific. "Some are still in a mode of implementing foundational elements of their programs, the basic blocking and tackling activities that are required

to achieve a base level of security. But, we are also seeing a lot more discussions today around longer-term sustainability of cyber risk mitigation versus point security projects," says Tony Buffomante, KPMG's U.S. Leader for Cyber Security Services.

The majority of U.S. CEOs feel prepared in terms of their ability to identify new cyber threats (92 percent), but only 41 percent consider themselves very well prepared. What is the difference between being prepared and very well prepared? KPMG's Buffomante explains that prepared refers to the ability to organize a team to react quickly to an attack. However, there is still much room for improvement when it comes to the ability to prevent cyberattacks or to limit their negative impacts.

The increase in the levels of preparedness is urgent, considering the damage that a cyberattack could cause to peoples' health or lives. New technologies can monitor patients' vital signs, help steer airplanes and autonomous vehicles, and allocate distribution of energy supplies. "Cyber is a top risk, no matter what industry you are in. It's real, the threats are getting more sophisticated, and it's not going away," says Alliant's Kampling.

Which of the following risks poses the greatest threat to your organization's growth?

Cybersecurity risk

33%

Emerging/disruptive technology risk

20%

Operational risk

14%

Environmental/climate change risk

7%

Return to territorialism (e.g., U.S. renegotiating NAFTA, UK leaving EU)

7%

Regulatory risk

5%

Delivering for customers: permission and presumption

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There's an opportunity to engage in the conversation about how to better serve customers. It doesn't all have to come from black-box analytics.”

— Julio Hernandez,
KPMG Global Customer
Center of Excellence and
U.S. Customer Advisory
Practice Lead

It is no longer enough for shopping to be easy and fruitful. It needs to also be personalized. “What’s marvelous about technology is that it allows for a much more intimate experience—to reach people one-on-one where and whenever they wish. It enables a completely new business model because it allows you to connect in a very personal way,” says Tamara Ingram, CEO of J. Walter Thompson.

Creating a personalized experience rests on customer data, generating the right insights from it and acting on these insights. The regulatory angle of data—exemplified by new laws about customer data protection—is an area of intensive scrutiny and change. No wonder then that for a majority of CEOs (89 percent), protecting customer data is hugely important. But customer data remains an asset which is prone to cybersecurity attacks and privacy concerns.

Julio Hernandez, KPMG’s Global Customer Center of Excellence and U.S. Customer Advisory Practice Lead, sees a debate unfolding about permission versus presumption: obtaining permission from customers to use their data and meeting customers’ presumption about how this data will be used.

“A company can surmise what customers may want by looking at their past behavior. But they can also ask you: What do you want, what are you interested in? How would you like to be contacted? There’s an opportunity to engage in the conversation about how to better serve customers. It doesn’t all have to come from black-box analytics,” says Hernandez.

Companies have been gathering and analyzing reams of customer data, and for 93 percent of U.S. CEOs, the investments they have made in trying to personalize the customer experience have delivered the growth benefits they were hoping for. Yet almost a quarter (22 percent) say their companies do not live up to customer expectations for a personalized experience.

How do you address the needs of millennials?

Many millennials have now been customers for some time, exposing all other customers to their shopping habits and expectations, thus “millennializing” all generations of customers. And yet, these digital natives are still a challenge for companies. Almost half of CEOs (46 percent) struggle with understanding how millennials differ from older customers and with adapting sales and distribution models to fit millennials.

To connect with millennial consumers, Wingstop, a restaurant chain specializing in chicken wings, is advancing digital platforms at an aggressive pace. Customers can place orders on Amazon’s Alexa platform, on Facebook messenger or on Twitter, and also while in the car, via General Motors’ OnStar platform. “A big part of our customer base is millennial and multicultural, so we tend to lean on technology as our source of innovation,” says Charlie Morrison, Chairman and CEO of Wingstop Restaurants.

“More millennials are also looking to align with companies that have a higher purpose,” added Rob Arning, KPMG’s Vice Chair of Market Development and Head of Citizenship. “There is a tremendous opportunity for companies to attract more millennial consumers if they consider how they are doing good in the community. Millennial consumers want to support companies that are purpose-driven. And as employees, millennials are looking to work at companies that make a social impact.”

Which of the following are the biggest challenges for your organization in meeting the needs of millennial (born between 1980-2000) customers?

Understanding how millennials’ needs differ from older customers’

46%

Adapting our sales and distribution model

46%

Appointing senior leaders who can better relate to millennials

44%

Engaging millennials in new ways via digital channels

44%

Attracting millennials’ attention among competing online content from other brands and publishers

42%

Repositioning our brand image

41%

Responding to millennials’ expectations of an on-demand service

39%

Workforce development: balancing urgent needs with long-term vision



Benefits for full-time employees should include unique growth opportunities, stimulating work and, where possible, infusion of a 'gig'-like culture. ”

– Claudia Saran,
KPMG U.S. People
and Change Leader

Digital transformation will affect the number and types of jobs available in the future, but just how it will all play out is still an open question. U.S. CEOs are split almost evenly (48 percent vs. 52 percent) about whether technology will eliminate or create jobs, compared with 66 percent of CEOs globally who believe that technology will create more jobs than it will eliminate.

This is one of the few cases when U.S. CEOs, who are typically more optimistic than their global counterparts, display a bigger dose of realism. “I don’t think that digitalization leads to jobs’ creation or job loss. I think it changes the required skill sets,” says Lands’ End CEO Jerome Griffith.

U.S. CEOs agree on the use of contingent workforce. Ninety-nine percent of U.S. CEOs indicate their company utilizes a contingent workforce in at least some capacity. As the gig economy becomes a more prominent element of our labor market, companies need to be thoughtful about how they reward full-time versus flexible employees. “An organization’s benefits for full-time employees should include unique growth opportunities, stimulating work and, where possible, infusion of a ‘gig’-like culture – with characteristics such as a collaborative work environment and an entrepreneurial spirit,” says Claudia Saran, KPMG’s U.S. People and Change Leader.

Additionally, workforce development calls for continual training. “Retraining or continual development of employees is incredibly important for two reasons,” observes KPMG’s Vice Chair of Human Resources, Darren Burton. “One is that high-performing, solid employees are a better bet in many cases than recruiting and integrating new employees into an organization. From a business standpoint, it makes sense to first capitalize on the resources on hand. The second reason is that it is an important role of employers in the world today to retrain people, and to continue to provide them with new career opportunities.”

Takeaways

The robust economy, coupled with the digital and demographic revolutions, creates invigorating and yet formidable conditions for growth. CEOs need to be flexible and agile, while at the same time adopting a new mindset and mindfulness—to move fast but avoid the pitfalls of purposeless decision making. This new mindset includes the following ideas:



Traditional ways of looking at growth no longer apply. Growth is no longer a linear idea, a quantitative measure of revenue or profits, and needs to also include new metrics such as employee engagement or customer satisfaction. Viewing growth traditionally can lead to missing out on opportunities, at the very least.



Successful leadership in the digital era depends on an educated awareness of what's at stake. New technologies are bringing about possibilities for business transformations. But CEOs need to carefully weigh what they stand to lose if they don't adopt new technologies, and what they stand to lose if they adopt new technologies imprudently.



Cyber risk is the top risk, no matter the industry. It is getting more sophisticated and not going away. Smart CEOs are becoming more mature in their preparedness for cyber risk, moving from the basic blocking and tackling to longer-term sustainability of cyber risk mitigation.



Delivering data-driven customer experience requires a new approach. While personalized experience is by now a given, the regulatory angle of data is under intense scrutiny, and may lead to new forms of engagement with customers.



Talent management calls for balancing short-term skills gaps with the long-term needs of the core workforce. Smart companies combine the core and contingent workforces, and are invested in retraining employees and providing them with new career opportunities.

Methodology

The 2018 U.S. CEO Outlook is based on a survey of 400 U.S. CEOs plus conversations with a dozen leading CEOs about the issues they are facing. It is part of KPMG's Global CEO Outlook, for which KPMG surveyed 1,300 CEOs around the world.

Ninety-nine of the U.S. CEOs lead companies with revenues from \$500 million to \$999 million, 160 from companies with revenues of \$1 billion to \$9.9 billion, and 141 from companies with revenues of \$10 billion or more. They represent all major industries: automotive, banking, energy, infrastructure, insurance, asset management, life sciences, manufacturing, consumer and retail, technology and telecommunications. The U.S. survey and CEO interviews were conducted by Forbes Insights on behalf of KPMG in the first quarter of 2018.

For further information about this report and how KPMG can help your business, please contact me.

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