



cutting through complexity

GLOBAL CEO OUTLOOK 2015

The growth imperative in a tougher competitive environment

The outlook for Australia

July 2015

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Introduction

Despite foreign competitors turning their eyes to Australia in search of aggressive growth, Australian CEOs are optimistic about the economy and confident that their own growth strategies will pay dividends in the years ahead.

While Australia came out of the global financial crisis stronger than some economies, in a global economy the tyranny of distance does little to shield Australian businesses from such economic ripples. All businesses, no matter which country they call home, must operate in the wake of persistent and shifting global forces.

Operating in a global economy requires a global view, not just an overview of the current state of play but also an insight into what the leaders of today's global companies foresee in the years ahead. To provide this insight, KPMG has surveyed more than 1,200 chief executives* from many of the world's largest and most complex companies – including 52 from Australia for the first time.

Rather than simply looking to the next financial quarter, CEOs around the globe delve into their ambitions and expectations for the next 3 years. From plans for international expansion and acquisitions to concerns over global economic growth and regulatory frameworks, they reveal a strong appetite for risk and growth which will shape future business decisions.

Interestingly with less of an appetite for both risk and overtly aggressive growth strategies, it seems Australian CEOs are more inclined to fight foreign raiders on home soil than to devote significant capital to expanding into international markets.

Australian CEOs appreciate that they have a battle ahead as overseas competitors look to come ashore. They're more concerned than global CEOs about new entrants disrupting their business models, but at the same time they're less concerned about customer loyalty and their competitors' ability to take business away. Despite the challenges ahead, they feel bullish about the future.

*The survey data published in this report is based on a survey of over 1200 chief executives from Australia, China, France, Germany, India, Italy, Japan, Spain, the United Kingdom and the United States. Many key industries are represented, including financial services, automotive, manufacturing, technology, consumer markets, healthcare and energy. Of these, 347 CEOs came from companies with revenues between US\$500 million and US\$999 million, 626 from companies with revenues from US\$1 billion to US\$9.9 billion, and 303 from companies with revenues of US\$10 billion or more. Of those surveyed, 830 CEOs came from public companies and 446 from private companies.



Executive summary – an Australian perspective

Around the world CEOs see the global economy picking up over the next 3 years. Australian CEOs are well aware that this is a tough global operating environment, with increased threats from both incumbent competitors and new entrants. The latter pose a strategic decision, about *which* of the new entrants to compete with and *how*.

More than a third of CEOs globally categorise their growth strategy as “very aggressive”, which has clear implications for Australia. Geographic expansion is a high priority for many CEOs around the world as part of their growth strategy and almost a third of them list Australia as a market for potential growth.

Expanding into foreign markets is less of a priority for Australian CEOs, who are more bullish about growth in the Australian economy than growth in the global economy. Australian CEOs are preparing to do battle at home rather than abroad as more foreign players look to grow outside their home country and turn their eyes to markets like Australia. Of all those surveyed, Australian CEOs are the most concerned about global fair trade.

Australian CEOs are naturally concerned about these new entrants disrupting their business model. Despite this concern, they anticipate strong local growth and are far less concerned than overseas CEOs about competitors taking away business. They appreciate that they have a fight on their hands as international businesses look to get a foothold in Australia. They’re concerned about customer loyalty and, of the C-level functions within their organisation, Australian CEOs anticipate the role of Chief Marketing Officer growing most in importance over the next 3 years.

“In the years since the GFC, many organisations have sustained margin improvement through a focus on leaner operations and cost control. Market conditions have favoured international entrants, who bring stronger scale economies and in many cases, a more mature, technology enabled proposition. With this upset in the balance of many markets, it’s no longer enough to compete on price or value. Companies are responding by serving broader customer needs, improving and differentiating their offer, and shifting to a focus on the value they create for customers.”

Ronan Gilhawley, Partner in Charge, The Strategy Group

Organic, aggressive and confident: three Australian growth characteristics

With a relatively strong Australian economy, local CEOs have a key focus on organic growth and almost two-thirds see an acquisition in the next 3 years. They have a limited appetite for risk compared to their global counterparts. Most feel their growth strategies are aggressive but that they're taking the right amount of risk, few believe they're not taking enough risks. Australian CEOs are more confident than last year when it comes to company performance. They anticipate greater headcount increases over the next 3 years than CEOs globally expect to see in their organisations.

Along with a stronger client focus and expanding customer base, Australian CEOs expect to diversify into new business areas over the next 3 years. While planning for aggressive growth they place a much stronger focus on operational efficiencies than the international average.

How talent, technology and regulation are changing the growth paradigm

Across the globe new technologies are redefining value chains and companies need to remain vigilant to stay relevant. What's more, partners or vendors will control much of the technology necessary to stay relevant. CEOs are beginning to look beyond traditional management models to the challenges of operating in a broader ecosystem.

CEOs – especially those across Asia Pacific – are very much focused on managing talent, identifying critical roles and understanding the capabilities needed to succeed so they can strategically place their people. Australian CEOs are less confident than CEOs globally that they have the right talent in place to drive success in the next 3 years.

The regulatory environment continues to be increasingly intense, not just in highly regulated sectors but across all industries that pay taxes, or do business across borders. Compliance requirements affect growth, so it should not come as a surprise that CEOs around the world see global economic growth and the regulatory environment as the two issues which impact the most on their business.

Ask Australian CEOs which risks keep them awake at night and they're more concerned than the average CEO about the threats of emerging technologies, environmental risks, talent risks and cyber security. When it comes to cyber security those concerns have translated into action – with Australian CEOs taking more steps to pre-empt a cyber security breach than your average CEO.

“CEOs are dealing with competitive pressures, aggressive growth strategies, as well as changing customer demand. These priorities highlight a shift in the capabilities required from CEOs and their senior executive teams.

Business leaders will need to drive innovation and customer collaboration to create growth and lead culture change that allows quick adaptation of business models and integration of new acquisitions.”

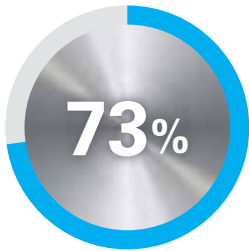
Liz Crawford
National Practice Leader
Executive Search and Selection

“Cyber security is more than a technology issue. It's a business wide issue that requires privacy, leadership and governance, information risk management, business resilience and technology to work together for a common purpose.”

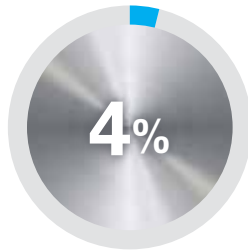
Mark Tims, Partner, Technology Risk

Key Australian findings

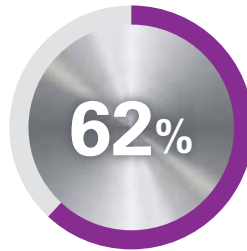
- **Australian CEOs are optimistic about the economy:** Seventy-three percent of Australian CEOs are more confident than last year on the growth prospects for the global economy over the next 3 years, with only 4 percent less confident. Globally, only 62 percent of CEOs are bullish about the global economy while 6 percent are less confident than last year. Australian CEOs are also more confident of local economic growth than most CEOs around the world.



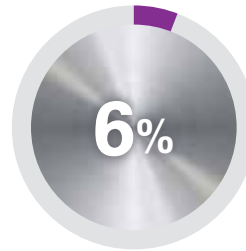
Australian CEOs are more confident with growth prospects



Australian CEOs are less confident with growth prospects

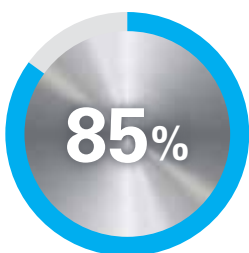


Global CEOs are more confident with growth prospects

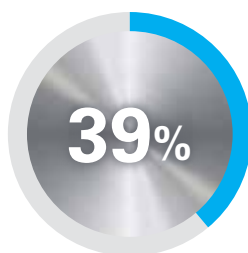


Global CEOs are less confident with growth prospects

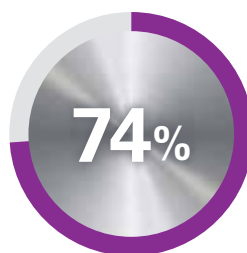
- **...But less optimistic on company performance:** Asked about prospects for growth for their organisations over the next 3 years, 52 percent of Australian CEOs are more confident than they were last year, while 10 percent are less confident moving forward. Globally, 54 percent of CEOs expressed more confidence about the future while 13 percent are less confident.
- **Competitive environment gets tougher:** Australian CEOs are definitely seeing more competition, but not necessarily feeling the heat. Eighty-five percent are concerned about new entrants disrupting their business model but only 39 percent – less than half of those concerned – say they are also concerned about their competitors' ability to take business away. It's a different story globally, with 74 percent of CEOs concerned about new entrants and 68 percent – so almost all of those concerned – also concerned about competitors' ability to take business away.



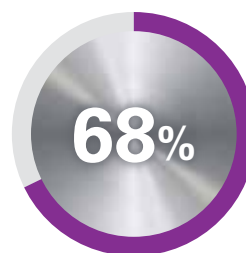
Australian CEOs are concerned with new entrants disrupting business model



Australian CEOs are concerned with competitors ability to take away business



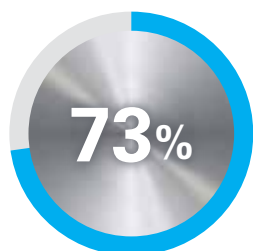
Global CEOs are concerned with new entrants disrupting business model



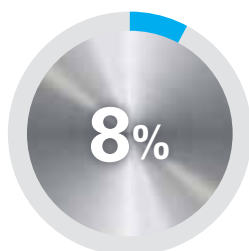
Global CEOs are concerned with competitors ability to take away business

- **Customer demand under pressure:** Seven-four percent of Australian CEOs are concerned about the loyalty of their customers, a high figure but still lower than the global average of 86 percent. At the same time, technology is driving change in the way organisations interact with their clients. Two thirds of CEOs (66 percent globally, 68 percent in Australia) are concerned about the relevance of their products and services in the face of change. Nearly three-quarters (72 percent) globally are struggling to keep up with new technologies, but only 59 percent admit to struggling in Australia.

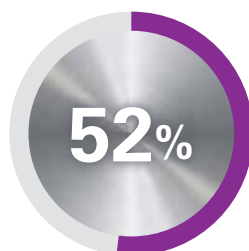
- Aggressive growth strategies prevail:** Asked to identify their organisational priorities for the next 3 years, Australian CEOs identified a stronger client focus and diversifying into new business areas as key priorities. Seventy-three percent of Australian CEOs categorise their growth strategies as “moderately aggressive”, while 8 percent consider them “very aggressive”. It’s a different story globally where 52 percent of CEOs categorise their growth strategies as “moderately aggressive” and 37 percent upgrade this to “very aggressive”. Around the world, key priorities for the next 3 years are developing new growth strategies and geographic expansion – with obvious implications for Australia.



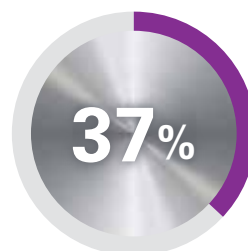
Australian CEOs categorise their growth strategies as “moderately aggressive”



Australian CEOs categorise their growth strategies as “very aggressive”

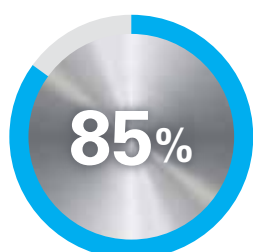


Global CEOs categorise their growth strategies as “moderately aggressive”

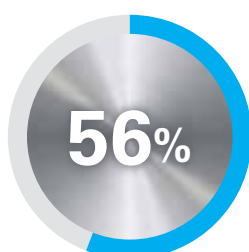


Global CEOs categorise their growth strategies as “very aggressive”

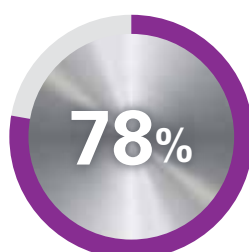
- Organic growth set to rise, acquisitions on the horizon:** Organic growth will continue to dominate, say 67 percent of Australian CEOs, but at the same time 63 percent expect an acquisition will change their firm’s capital structure in the next 3 years. Globally, 59 percent of CEOs say organic growth will continue to dominate and 48 percent see an acquisition in the next 3 years.
- Headcount increasing:** Eighty-five percent of Australian CEOs expect to increase headcount over the next 3 years, with 8 percent expecting increases above 25 percent and 56 percent expecting increases in the 6-25 percent range. Global expectations are more subdued, with 78 percent of CEOs expecting to increase headcount but only 2 percent anticipate increases above 25 percent and 50 percent expecting headcount increases in the 6-25 percent range.



Australian CEOs expect to increase headcount



Australian CEOs expecting increases in the 6-25 percent range



Global CEOs expect to increase headcount



Global CEOs expecting increases in the 6-25 percent range

Around the world, key priorities for the next 3 years are developing new growth strategies and geographic expansion – with obvious implications for Australia.

- **Limited appetite for risk:** Australian CEOs have significantly less of an appetite for risk than the global average. Only 12 percent feel they are not taking enough risk as it relates to their growth strategy, compared to 30 percent globally. Meanwhile 81 percent of Australian CEOs say they are taking the right amount of risk (compared to 65 percent globally) while only 4 percent state they are taking too much risk (compared to 5 percent).

“Remaining informed and understanding risk in a globally connected environment, with enhanced transparency demands and an intense regulatory overlay is challenging. Great CEOs help their organisations to be successful risk takers. They ensure that they respond to the changing market and are acutely aware of their entity’s strengths, weaknesses, and untapped potential in its environment.”

Sally Freeman, Partner in Charge, Risk Consulting

- **Strategic issues:** Global economic growth is far and away the issue which all CEOs identify as having the most impact on their company. Regulatory environment comes in second globally, with top regulatory concerns including tax regulation (particularly in Australia), environmental regulations and corporate financial reporting. Australian CEOs rank energy prices as having slightly more impact than the regulatory environment.
- **Limited capital targeted for geographic expansion:** Around the world geographic expansion is a priority over the next 3 years for 29 percent of CEOs, with 47 percent devoting significant capital to expanding into foreign markets. Meanwhile in Australia only 19 percent are focused on geographic expansion, with only 21 percent devoting significant capital to an international push. Australian capital will instead be invested in expansion of existing facilities (35 percent), advertising and marketing/brand (31 percent) and new product development (29 percent).
- **Laggards in innovation process development and implementation:** While the survey demonstrates that Australian leaders are mindful of the need to adapt and innovate in order for their businesses to thrive, only 23 percent have a fully developed and implemented process for company-wide innovation, compared with 44 percent of CEOs globally. Budget constraints were cited as the primary barrier to innovation in Australia.

“Innovation, by its very nature, is risky and involves failure. This does not sit comfortably with the approach of many big businesses. As businesses get bigger, their ability to innovate is often limited by their size and the processes and procedures developed to help them achieve their objectives and, importantly, to mitigate risks.”

James Mabbott, Head of Innovation

Conclusion

Looking out on the next 3 years, Australian CEOs and their global counterparts plan to focus on more aggressive growth strategies.

They will continue to be heavily impacted by the still uncertain global economic growth and the regulatory environment. Setting the course for growth in this tough new environment will require new strategies, new tools and new thinking.

Growth needs to be carefully calibrated with risk taking.

The fact that 73 percent of Australian CEOs describe their strategies as “moderately aggressive”, and at the same time only 12 percent state they are not taking enough risks as it relates to growth points to the challenge for CEOs of developing sophisticated risk-management practices. There may be more room for growth once such processes are put in place.

The competitive landscape is changing and customer centricity is key.

CEOs have become much more concerned about new entrants disrupting their business models and it's clear that foreign businesses have their sights set on Australia as part of their expansion plans. The main effect these new entrants have had on all companies is how they connect with customers. As a result, companies from all industries need to stay competitive by upgrading their connectivity with customers, even if their products or services stay the same.

Regulations need to be approached as a potential for competitive advantage.

CEOs view global economic growth and regulations as the two top issues, underscoring the correlation between the two areas. Regulations are changing across geographies in ways that are altering the economics of doing business in certain countries and industries. Australian businesses know all too well that they are not immune from the impacts of globalisation, the challenge is to leverage it to their advantage.

The pressure on CEOs to deliver results is intensifying.

Changes in many industries mean business leaders must evolve or transform business models to stay relevant. No one has the luxury of thinking in terms of decades. CEOs must find ways to accelerate implementation much earlier in the strategy development process.

“Customer loyalty is based on brand value and trust. Australian organisations have the advantage of a distinct local presence and relevance to their customers. As such, a customer-centric approach, based on deep insights and understanding of the customers unique wants and needs, can be the core of driving profitable growth and longer-term loyalty.”

Kelly Owens, Head of Customer and Growth

To read the Global CEO Outlook 2015 please refer to kpmg.com/CEOoutlook, for further details on the Australian CEO Outlook please contact your KPMG Partner.

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