

# Enemies at the gates: Manufacturing CEOs share their fears and opportunities

Practical advice for manufacturing CEOs based on KPMG's Global CEO Outlook Survey.

**"Manufacturing CEOs know they need to drive innovation in order to win in the new competitive environment; what they don't know is whether they are innovating faster and better than their competitors." – Doug Gates, Global Sector Chair, Industrial Manufacturing, KPMG International.**

If you aren't worried about your organisation's ability to compete, you probably should be. The fact is that – irrespective of the market disruptions of the summer – growth is coming to the manufacturing sector. But this round of growth won't be decided on volumes and prices; according to manufacturing CEOs, it will be fought – and won – on the battle ground of innovation. Is your organisation making the right investments to win in this constantly-changing competitive environment?

## Growth and competition

Notwithstanding the gloomy manufacturing data out of China this summer, most manufacturers believe they are entering into a new era of growth. According to KPMG International's Global CEO Survey, 62 percent of manufacturing CEOs reported increased confidence in their organisation's growth potential over the next three years. More than two-thirds also said they were bullish on the global economy.



Yet most recognise that they will need to compete fiercely to secure sustainable and profitable growth; every market, every customer and every dollar will be closely contested. Indeed, 70 percent of manufacturing CEOs voiced some level of concern about their competitors' ability to steal away market-share. More than a third of those respondents admitted being extremely concerned about the level of competition they expect to face in the near future.

## Innovative becomes an imperative

What's really worrying manufacturing CEOs, however, is the possibility that they may be losing the innovation race – that their competitors may be innovating faster, more efficiently or more effectively than they are. Almost two-thirds of the manufacturing CEOs in our survey said they were concerned that their products and services may not be relevant three years from now. Almost three-quarters said they were worried that their organisation wasn't doing enough to keep current with new technologies.

There are certainly plenty of examples of manufacturing organisations that failed to recognise a new opportunity until it was too late. Some of the large aerospace OEMs were caught off-guard by the success of the 'garage' drone market; many PC manufacturers missed the opportunity to adapt to (and possibly dominate) mobile; the bottom-line impact of car-sharing schemes has surprised many auto manufacturers. Technology is evolving rapidly. Those that are not able to keep pace will quickly be left behind.

Not surprisingly, manufacturing CEOs are now keenly focused on innovation. In fact, on the list of strategic priorities for the next three years, 'fostering innovation' was cited most frequently as a top priority, followed closely by 'developing new growth strategies'. And almost half of all manufacturing respondents said they planned to devote 'significant' capital towards new product development over the next three years.

**Top priorities for Manufacturing CEOs over the next 3 years**



## A broader understanding of innovation

The fact that innovation is moving up the agenda and gaining increased investment is a strong signal that manufacturers are starting to act on their fears. But it will take more than increased capital and enthusiastic leadership to create innovative manufacturers. It will also require CEOs and their management teams to think more holistically about innovation.

When we work with manufacturing CEOs, we often break down 'innovation' into three main areas: product innovation, manufacturing innovation and business model innovation. Most CEOs intrinsically understand the need for product innovation. If customer demand isn't driving product innovation, the need to compete for sales almost certainly is.

Many manufacturing CEOs are also fairly aware of the need to innovate in their manufacturing process. As our Global Manufacturing Outlook 2015 clearly illustrated, manufacturers are increasingly adopting advanced manufacturing techniques and piloting new manufacturing technologies (everything from 3D printing and nanotechnology through to robotics and predictive analytics) in order to gain a competitive edge. Many are already reaping improvements in efficiency, cost and productivity as a result.

Probably the most difficult type of innovation for manufacturing CEOs, however, will be in catalysing business model innovation. The fact is that traditional business models are coming under increasing pressure as new, more nimble competitors take advantage of their agility to create and dominate new market segments and sales channels. Most CEOs know they can't stand still and survive, yet few know how to move ahead or where to place their bets.

### Taking the right steps

Yes, there will be challenges. And creating a sustainable approach to innovation will take time, experience and practice. But our experience working with leading manufacturers suggests that there are often five key areas that the more innovative manufacturers recognise as being fundamental to success.

- 1 **Running at multiple speeds:** While most capital investment plans tend to span 5-year periods, technology is evolving at a much more rapid pace. Leading manufacturers are finding the right balance between long-term planning and creating the flexibility to adopt, develop and adapt new technologies as they emerge.
- 2 **Recognising the inflection point:** Most innovation happens in small, incremental steps. And so it's easy to miss the point where an emerging trend becomes a breakthrough technology. That is why manufacturing CEOs are now striving to figure out how to stay on top of developments – both in their immediate peer group and in other industry sectors – and how to assess and monitor threats and opportunities as they emerge.
- 3 **Creating an innovative culture:** Innovation shouldn't be isolated to a research lab or the IT team. Top innovators know that it must be woven into the fabric of the organisation – from the manufacturing floor to the boardroom. Instilling a culture of innovation means encouraging employees to try new things (and – if necessary – fail and try again), a concept that is largely foreign to manufacturing DNA.
- 4 **Adapting the business model:** Whether to defend against a new competitor, respond to a growing customer demand or to take advantage of emerging trends, leading manufacturers are already adapting their existing business models and creating new ones. Many are now focusing on overcoming the challenges related to managing, maintaining and optimising multiple business models simultaneously without disrupting the core business.
- 5 **Having a long-term vision:** Nobody knows exactly how technology will evolve over the next 10 years. But leading manufacturers and their executive teams are, none-the-less, developing a clear vision of how their innovation investments align to their long-term business objectives. And they are clearly articulating that vision to employees, suppliers, customer and shareholders to drive real competitive advantage from their innovation investments.

“The thing most manufacturing executives struggle with is the need to adapt the business model. They know they need to change but are not being bold enough when it comes to disrupting the traditional models. The reality is that you can make all the ‘tweaks’ you want around the edges, but if you aren’t willing to fundamentally rethink your business models, you’re simply not going to survive.” – Tom Mayor, Principal, Strategy Practice, Industrial Manufacturing, KPMG in the US

To find out more about the key issues facing CEOs around the world, read KPMG’s [2015 Global CEO Outlook](#).

For an Australian perspective, read KPMG’s [Global CEO Outlook 2015: The outlook for Australia](#).

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