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Auto CEOs: Disruption meets innovation

Driving new technologies and growth in an uncertain, changing world

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Automotive chief executive officers (CEOs) surveyed in KPMG LLP's new report, *Disrupt and grow: U.S. CEO Outlook 2017,* are facing an evolving set of challenges and don't have the option of looking back in the rear-view mirror. They must speed ahead to grasp the nuances of innovating technologies, and invest confidently in the right technologies to gain the most positive impact on their business—as well as outpace competitors. The report features results from an in-depth survey of 34 U.S. automotive CEOs and 62 global automotive CEOs.

Technology, data, and disruption

The auto industry needs to hang tightly to the steering wheel as it takes on accelerated levels of unprecedented technologies and transformation. More than half (56%) of the CEOs surveyed revealed it is difficult for them to get timely insight and advice on the strategic impact of new technologies.

The question is still out—is technological disruption viewed as an opportunity or a threat? The answers showed it could be both.

Viewing disruption as a threat, more than half (56%) either agree or strongly agree in their competitors' ability to take business away from their organization. For instance, new entrants are disrupting their business model by a company not currently perceived as a competitors (47 percent agree, 15 percent strongly agree).

On the flip side, 59 percent either agree or strongly agree that they see technological disruption as more of an opportunity than a threat. So rather than waiting to be disrupted by competitors, their organization is actively disrupting the sector in which they operate, according to 65 percent. How can they disrupt? As an example, 65 percent also responded they are considering the integration of basic automated business processes with artificial intelligence and cognitive processes.

But there is so much that the industry needs to still do to stay technologically relevant. This year's results show that 47 percent agree—and an additional 15 percent strongly agree—that they are not leveraging digital means to connect to their customers as effectively as possible.

Investment

When combining the incremental and significant investment responses, the top areas for investment over the next 12 months are governance and risk, innovation, regulatory compliance, cyber security, and physical infrastructure.

	No new investment	Incremental investment	Significant investment
Governance and risk	15%	35%	50%
Innovation, including new products/ services and ways of doing business	18%	50%	32%
Regulatory compliance	18%	32%	50%
Cyber security	21%	44%	35%
Physical infrastructure	21%	53%	26%

Focusing squarely on innovation regarding all things cognitive and automation, the auto CEOs responded that combined incremental and significant investments are being made in the next 12 months—especially in data analytics tools, Internet of Things, and blockchain. In the next three years, the combined investments point overwhelmingly to Internet of Things, blockchain, and cognitive technologies. The potential for a truly connected vehicle is becoming a reality, complete with gathering deeper insights of vehicle and customer data.

	No new investment	Incremental investment	Significant investment
Robotic process automation	29%	47%	24%
Cognitive technologies (including AI, machine learning)	18%	24%	59%
Cognitive automation	21%	32%	47%
Internet of things	12%	47%	41%
Data analytics tools	9%	44%	47%
Blockchain	15%	53%	32%

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Increasing investments in innovation and AI

The study found higher levels of optimism and confidence by U.S. auto CEOs moving forward in their willingness to invest in emerging technology and innovation compared to their global counterparts. CEOs recognize that this is a critical juncture, one where they will make choices on whether to remain pure automakers or to become mobility service providers, or both.

With an intense battle for a leadership position in the autonomous vehicle market, U.S. automotive CEOs are stepping up investment in innovation, artificial intelligence (AI) and emerging technologies compared to their global peers:

— Fifty-nine percent of the CEOs say their companies intend to invest heavily in AI in the next 12 months, compared to 39 percent of global CEOs.

— Nearly three-quarters (74 percent) of U.S. CEOs will be stepping up investment in emerging technologies in the next year compared to just 51 percent of global CEOs.

— Eighty-two percent of U.S. CEOs say they will increase investment in innovation, compared to just 45 percent of global CEOs.

Given the rapid pace of innovation and its inherent complexities, the challenge for a CEO is knowing that the investment decisions made today or not will have profound implications on the future of their company. Moreover, breakthroughs in AI, especially in deep learning, are having an unprecedented impact on the advancement of autonomous vehicles and how customers are interacting with cars.

The study also found U.S. auto CEOs are less concerned about increasing market share than their global peers (33 percent versus 55 percent).

Technology implementation concerns persist

While CEOs conveyed a clear sense of prioritizing investment in cognitive and artificial technology, concerns over readiness to adopt these technologies persist. In fact, nearly 40 percent of both U.S. and global automotive CEOs agreed with the statement that their organization is not ready to adopt advanced AI technology.

Additionally, 56 percent of U.S. automotive CEOs and 48 percent globally expressed concerns that their organizations do not currently have the sensory capabilities and innovative processes to respond to this rapid disruption.

Summary: Where the rubber meets the road

In response to enormous transformation in the auto sector, CEOs identified where they have started to act strategically and where more change is needed. In this age of autonomy and mobility, traditional automakers find themselves competing with new entrants, from technology giants to startups.

For auto companies to thrive in this new environment, they must solve what KPMG calls the "clockspeed dilemma"—the need to balance traditional five-to-seven-year auto product cycles with the new, consumer electronics-type cycle. In order to do that, they need new processes, capabilities and talent.

Overall, it's the confident auto executives who can leverage the earliest opportunities and zoom ahead over the next several years. Instead of being disrupted, they can become the disruptors. Innovating and investing in the right places will keep them on track.

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The KPMG U.S. Manufacturing Institute's Automotive Center is an open forum where industry specialists share knowledge, gain insights, and collaborate on timely and relevant issues facing the automotive market. KPMG recognizes that success in business is not a result of random inspiration, but rather of focused, strategic adaptations to ever-changing conditions. And with the unprecedented amount of change happening in business today, KPMG inspires automotive companies to confidently empower their organizations to evolve rapidly and to capture value in emerging opportunities. For more information on the Automotive Center, please visit HYPERLINK "http://www.kpmg.com/us/automotive" www.kpmg.com/us/automotive.

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