



# Manufacturing CEOs: Innovation is the differentiator

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**Manufacturing 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 with a very wide scope. In order to survive and thrive, they need to be more agile, adaptive, and customer-centric. They must reshape their businesses to acclimate to a changing geopolitical climate, take advantage of innovating technologies, and invest confidently in the right places to gain the most positive impact on their business—as well as outpace competitors.**

The 39 manufacturing executives surveyed were first asked, of the following, what are the top three strategic priorities for your organization over the next three years? A wide spread of responses demonstrated the need to tackle a variety of interdependent challenges in order to create a successful future.

<b>Becoming more data-driven</b>	36%
<b>Minimizing cybersecurity risk</b>	28%
<b>Digitization of your business (technology transformation)</b>	23%
<b>Building public trust</b>	21%
<b>Stronger marketing, branding, and communications</b>	21%
<b>Greater speed-to-market</b>	21%

Manufacturing companies are just beginning to leverage data analytics tools to improve customer relationships as well as business and operating models. Many other priority areas need to be strategically invested in as well, but those areas have not yet been tackled to the fullest level by the majority of firms.

KPMG's CEO Outlook asked the survey participants for their views regarding how the manufacturing industry is impacted by today's geopolitical climate, growth, and customer service.

# Geopolitical climate

Geopolitical climate issues, with its yet-to-be-seen developments and areas of volatility, are a current hot topic. For example, the uncertainty of the current political landscape has had a greater impact on their organization than they have seen for many years, according to more than two-thirds (69%) of the manufacturing CEOs.

What's more, as a result of the changing pace of globalization and protectionism, the large majority (82%) are reassessing their global footprint. (See related bar chart under Growth section.)

Many manufacturing companies are not going to sit idle as the world shifts and are taking a proactive stance. In turn, 71 percent responded they are recruiting new skills/specialists into the management team to better understand geopolitical risk. Three-quarters (75%) said they are spending much more time on scenario planning as a result of the uncertain geopolitical climate.

Meanwhile, about three-quarters (74%) of the manufacturing executives have seen a positive effect in U.S. economic growth, with 64 percent noting a positive effect of manufacturing industry growth. In their global footprint, U.S. centrality is leading the way; all respondents said that the United States will be a priority for new market growth in the next three years.

They were then asked, over the next three years, how do you expect the following geopolitical-related issues to change in your country? Interest rates, immigration levels, and pace of globalization were among the areas that are currently being closely watched for any updates or developments—despite any levels of feeling uncertain due to lack of any moving of the needle.

	Increase	Stay the same	Decline
<b>Pace of globalization</b>	49%	51%	0%
<b>Adoption of protectionist policies</b>	41%	41%	18%
<b>Immigration levels</b>	51%	46%	3%
<b>Public trust in business</b>	33%	54%	13%
<b>Inflation</b>	41%	54%	5%
<b>Interest rates</b>	54%	46%	0%
<b>Tax rates</b>	46%	54%	0%







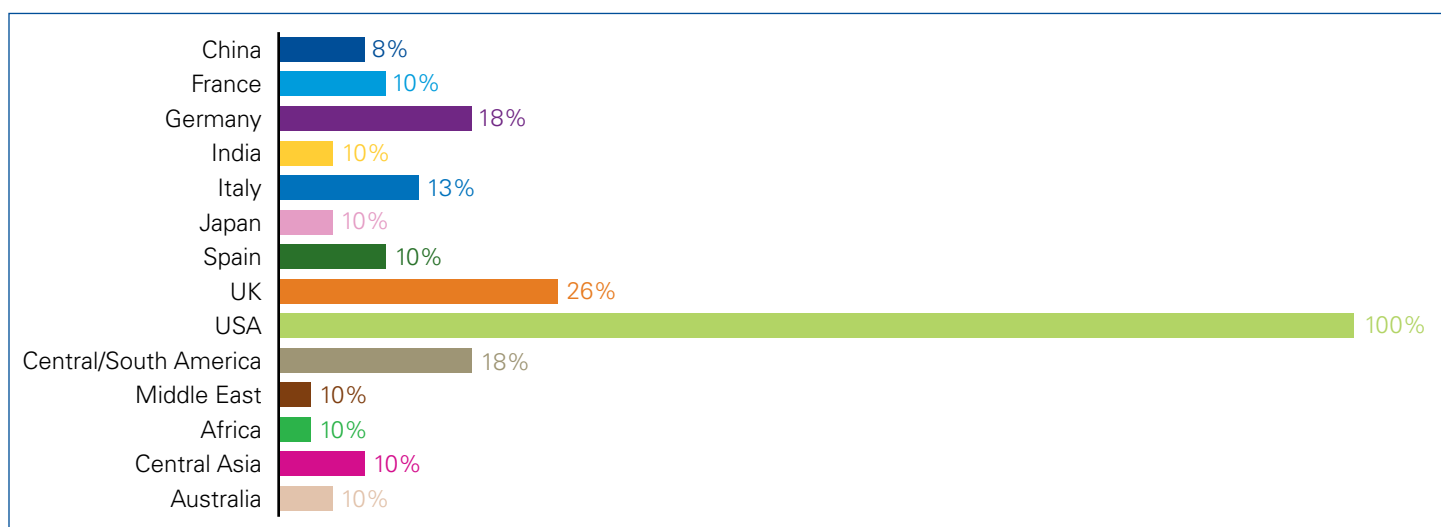
# Growth

CEOs seem more cautiously optimistic for the next 12 months ahead for growth prospects for their country, the global economy, the manufacturing industry, and their companies. Once there is some certainty of stability and growth in the world and real results from incremental investments on various fronts play out during 2017, it is anticipated that the wait-and-see pattern will dissipate, and there will be greater growth ahead over the next three years. The long-term view looks for innovation to help shape a brighter future.

Growth prospects for:	Very confident	Confident	Neutral	Not very confident
<b>Your country over the next 12 months</b>	46%	41%	13%	0%
<b>Your country over the next 3 years</b>	54%	18%	28%	0%
<b>The global economy over the next 12 months</b>	26%	56%	13%	5%
<b>The global economy over the next 3 years</b>	36%	54%	8%	3%
<b>The industry over the next 12 months</b>	36%	49%	15%	0%
<b>The industry over the next 3 years</b>	36%	51%	8%	5%
<b>Your company over the next 12 months</b>	28%	46%	26%	0%
<b>Your company over the next 3 years</b>	56%	23%	21%	0%

As noted in this year's geopolitical climate results, due to the changing pace of globalization and protectionism, an overwhelming 82 percent of the CEOs surveyed are reassessing their global footprint. The highest-priority geographies were unanimously in the United States (100%), followed by the United Kingdom (26%), Germany (18%), Central/South America (18%), Italy (13%), France (10%), and Spain (10%).

### Which countries/regions are you prioritizing for new market growth over the next 3 years?



Next, the CEOs were asked if they are currently pursuing any of the following business model transformations as a route to growth. A collaborative model led the pack at 64%, followed by a modular approach (59%) and customer-focused transformation (51%). There has been encouraging movement in platform-based and innovation-led types of transformation, along with a smattering of other specific types of transformation and modeling methodologies. However, the potential is still great for more manufacturing companies to change how they operate, and boost their growth, by taking on the right model for them and becoming a disruptor themselves.

<b>Collaborative – Making cooperation with customers and private and public sector players a core business aim</b>	64%
<b>Modular – Creating smaller, more flexible operating units</b>	59%
<b>Customer-focused transformation</b>	51%
<b>Platform – Turning core proposition into a platform on which to build new services and offerings</b>	49%
<b>Innovation-led transformation</b>	49%
<b>Regulatory-induced transformation</b>	41%
<b>Transformation resulting from market or competitive reactions</b>	41%
<b>M&amp;A-driven transformation</b>	33%
<b>Agile – A methodology for delivering change programs at speed</b>	31%



# Customer service

In a digital world where the customer has the upper hand, there are mixed views on how well manufacturing executives believe they are taking a customer-centric approach. They may not realize how much more of an emphasis needs to be placed on the demanding customer, who now has more access to information and choices than ever before.



As CEO, less than half (46%) said they agree or strongly agree that they feel a growing responsibility to represent the best interests of their customers (49 percent neither agreed nor disagreed).



A little more than half (52%) said they agree or strongly agree that they are able to confidently articulate how they create value for their customers (31 percent neither agreed nor disagreed, and 18 percent disagreed).



About the same percentage (51%) said they either agree or strongly agree that every employee in their organization is able to articulate their value proposition to the customer in the same clear way (23 percent neither agreed nor disagreed, and 26 percent either disagreed or strongly disagreed).



However, their organization struggles to evaluate the return on investment from customer-focused programs, according to 67 percent of CEOs who said they either agree or strongly agree (23 percent neither agreed nor disagreed).



Just more than half (54%) said they either agree or strongly agree, that they have aligned their middle- and back-office processes to reflect a more customer-centric approach to their front-office operations (26 percent neither agreed nor disagreed).



# Summary: The need to rise above disruption

In response to rapidly evolving technology, innovation, and customer centricity in manufacturing, CEOs identified where they have started to act strategically and where more change is needed.

- 1 Becoming more data-driven, minimizing cybersecurity risk, and digitization of the business (technology transformation) are the top three strategic priorities.
- 2 Interest rates, immigration levels, and pace of globalization were among the areas most expected to change.
- 3 CEOs are increasingly rising in confidence over the next three years in their growth prospects
- 4 There is still room for improvement for companies to take a more customer-centric approach and better articulate their value proposition.

Overall, it is the confident manufacturing executives who can leverage the earliest opportunities and foster innovation over the next several years. Instead of being disrupted, they can become the disruptors. Innovating new products and investing in the right places that align to their goals will keep them relevant in a highly competitive environment.



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## Contact us

**Brian Heckler**  
**National Sector Leader,**  
**Industrial Manufacturing**

**T:** 312-665-2693

**E:** [bheckler@kpmg.com](mailto:bheckler@kpmg.com)

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