Your journey to a new reality

The Japanese Practice at KPMG

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Meet the authors

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With more than 20 years of professional experience in growth strategy, market entry, cross-border M&A strategy, commercial due diligence, and separation and integration, Yoshi has led and worked on more than 150 projects over his career at KPMG in the U.S., including the engagement outlined on page 16, in which KPMG helped a major automotive OEM develop a new approach to open innovation and corporate venture investment. As a senior leader in the U.S. Japanese Practice of KPMG, Yoshi plays a key role in offering KPMG Advisory services to major Japanese multinationals for their business expansion and transformation objectives in the U.S.

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Charles is an experienced principal in the KPMG Advisory Services practice with nearly 30 years of experience advising clients on strategic global initiatives, organizational alignment, and complex technology implementations. Charles has extensive industry knowledge and experience, having worked in various capacities in the telecommunications, high technology, industrial manufacturing, and automotive sectors. Over his career, he has lived a total of 11 years in the Asia Pacific region, including postings in Tokyo, Sydney, and Shanghai, and has experience working on strategic cross-border and cross-cultural initiatives for Japanese clients.

We would like to recognize the contributions of the following colleagues:

Javier Santivanez, Junghoon Woo, Tai Kimura, Yuki Kitano, Jeff Tom, Haruyo Sudoki, Kayo Takahashi-Gerhard, Michael Thayer

Contents

Develop a strategy for tomorrow, today

To say COVID-19 has fundamentally altered the business landscape is an understatement. This disruption, which is ongoing, started gradually, but clearly has proven to be a game changer—both strategically and operationally—requiring new thinking and new approaches.

Rather than acting as a hindrance to innovation, the outbreak has been a catalyst, fueling innovation in relation to business models, customer experience and value propositions, operating models, organization and processes, technology and infrastructure, security, and environmental, social, and governance practices (ESG). Clearly, the virus continues to pose a critical challenge in terms of addressing a number of societal issues, such as access to essential supplies, and care and mobility for the elderly and for the underserved in our society.

If we've learned anything from previous crises it's that progressive—rather than defensive—thinking is key. As stated in the KPMG report *CEO Mission: Lean into the unknown*, "…we are living in a time of radical uncertainty. No one has a clear line of sight into the impact of COVID-19 on the U.S. and the world economies. We're consumed with keeping our people, families and communities safe. Yet CEOs cannot wait to plan and act…."

During this period of unprecedented global instability, companies must boldly employ creative new strategies and emerging technologies in an effort to expand their customer base, increase efficiencies, and achieve sustainable growth. Our clients know this, but what many don't know is how to best pursue sustainable operational transformation.

Against this backdrop, the services and support offered through the KPMG Japanese Practice remain extensive, differentiated, and timely. We specialize in helping CEOs, CFOs and other senior executives of U.S.-based Japanese companies achieve their global goals and targets in all markets in which they operate.

As always, please don't hesitate to reach out to me directly with any questions or concerns. We look forward to continuing to work with you to help create value across your enterprise.

We are always here to help you leverage and implement the latest thinking on a broad range of timely issues and help ensure the entire business is future ready—today.

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Navigating the new reality

Clearly, COVID-19 has profoundly impacted the global economy in myriad ways, not least of which is the widespread acceleration of strategic innovation and operational transformation. In response, many businesses are developing new, more resilient business and operating models with an eye toward getting ahead of the competition and addressing evolving customer expectations.

In this environment, we encourage companies to take decisive action by leveraging core capabilities while embracing the disruptive forces impacting their specific industry.

Work proactively to prepare for life in the new reality

The reactive work of value protection and crisis response should be behind us. Firms should actively work to develop strategies aimed at recovery—introducing new products/services, protecting and expanding customer relationships, conceiving alternative operating models—and transitioning to a new post-COVID-19 reality.

Cross-sector strategic planning for a new post-COVID-19 reality

Industrial	— Reshored manufacturing — Decoupled complex supply chains — Connected manufacturing with real-time access to plant performance	— Revamp factory environment to safeguard workforce — New operating model: adaptive and flexible technology and remote working
Consumer & Retail	— Step changes from brick and mortar to digital and remote sales models — Allocation of supplies and salesforce versus regional recovery dynamics	— New data and innovative technology to predict demand — Migration of nonessential retail to heavy online presence with contactless customer experience
Information, Communication & Technology	— Supply-base resilience with non-Chinese suppliers — Raw material planning with fluctuating commodity prices — Increased reliance on software services to support remote workforce	— Upgrade to 5G infrastructure for faster data and automation — Increased emphasis on consumer privacy due to increased threats
Energy & Natural Resources	— Financial/operational planning with lower and volatile oil prices — Loan defaults and debt refinancing — M&A activity for distressed domestic/ small businesses	— Renewable supply chain continuity with non-Chinese suppliers — Cash management and customer engagement with power and utilities — Acceleration of digital programs to increase efficiency
Healthcare & Life Sciences	— Repatriation of APIs and supply chains — Strategic stockpiling — Private/public R&D collaboration for COVID-19 vaccines — Advancement of telehealth and digital platforms for consumers	— Recovery of elective surgeries impacting financial performance — Consolidation of CMOs — Health system redesign (e.g., more remote monitoring)
Financial Services	— Acceleration of digital transformation — Technology investment to improve security and compliance across operations — Radically low-cost structure in response to reduced net-interest-margins	— Opportunistic MM with reduction in government support — Growth opportunity in health and life insurance market

Source: KPMG LLP 2020.

The new business landscape

Call it what you will—disruption, transformation, revolution—the way virtually every company in every industry operates, internally and externally, has been systematically changing for years. COVID-19 drastically accelerated the already-existing changes and intensified the need to respond and innovate.

The structure of virtually every industrial ecosystem—from front office to back—is changing. Innovative start-ups are able to match or exceed the technology offered by existing companies and are in turn revolutionizing the way entire sectors operate. And as the economy reopens, it's all happening at breakneck speed. Winning companies will be nimble, future oriented, and prepared to invest in new thinking, new talent, and new strategic alliances.

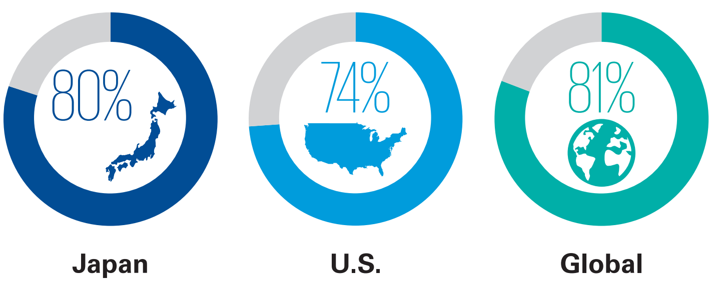
Priorities are legion, and include, among others:

Digital investment expected to accelerate

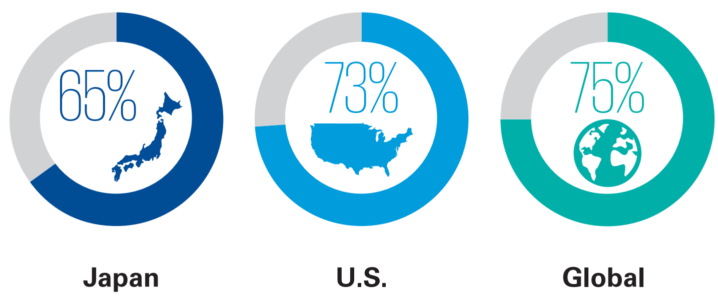
Going forward, a key factor for growth is digital transformation. With commerce increasingly becoming more virtual, companies are rethinking how to most effectively deliver on customers' changing expectations and operate more efficiently through the use of automation and use of artificial intelligence. The challenge today is to focus effort and investment on the areas that are positioned to generate sustainable value tomorrow.

Early results from the 2020 KPMG Global CEO Outlook suggest Japanese CEOs agree. The majority of CEOs noted COVID-19 has accelerated their digital investments and progress across numerous dimensions by at least a matter of months, including the creation of:

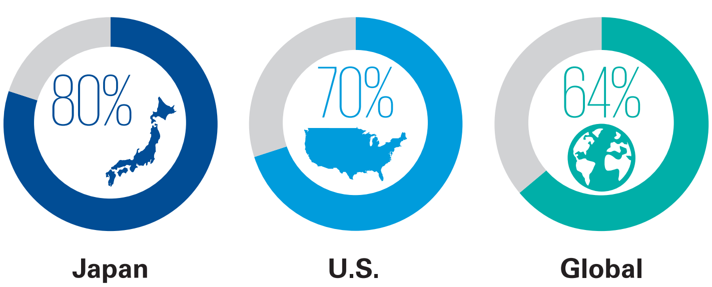
A next-generation digital operating model



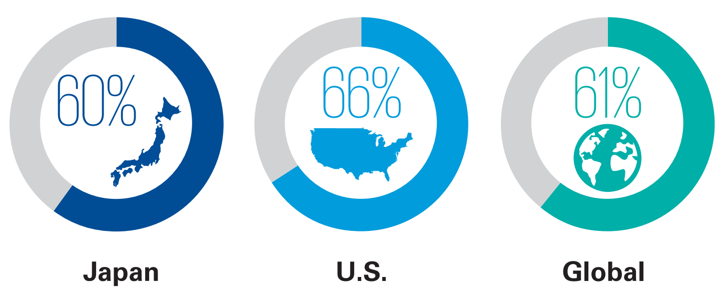
A seamless digital customer experience



New digital business models and revenue streams



A new workforce model, with humans augmented by automation and AI



Source: KPMG 2020 CEO Outlook, COVID-19 Special Edition.

Blurring commercial boundaries

The structure of the ecosystem across so many industries is changing. New, nontraditional entrants and start-ups are matching, and in some cases exceeding, what companies are providing in terms of innovative technology and revolutionizing the way business is conducted. New approaches seemingly are coming from every direction, requiring auto makers, retailers, financial services firms and companies across virtually every other sector to be nimble, future oriented, and prepared to compete with non-traditional competitors and invest in new technologies, new talent, and new strategic alliances.

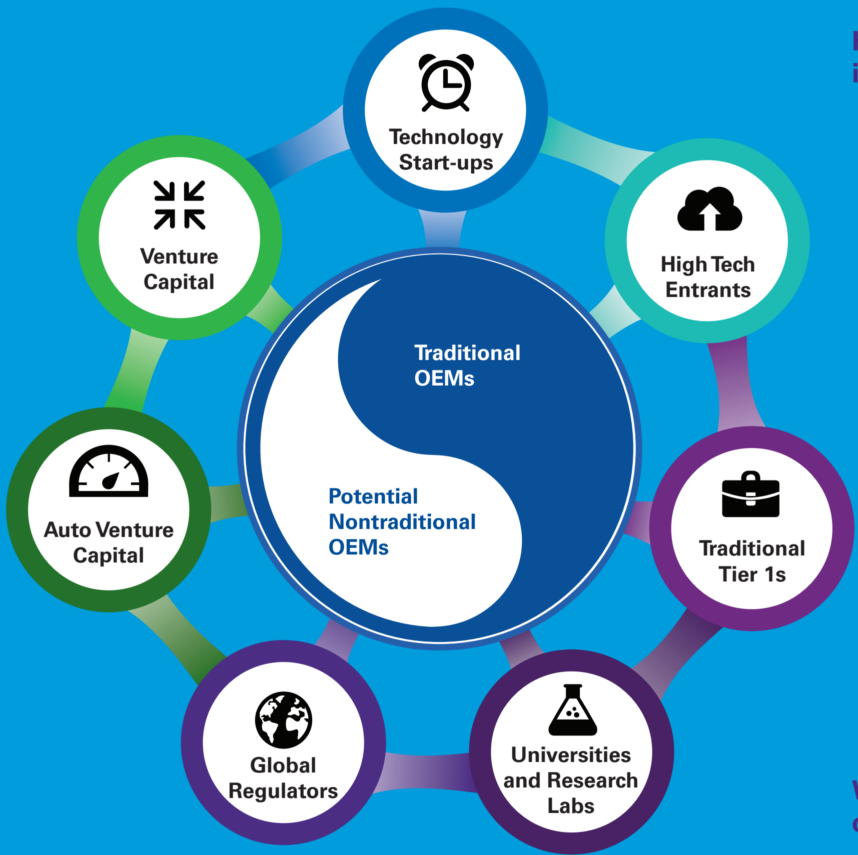
For example, as we learned in the KPMG report on automotive innovation, *The clockspeed dilemma*, automakers must contend with a dizzying pace of innovation, "especially in the key areas of mobility on-demand, autonomous vehicles, and connectivity. In each of these spaces, an accelerated pace of innovation is occurring at different rates, forcing the auto industry to address a number of faster clockspeeds, from affordable upgrading of sensors, actuators, and displays in 18 to 36 months to quarterly over-the-air upgrades of software."

A rapidly evolving automotive ecosystem

In 2014, we hypothesized that the structure of the ecosystem in the automotive industry was going to change. We felt that high-tech entrants and tech start-ups would match the OEMs at providing technology and, in turn, revolutionize the industry. By 2015, this theory proved to not only be correct, but it was also clearly materializing faster than we anticipated. In 2020, new technologies are coming from every direction, so auto companies—in fact, companies in virtually every industry—have to broaden their radar to keep pace.

Who are the key players?

How and when will investments be made?



How will the balance of power shift?

What are the new competitive strategies?

Source: KPMG research, 2020.

Post-COVID-19 industry resilience

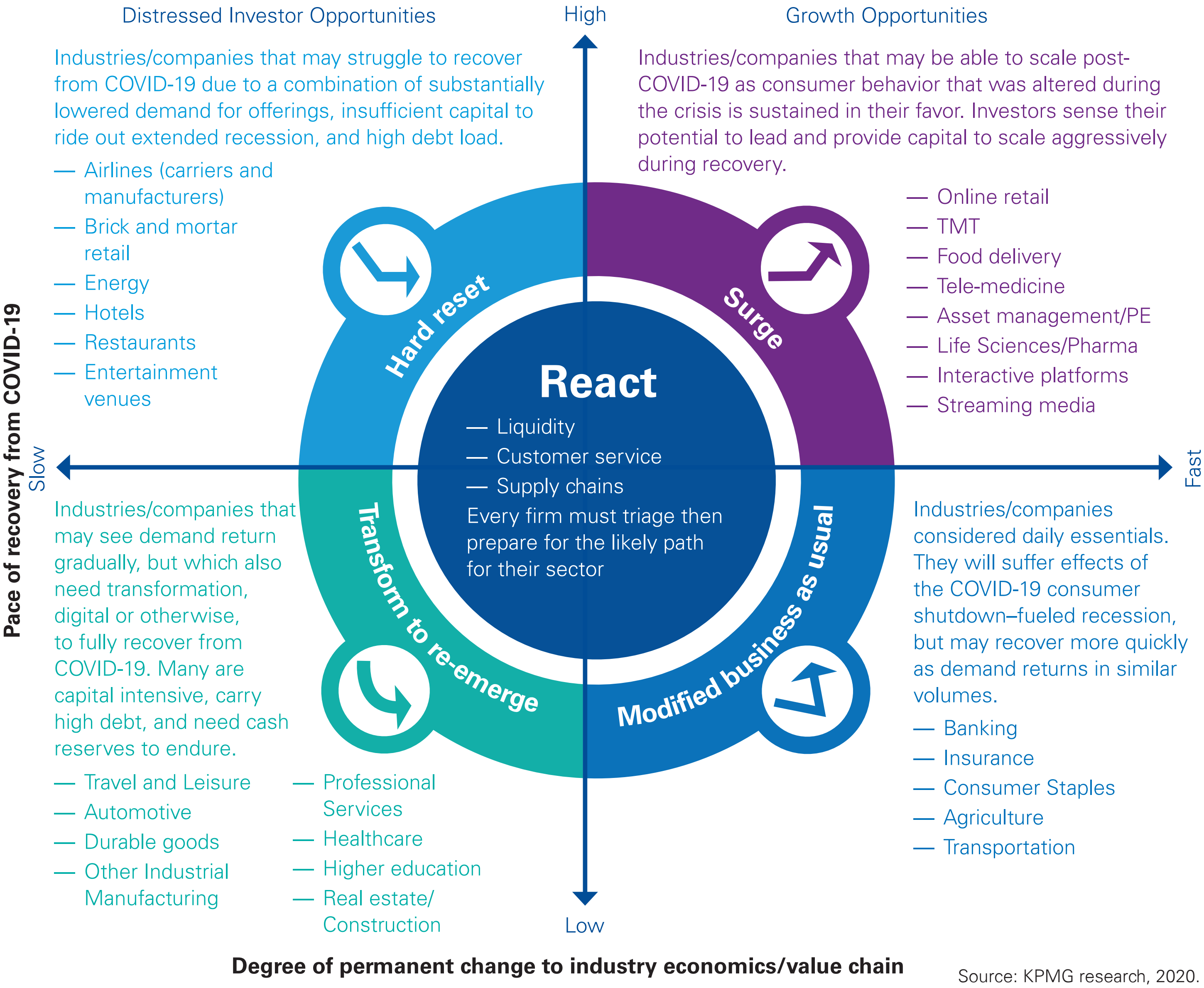
COVID-19 has created an uneven playing field for many sectors. Some are struggling mightily—airlines and hotels, for example—while others—such as those businesses offering an efficient digital experience and contactless home delivery—are thriving.

The framework on page 8 illustrates how a cross-section of industries may fare in relation to two critical post-COVID-19 dimensions: the pace at which an industry—and the companies within that industry—recover, and the degree of permanent change to that industry's economics and broad value chain.

Retail spans "hard reset" and "surge," suggesting companies that get digital transformation right are more likely to see growth, while those that fall behind digitally could be in trouble. Further, competition has expanded across different industries, with the dominant technology companies now fully participating in the automotive (mobility as a service, autonomous driving) and financial services (online and smartphone payment apps). This makes the competitive landscape more fluid than ever.

For executives of U.S.-based Japanese companies, it is even more complex as this situation is unique to the U.S., which leadership in Japan often doesn't easily understand. Additionally, many leading Japanese multinationals are conglomerates straddling multiple industries, further complicating this situational analysis.

Informed judgment across industries



Source: KPMG research, 2020.

An intensifying focus on ESG—especially the "S"

COVID-19 has amplified environmental, social, and governance awareness and expectations among investors, public policy makers, and consumers. Companies currently disclose ESG information voluntarily, but the overall efficacy is limited by a lack of common definitions, models, measures, and standards. Perhaps most notably, COVID-19 has also cast light on the social element of ESG as businesses seek to improve workplace safety, solidify customer engagement, and address racial bias and injustice. In fact, according to the KPMG 2020 Global CEO Outlook, 75 percent of Japanese CEOs said they have shifted their focus toward the "S" in ESG, and a full 90 percent said they need to reevaluate their corporate purpose as a result of COVID-19 to better address the needs of their stakeholders. Clearly, ESG is an imperative for businesses that want to be dynamic and resilient in a changing and challenging business environment.

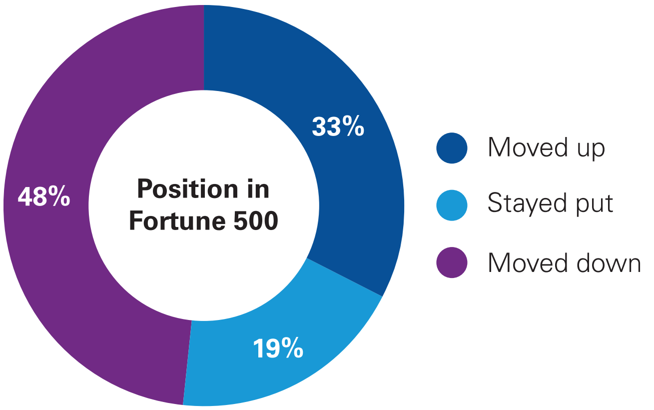
Japanese corporate leaders, especially those managing diverse business portfolios across different industries, must take these and other factors into account as they work to prepare for the challenges of today and tomorrow.

Act boldly, but strategically

Organizations that respond too brashly or make no changes at all may survive, but in a zombie-like state in which interest expense is greater than earnings. These businesses are more likely to lose ground compared to those that find the right balance between defense and offense.

For example, according to *Harvard Business Review*, following the global financial crisis and recession of 2008–2009, aggressive and cautious companies saw average EBITDA growth of six percent and four percent, respectively, while a more balanced approach yielded an average of 12 percent EBITDA growth.*

Similarly, KPMG research found almost no correlation between company returns before and after the financial crisis, with prerecession top performers as likely as any other company to perform poorly during the recovery, as measured by their Fortune 500 ranking.**



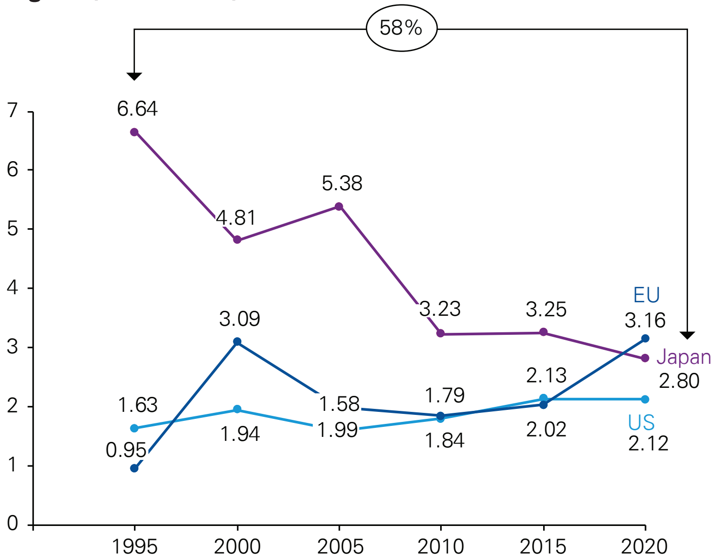
Source: KPMG, *CEO Mission: Lean into the unknown*, 2020.
**Harvard Business Review*, "Roaring out of Recession," March 2010.
**KPMG analyzed relative performance (total shareholder return) for 2006 Fortune 500 between 2006 and 2010.
Data was not available for all companies for all years.

Opportune time to shift from defense to offense?

Japanese company balance sheets have improved significantly over the past several decades through a combination of gradual economic recovery following the end of the bubble economy and the so-called "lost decades," and a lack of debt, improved cost efficiencies and attentive corporate governance policies. Looking at the top 100 companies based on market capitalization, there are more Japanese companies that are net cash relative to their U.S. and European peers. Against the backdrop of COVID-19, it is an opportune time for cash-rich Japanese companies to play offense and use this "dry powder" to identify and seize opportunities in the market.

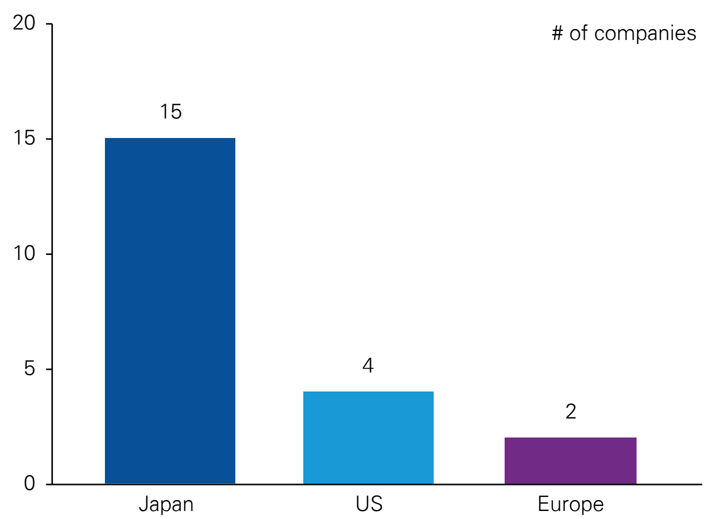
The debt burden of major Japanese companies has declined by nearly 60%...

Net Debt to EBITDA ratio[c] of top 100[a] companies by region (1995–2020)



...while a significantly higher number are net cash compared with their US and European peers

Among top 100 by region[a], the companies with positive net cash[b] by region (2020)



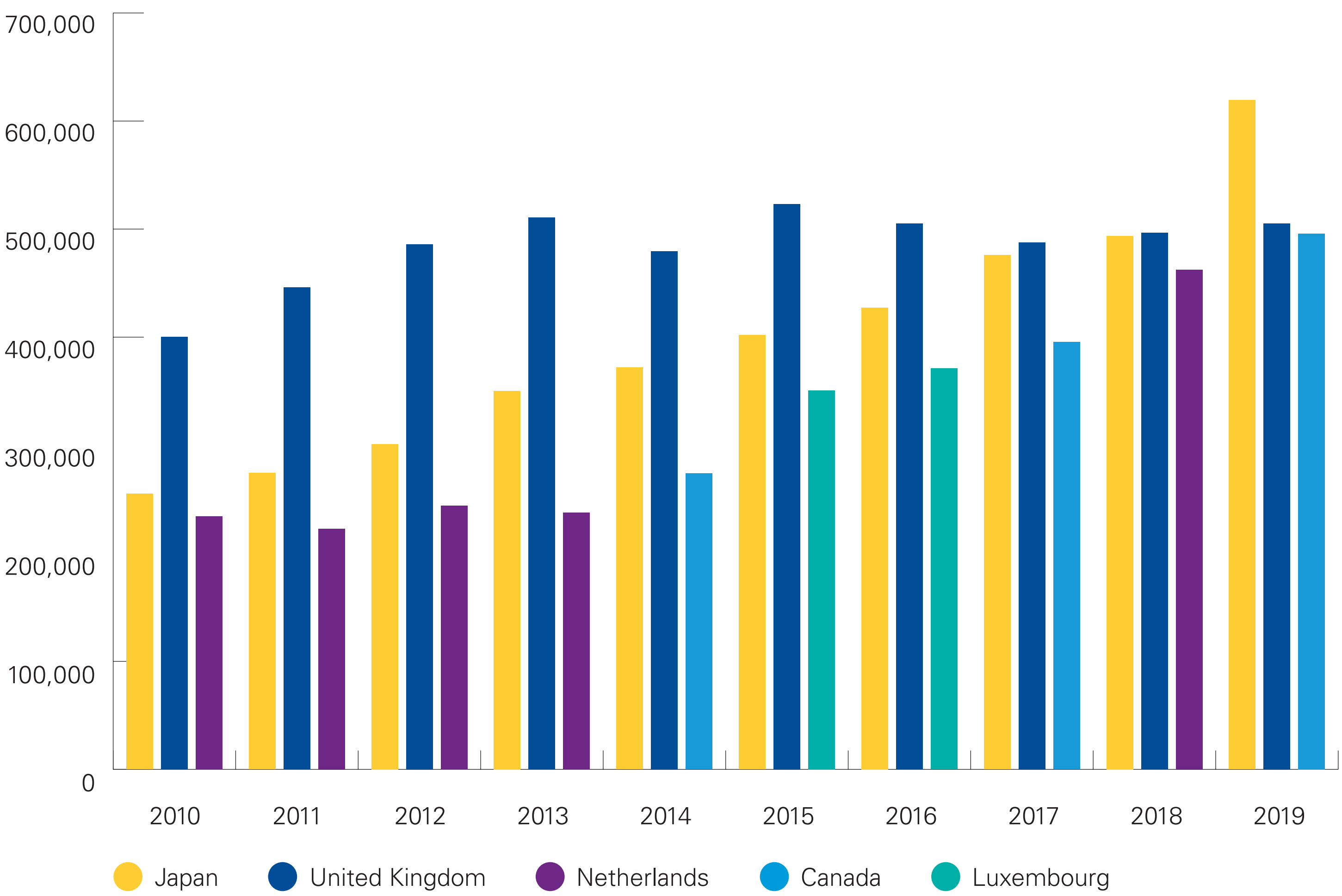
Source: KPMG research 2020. Notes: (a) Based on market capitalization; (b) Net cash represents cash and cash equivalents – total liabilities; (c) Average ratio is based on the companies for which information was available among top 100. Data sources: S&P Capital IQ, KPMG Analysis, July 2020

The bold moves may already be happening. A strong example, and perhaps a harbinger of future deals, came in early August 2020, with the announcement that Seven & i Holdings—the Japanese owner of 7-Eleven—would acquire Speedway gas stations—a transaction that was at once a valuation play and an attempt to transform the iconic convenience store's business model.

Japan and the U.S.: An enduring economic partnership

Since the global financial crisis, Japan has been a consistent top-three investor in the U.S. Even as the domestic population ages and declines, reducing along with it the opportunities for organic growth, Japan-domiciled companies continue to seek to expand their presence in the U.S. Indeed, in 2019, Japan was the top source of foreign direct investment in the U.S.

Foreign direct investment in the United States: Top 5 countries, 2010–2019
Direct investment position on a historical-cost basis (millions of dollars)



Source: U.S. Bureau of Economic Analysis, 2020.

The current business environment for Japanese companies in the United States is characterized by high volatility, uncertainty, complexity, and ambiguity—VUCA—extending from a variety of economic, social, and health system-related vulnerabilities exposed by the COVID-19 outbreak.

Despite these challenges, however, the U.S. remains Japan's—and indeed the world's—top destination for foreign direct investment. Why? Three key reasons:

1. **Economic strength and consumer-driven spending**—Not only is the U.S. the world's largest economy, but per capita consumption in the U.S. is 12 times greater than in China[1] (the world's second-largest economy). Simply put, this means there are more goods and services available per consumer, and those consumers are in a better position to purchase them. The U.S. represents nearly a quarter of the global economy,[2] and was, by far, the largest recipient of foreign direct investment in 2019, attracting $246 billion.[3]

2. **Receptivity to foreign investment**—The U.S. actively works to encourage foreign direct investment through various financial incentives, targeted legislation designed to address specific industry and company priorities, a competitive federal corporate tax rate, a business-friendly regulatory environment, and the recognition of the value of intellectual property.

3. **A business-friendly regulatory environment**—Several foundational examples include lowering the cost of doing business, shortening the time frame for federal project review, and reducing and simplifying regulations that are deemed unnecessary or economically harmful. The U.S. ranks 6th out of 190 countries for the quality of its business climate.[4]

Combine these factors with the benefits of unparalleled technological innovation, a skilled and ambitious workforce, and state-of-the-art R&D capabilities and it becomes clear why Japanese companies seeking cross-border growth opportunities continue to seek to expand their presence in the U.S.

[1] World Bank, 2020.
[2] International Monetary Fund, 2019.
[3] United Nations Conference on Trade and Development *World Investment Report 2020*.
[4] World Bank, *Doing Business 2020* report.

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Competitive challenges Japanese companies must overcome

Despite Japan's overall wealth—it is the world's third-largest economy and the U.S.'s fourth-largest trading partner[5]—from a corporate perspective, many Japanese companies have endemic issues that prevent them and their American subsidiaries from fully realizing their potential for sustainable growth. Many Japanese companies struggle with how to effectively and consistently operate U.S. subsidiaries. These difficulties were present pre-COVID-19, but are only magnified in the current scenario.

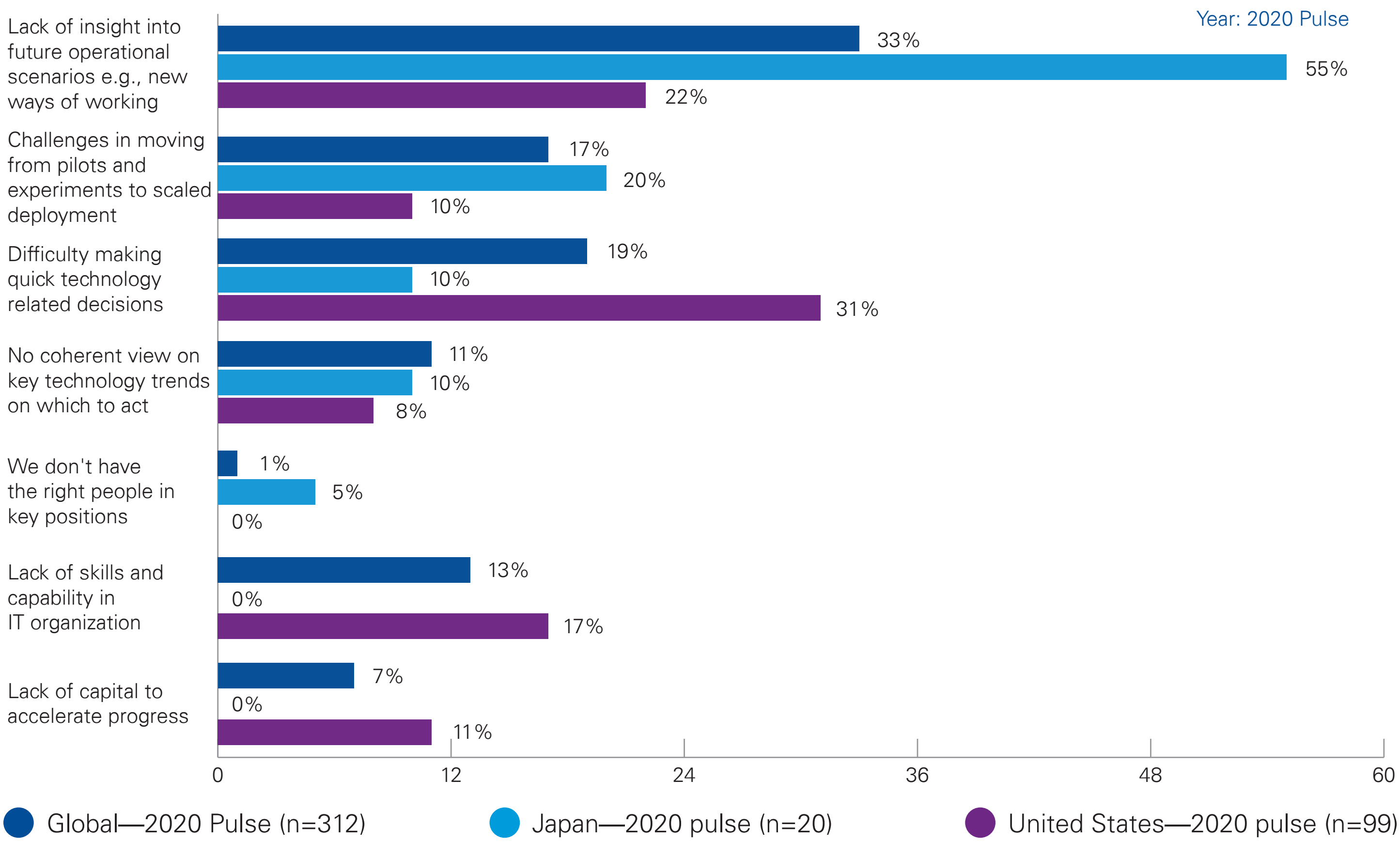
Following are three examples of challenges we're working with our Japanese clients to address:

1. Reluctance to experiment

Simply stated, Japanese c-suite executives need to become comfortable with failing. Essentially, they must accept that not all ideas, projects, and products will succeed. But they should work to fail fast, move forward, and learn from these experiences. Right now, Japanese CEOs are not necessarily making this lesson a priority, and too often, Japanese companies practice decision-by-consensus—as a result, the desire to avoid blame for a bad decision is strong.

When KPMG asked Japanese CEOs about accelerating digital transformation as part of the 2020 Global CEO Outlook, more than half (55 percent) cited a lack of insight into future operational scenarios and new ways of working as their top challenge, while 20 percent said transitioning from pilot and experimental programs to full-scale deployment was their biggest challenge.

What is the greatest challenge you have faced in accelerating digital transformation?



Source: KPMG 2020 CEO Outlook, COVID-19 Special Edition

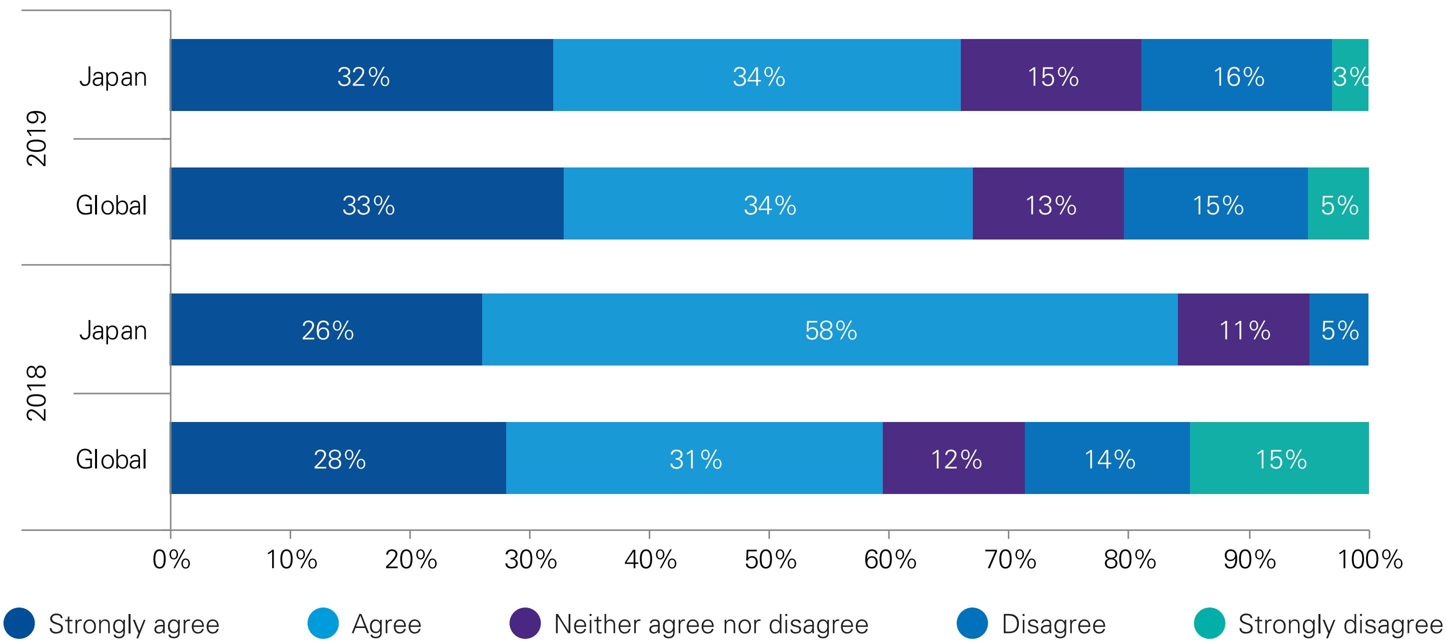
[5] U.S. Department of State 2019.

In this environment, companies must be prepared to make bold decisions quickly. And if some aspect of the negotiation falls apart or if the terms are not acceptable, leaders have to summon the courage to move on and live to fight another day.

2. Lack of agility

A long-standing challenge among Japanese companies is speed of execution—or a lack thereof—particularly when it comes to M&A. As a result, we often see Japanese clients losing M&A deals to global competitors who are accustomed to moving much more expeditiously.

To what extent do you agree or disagree with the following statements about your organization's growth?
Acting with agility is the new currency of business; if we're too slow, we will be bankrupt.



Source: KPMG 2019 Global CEO Outlook

In 2018, 84 percent of Japanese CEOs agreed that acting with agility is the new currency of business, agreeing that if they act too slowly, they will not survive. However, in 2019, there was a decrease of that confidence to 66 percent. This is contrary to the global trend, which increased from 59 percent in 2018 to 67 percent in 2019.

While there are exceptions, for many Japanese companies operating in the U.S., key decisions need the approval of their parent in Japan. We believe these organizations should adopt a new approach that is more collaborative, strategic, and thesis-driven, rather than tactical, to allow for more agile and independent decision-making.

3. Confidence in the capacity to disrupt

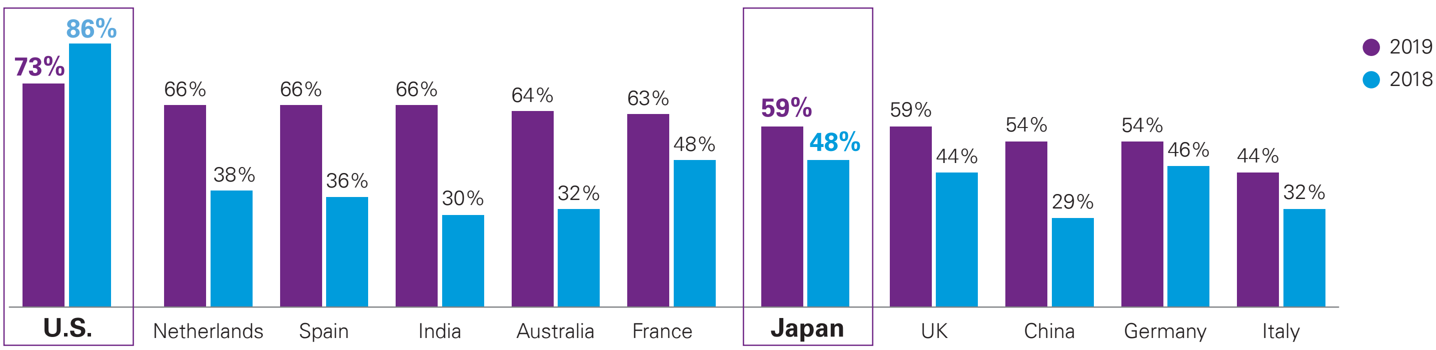
This factor is perhaps best viewed as a consequence of the previous two, attributable to a combination of innate conservatism and a tendency to operate at a historically restrained pace. Puzzlingly, however, considering the country’s historically innovative nature—think bullet train, the laptop computer, LCD TV, 3D printing and robotics, among numerous other achievements—Japanese leaders are lagging behind many of their global counterparts regarding their inward perception of their organizations’ performance in this area.

Nearly three-quarters, 73 percent, of U.S. CEOs told us in 2019 that they believe they are actively disrupting their sectors (interestingly, down from 86 percent in 2018). However, in 2019, while more Japanese CEOs said they were disrupting the competition relative to 2018, only 59 percent say they are active disruptors.

With companies seeking to disrupt, rather than be disrupted, we believe our clients should take nontraditional approaches to the competition, as well as their business plans, as they address the challenges of the post-COVID-19 reality.

To what extent do you agree with the following statements about disruption?

Rather than waiting to be disrupted by competitors, my organization is actively disrupting the sector in which we operate.



Source: KPMG 2019 Global CEO Outlook

Redefining strategic success in the U.S.: Three case studies

At this unprecedented and very fluid moment, it's challenging for executives to gain the right context and perspective for every scenario and extract actionable insight. The KPMG Advisory team helps leading companies across a variety of industries leverage emerging technologies and a broad range of unconventional data, explore new business models, and expand roles in newly developing ecosystems. Over the next several pages, we highlight three cases to illustrate how our clients have innovated and transformed their businesses to stay competitive in highly complex business environments.

Case study 1: Open innovation in a newly developing ecosystem

Our client, a major automotive OEM, has long been known as a leader in the traditional automotive manufacturing business. With the industry undergoing a major disruption, including an influx of various nontraditional entrants from the technology and start-up spaces, at its centennial, the company has been seeing an increasing need to transform into a mobility company and better position itself for the long term within a "smart" ecosystem. In this environment, the company saw an opportunity to transform their approach to innovation and R&D with the support of KPMG.

Disrupt or be disrupted: Go where the innovators are

The company needed to diversify its sources of innovation. Where and how they were looking for new talent and new disruptive technologies was a bit behind the curve for an industry beginning to embrace concepts such as artificial intelligence, deep learning, and autonomy. When we considered what approach to take, it quickly became apparent that leading corporations were taking an "open-innovation" approach to corporate venture capital (CVC) investment. This shift is seen as an effort to more broadly engage with communities of new technologies and talents, often with competitors invested in the same companies, to balance the overall speed of innovation and their own involvement in the process.

The new CVC fund was structured to stimulate and accelerate development of a range of new technologies and solutions with a goal of becoming a mobility company through early-stage venture investment. The strategic CVC fund would also offer the function of helping to incubate and mentor mobility-focused start-ups that are working on disruptive innovations with the mechanism of tapping into the parent company's technology capabilities and resources.

Opening the door to open innovation

Often the initial tendency among parent firms is to focus inwardly on their own long-term business strategy and seek to capture innovation in terms of the benefit to shareholders. But that position, while naturally expected and understandable, can often impair the quest for innovation because the most promising ventures are more broadly ambitious and look to serve a broader industry, including various competing companies. Through our work, we've found that corporate venture approaches that aim for that broader audience through a more collaborative, open innovation approach are more likely to succeed. When strategic CVC funds try to closely control investees exclusively for their own benefit, it is a challenge to both attract the right innovation partners and realize a financial return.

New thinking, new approach

Over a comprehensive series of interviews and executive workshops, we discussed a number of critical VC best practices, including defining strategic objectives and guiding principles, investment stage and scope, typical deal terms, the structure of the organization, the right talent to hire, and compensation structure. We also considered the potential impact of different accounting and tax structures in connection with funding the CVC from Japan as well as U.S.-based entities.

Through this process, we worked with the company's U.S.-based management to change the parent company's more traditional approach to venture investment in an effort to design the CVC fund to succeed. With data-driven insights, we successfully communicated the thesis that, in the spirit of open innovation, the team and the businesses in which they invest should not be constrained to working only on projects that are of tactical importance to the parent company. They have to have the autonomy to think about the kind of innovative topics they believe have the broadest market value and appeal.

Outcome: Where the rubber meets the road

Perhaps the key outcome was to clearly define the fund's underlying mission: to facilitate new ideas and to be agile and responsive to both industry and cultural changes. It's no longer enough to engineer an incredible vehicle—OEMs must build in the latest software and intelligence, data, and intravehicle connectivity between.

In the end, the CVC fund was structured so the parent company could offer its resources, technology, and network as a kind of testing ground for some of the start-up businesses the fund planned to support. That kind of collaboration is a productive and efficient way for the parent company to add value.

Case study 2: An investment bank takes an innovative approach to global regulatory compliance with machine learning

Regulatory compliance is one of the most critical and overwhelming requirements for many financial services firms. Considering the fluidity of the current regulatory environment, our client, a prominent institution with worldwide operations, was finding the practice of managing its obligations under the industry's many new and changing guidelines had become not only manually intensive, but time consuming, costly, and frankly, uninspiring to those who were engaged to support the effort. This was resulting in inconsistencies, driving quality down and compliance risk up. The client reached out to KPMG for ideas around increasing the efficiency and quality of this process.

Can't get from here to there without a map

Typically, when new or amended regulations were published, the client's compliance team would initiate a comprehensive review to ensure they fully understood the rule's requirements and the bank's corresponding obligations. As close to concurrently as possible, they would map the regulation against their internal compliance system, which includes an industry-standard control framework, internal control taxonomy, standard requirements, and testing procedures.

Large financial institutions spend a substantial amount of budget dollars every year just on regulatory mapping. And as a manual process, it tends to be quite subjective and inconsistent. In many cases, the client's compliance team was forced to make judgment calls as to whether or how a specific rule was applicable to the bank's operations, and against which controls or requirements the regulation should be mapped. Because of the inherent ambiguity in the process (mapping among different concepts), regulatory mapping was often inconsistently achieved and incomplete, albeit inadvertently.

The client had six to eight specialists reviewing 10 to 15 new regulations every month. Within each regulation there were typically an average of roughly 100 requirements to parse out for operational relevance before each obligation was mapped to the appropriate internal control, policy, and procedures to ensure compliance. That purely manual process was taking hundreds of hours monthly. That equaled upwards of 40 to 50 hours for each specialist—essentially, 80 to 90 percent of their time was spent on regulatory parsing and mapping, leaving them precious little time for higher-value strategic work.

What's more, our analysis found that the human output—the mapping between a regulation and the relevant internal controls—had an accuracy of between 60 and 70 percent, which requires banks to devote additional quality assurance resources, and was continually pushing up costs.

Set a course

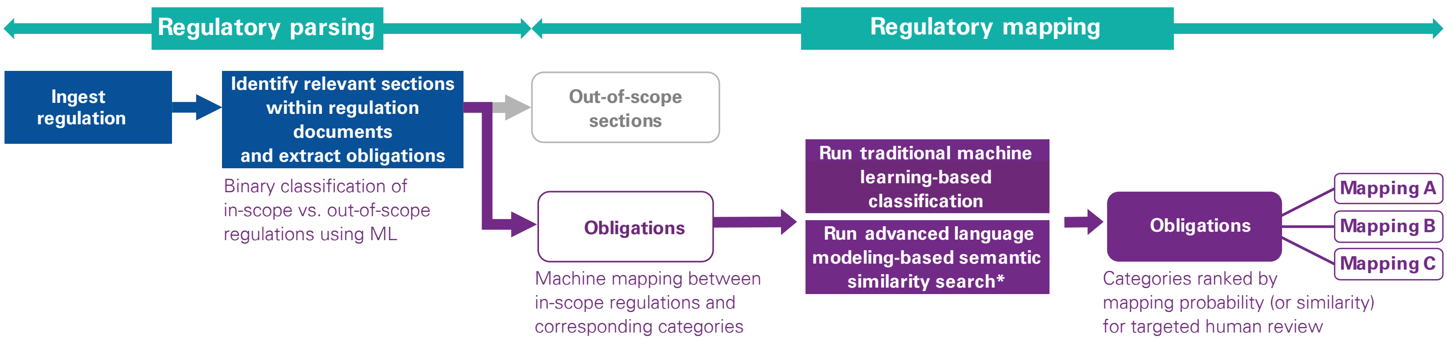
As with all large banks, the client maintains historical mapping data from the manual human process for ongoing reporting purposes. We deployed our AI platform with machine learning and natural language processing capabilities to effectively accelerate and enhance the human process.

We developed a new AI-based approach to help manage cybersecurity-related regulations. While it was a part of the overall regulatory framework, it still included numerous global regulations that are intended to protect individual consumers as well as the broader financial system; each one features its own complex vocabulary, further complicating compliance.

The machine learns

From a machine-learning perspective, the computer applies a series of algorithms to the client's existing historical data, and then "teaches" itself the various language patterns associated with the historical mapping. Once the machine was trained, it was deployed as a fully automated solution.

Our solution leverages a series of machine learning and natural language processing capabilities to automate and enhance obligation parsing and regulatory mapping.



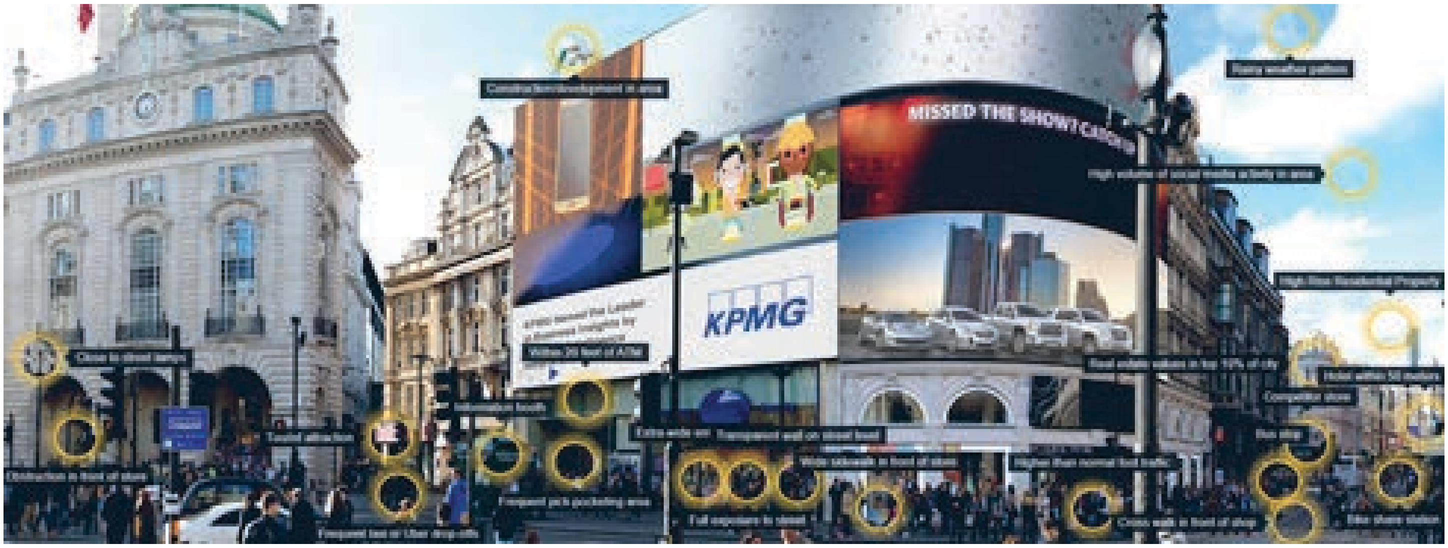
The machine learns key words, phrases, and underlying nuances within a given regulation, automatically mapping those words or phrases to the bank's existing controls. It does the same for all other relevant cybersecurity regulations and the corresponding internal controls. That "learning" and subsequent mapping is similarly applied to any new or amended regulations.

Outcome: Better compliance through AI

An AI-driven automation solution worked well for this challenge. From a consistency perspective, every case is reviewed in an identical manner, minimizing process variance and human factor risks. In seconds, the machine analyzes and interprets new or revised regulations and predicts the corresponding mapping, facilitating business scaling and achieving faster response to regulatory requirements.

Results indicate that the machine is 100 times faster than humans, and the machine's accuracy was much higher. As we saw in our initial research, human accuracy was 60 to 70 percent before QA; once fully trained, the machine's accuracy was 85 to 95 percent.

Before implementing a machine learning solution, the gaps created by inconsistent mapping may have been overlooked, often putting the organization at considerable compliance risk. Today, having the capability to identify and manage these gaps enables the client to perform faster, more cost-effective, more accurate analysis, reducing the financial, reputational, and business risks of incomplete or partial compliance.



The solution uses AI to help the client evaluate numerous physical, demographic, and intangible data points.

Case study 3: A quick-serve restaurant elevates store placement with alternative data and predictive modeling

Fast food chains spend much time, effort and capital researching new locations that they believe have the secret sauce for long-term growth. Under difficult economic conditions, the process of evaluating neighborhood attributes, particularly those in new geographies, becomes even more challenging. Our client, a global quick-serve restaurant chain contacted KPMG to help improve their ability to forecast the revenue potential of their new locations.

Take the bite out of store placement

Many companies' real estate teams have the basic capability to gauge the number of visitors their shops may attract, but to precisely predict revenue—not just within a certain zip code, but on a specific block—requires cutting-edge data science.

It's important to note that, while forecasting through modeling is not new, the artificial intelligence-enabled techniques we are able to employ today, such as machine learning and natural language processing, augment existing and new data by unlocking a much deeper level of insight. These cognitive technologies can help companies make better-informed decisions regarding the placement of new stores using a combination of internal data from existing locations—menu items, the overall store layout, the number and placement of tables and cashiers, etc.—and relevant external open-source data.

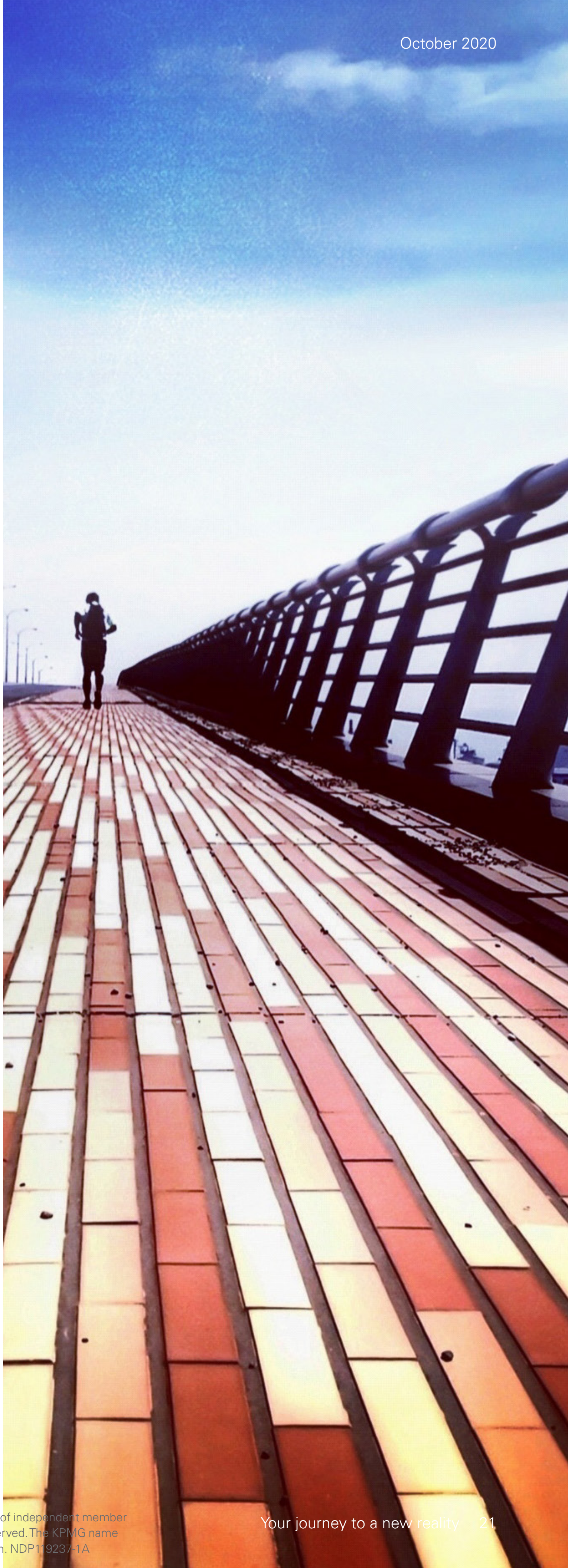
Thousands of signals

Our approach leveraged a proprietary database of alternative data to harvest thousands of daily, open-source indicators from the immediate area to produce curated datasets that can be quickly joined to a company's own operational data. These signals are geotagged, enabling easy integration and facilitating both hyperlocal and macro assessment.

The Signals Repository enables us to map numerous unique interrelated characteristics that can impact foot traffic in and around a specific location; for example, whether there are any obstructions in front of the store, if the area is well lit by street lamps, the proximity to mass-transit stations, and if there are ATMs nearby, to name just a few. Another less tangible signal is the volume of social media activity, which can be instructive as a proxy for ongoing local foot traffic.

The challenge is capturing all relevant contextual information in a structured format from which we could draw insight. The external data points collected from the Signals Repository, coupled with the client's historical internal data from existing locations, provide access to 50,000 to 60,000 separate signals from which we can build predictive demand models with both short- and/or medium-term time horizons.

In this case, for each potential location, we were able to forecast weekly revenue as well as the potential sensitivity of that revenue to changes in the analyzed variables, looking out two years.



Outcome: Location, location, location

Our client had long been sophisticated in its approach to location search and selection. In an evolving global economy, however, a more dynamic, signals-driven forecasting approach was needed to leverage ever-shifting external data and develop the kind of flexible, predictive models that can uncover differentiated store locations. The KPMG solution enabled the client to make quick, confident decisions by providing the capability to continuously adapt their forecasting.

The client was given access to the new forecast/store location solution via a cloud-based platform. With the street address and basic features of a proposed store—the menu, the general floorplan, the number of tables—the client receives a thorough, forward-looking assessment of performance potential, as well as P&L projections.

The new solution, which generated site-specific demand forecasts over six months, one year, and two years, has proven, on average, to be twice as accurate with a granularity of insight not previously attainable: an understanding of future site demand by daypart by product category. This increased visibility into intraday performance enabled completely new approaches to labor scheduling, redevelopment of existing property, and improvement of day-to-day forecasting and demand planning.

October 2020

Act now: Pursue innovation, achieve disruption

The unprecedented levels of change and uncertainty organizations are experiencing today represent an opportunity for organizations to evaluate the competitive environment, identify critical gaps and develop a strategic roadmap for innovation and, ultimately, growth. We believe corporate leaders should use this new reality as a catalyst to embrace change and take bold action to adjust their business and operating models, leverage new technologies, and forge new, lasting relationships with customers. This point of view is the fulcrum underpinning the work of the KPMG Advisory professionals to which our clients have access.

For U.S.-based Japanese companies this challenge is even more acute. Fast-paced innovation can be genuinely and sustainably disruptive, but there is no singular, one-size-fits-all solution. There is no silver bullet.

A customized approach to innovation works in phases:

- Identify unmet consumer demands
- Assess the competitive environment
- Marshal organizational insights
- Evaluate potential actions
- Create a strategic roadmap and timeline
- Mobilize dedicated personnel
- Develop, test, and launch the appropriate product/service/experience

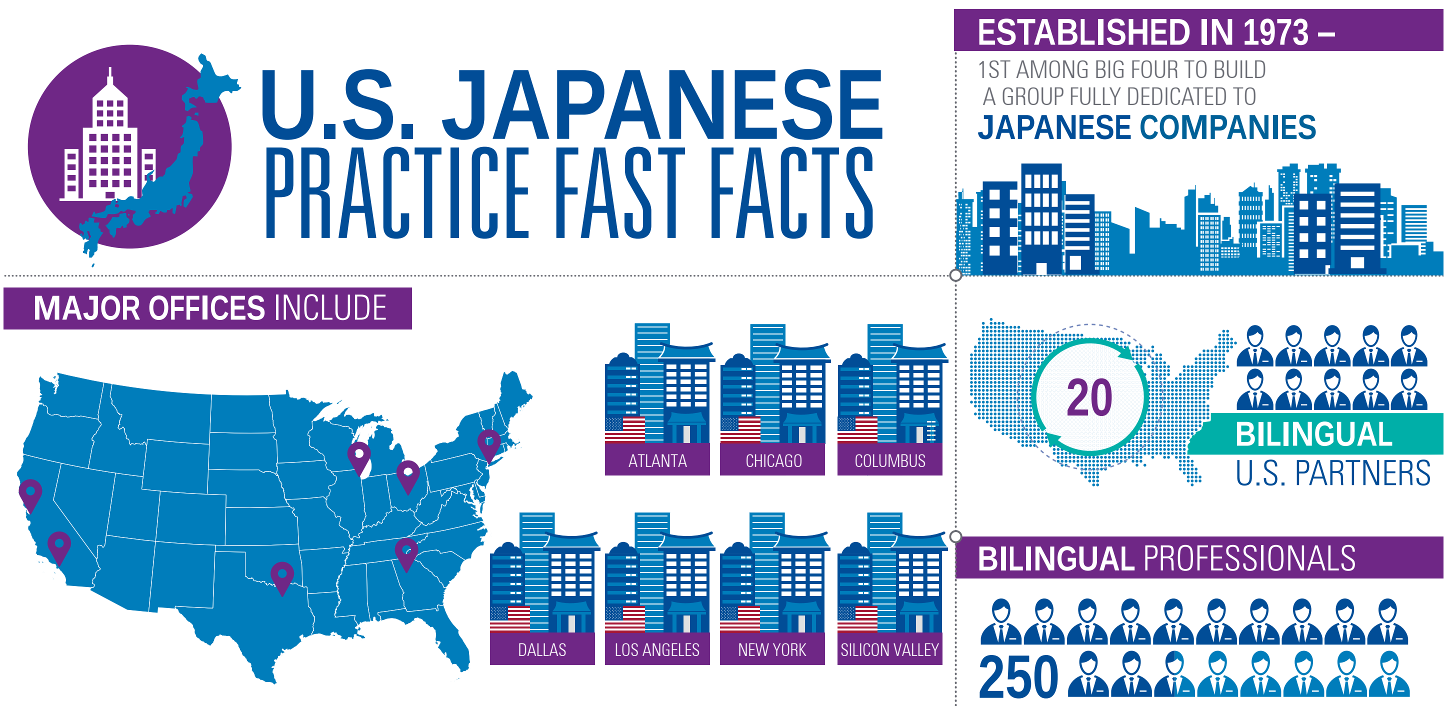
For Japanese executives, the current situation presents a unique opportunity to act boldly, rather than settle for the status quo or worse. The journey begins with a full appreciation of the new reality in which we now operate and a creative and iterative approach to innovation around new business and operating models.

KPMG

The Japanese Practice at KPMG

In 1973, KPMG LLP (then Peat Marwick Mitchell), recognizing the importance of Japanese companies and the unique challenges they face in the global market, became the first major U.S. accounting firm to establish a specific offering to serve Japanese companies in the U.S.

Today, the Japanese Practice at KPMG—featuring 250 bilingual Japanese professionals located throughout the U.S. with collaborative access to 38,000 multidisciplinary KPMG professionals—is committed to serving the needs of Japanese companies with enthusiasm and integrity. The U.S. Japanese Practice is part of a global network of KPMG member firms around the world, enabling us to work together to provide diverse perspectives and extensive cross-border collaboration.



A deep global bench is the difference

We help Japanese organizations in the U.S. effectively and efficiently manage their operations and grow their business while responding to—and taking advantage of—changing market, demographic, and geopolitical factors.

Our professionals understand the relationships between U.S. operations, parent companies, and global affiliates, and have the industry experience, knowledge, and technical skills to address the current business and regulatory requirements of Japanese companies operating in the U.S.

Additional resources

Other KPMG publications with relevant perspectives/data for Japanese companies operating in the U.S.:

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