



# On your agenda

## Speeding innovation in a new automotive ecosystem

U.S. CEO Outlook 2016

### The time is now for automotive innovation!

When everything around you is changing, you had better get moving or you will be left by the curb. That is the reality facing the automotive CEOs surveyed in KPMG LLP's (KPMG) U.S. CEO Outlook 2016.

Significant transformation and change has upended almost everything about the automotive sector in the last few years.

The entrance into the industry of new, nontraditional companies, including tech giants and emerging start-ups, has shifted the competitive balance car manufacturers are used to. A full 88 percent of automotive CEOs say new entrants from outside the sector are attempting to disrupt their business models.

Technological innovations and new business models driven by these disruptors — connected cars, autonomous vehicles, and mobility-on-demand — are transforming the very nature of transportation. This, in turn, is driving changes in consumer attitudes about what a car should be and paving the way for new demands for personalized, instantaneous mobility experiences.

Amid all this upheaval, a battle for relevancy is in full swing. More than two-thirds of automotive CEOs believe that the next 3 years will be more critical for their industry than the previous 50 years, and in 3 years' time 84 percent of respondents expect their companies to shift focus significantly.

### 90 percent

of automotive CEOs are concerned about the amount of time they personally think strategically about the forces of disruption and innovation shaping their company's future

#### The next 3 years will be more critical for the automotive industry than the previous 50.

Completely agree	6%
Agree	68%
Somewhat disagree	21%
Do not agree	6%

#### My company will change focus significantly in the next 3 years.

1 – highly disagree	1%
2 – disagree	15%
3 – agree	57%
4 – highly agree	27%

## Innovation: The clockspeed dilemma

All of these disruptions are accelerating the pace of innovation required to compete and win in the automotive industry. Cars must be both sexier and more useful. They must be more carefully customized to each individual owner's preferences at the same time as they are constantly updated to the latest and greatest features, add-ons, and software. They must be high-tech and connected, but safe, secure, and reliable as ever.

To achieve these seeming contradictions is a major challenge, requiring automakers to balance traditional engineering ingenuity and quality — innovation processes formed over 50, 75, or even 100 years — with the faster clockspeeds of new players entering the ecosystem.

"The primary disruptors in the automotive industry are the players from outside the industry that develop the technology for the vehicles. The key is that there is no simple way of designing and developing vehicles today unless you are in relationships with the new ecosystem. — **Gary Silberg, National Automotive Leader, KPMG**

Where manufacturing a car used to be a top-down process — car manufacturers bringing in Tier 1 suppliers to support their vehicles with tires, suspension components and interiors — now the latest technology that goes inside cars (and generates an increasing amount of their perceived value to consumers) is being created across a broad ecosystem of relative outsiders, including technology, software, telecommunications, gaming, and chip companies. Advanced driver assistance systems (ADAS) supported by visions systems and machine learning, for example, are already available in many vehicles, but they were not developed by the traditional automotive supply base.

## Speeding innovation

How can automotive companies thrive as the structure of the automotive industry changes rapidly around them?

Automotive leaders can accelerate innovation by forming partnerships and alliances across the expanding ecosystem. It has become very challenging and costly for one single company, operating alone, to design, produce, and launch a new car to market. Embracing the true innovators in the ecosystem enables automakers to tap into new ideas and skills that might be missing from their organization. That explains why 65 percent of U.S. automotive companies are accelerating transformation by forming partnerships and 59 percent plan to make strategic acquisitions.



It is also important to get innovative about innovation. Being nimble, agile, and adaptable is essential in this new environment. Indeed, automotive companies will need to meld the rigor and discipline it takes to build zero-defect automotive grade machines in factories throughout the world with the freewheeling culture of the most innovative high tech companies. For older companies, this might require a culture change, including their approach to people, skills, and talent development.

How companies are accelerating strategic execution	
Form new partnerships/alliances	65%
Make strategic acquisitions	59%
Streamline internal processes	56%
Tie compensation/other incentives to speed-to-market	47%
Hire talent	47%

## Connecting the dots

We are riding a wave of fantastic innovation in the automotive industry that is going to be still more fantastic and happen faster and faster. To compete, traditional automotive companies will need to institutionalize a faster-paced innovation capacity to go with their current one. How can automotive companies speed innovation to ensure that they stay relevant and capitalize on emerging opportunities?

While there is no one-size-fits-all solution — no single answer to innovating successfully that works for every company and every situation — we have come to a few conclusions:

- **Find new partners and dance:** Designing and producing new vehicles is too complex and expensive for any one company to manage alone. The companies that thrive in the future will likely be those that are nimble, future oriented, and prepared to invest in new technologies, new talent, and new strategic alliances.
- **Tame complexity:** Automotive companies cannot get swallowed up by complexity, cumbersome processes, or their own complacency. Focus on identifying and developing the right technologies, integrating them into automotive grade systems, and getting them to market quickly with no defects or recalls.
- **Create adaptable organizations:** It will take a combination of new hard and soft skills to build the cars and the companies of the future. For many older, established companies, that means culture change, bringing in new talent, and rethinking every aspect of process and people management.

## About KPMG's U.S. CEO Outlook 2016

This *On Your Agenda* is based on responses to KPMG's U.S. CEO Outlook 2016, a survey of chief executives representing key industries, including 34 CEOs of U.S. automotive companies with revenue of \$500 million or more. Featuring the perspectives of automotive leaders and frontline insights from KPMG partners, the report presents a forward-looking examination of the next three years in the industry.

## Why KPMG's Automotive practice?

KPMG's Automotive team understands the complexity currently flowing through the industry. We leverage our deep industry insight and our hands-on experience to help automotive companies shape a successful future while strengthening performance today. Using a cross-functional approach, KPMG's Automotive team helps empower the world's leading manufacturers, car manufacturers, and suppliers to achieve their goals. We put our breadth of experience and industry-specific knowledge to work for our clients, guiding them to make better decisions today to potentially create the greatest impact tomorrow.

### Download KPMG's U.S. CEO Outlook



### Visit KPMG's Automotive Web site



## About KPMG

KPMG LLP, the audit, tax, and advisory firm ([www.kpmg.com/us](http://www.kpmg.com/us)), is the U.S. member firm of KPMG International Cooperative ("KPMG International"). KPMG International's member firms have more than 174,000 professionals, including more than 9,400 partners, in 155 countries.

KPMG delivers a globally consistent set of multidisciplinary services based on deep industry knowledge. Our industry focus helps KPMG professionals develop a rich understanding of our clients' businesses and the insight, skills, and resources required to address industry-specific issues and opportunities.

## Contact us

### Gary Silberg

#### National Automotive Leader

T: 312-665-1916

E: [gsilberg@kpmg.com](mailto:gsilberg@kpmg.com)

### Tom Mayor

#### Strategy Leader, Industrial Manufacturing

T: 216-875-8061

E: [tmayor@kpmg.com](mailto:tmayor@kpmg.com)

### [kpmg.com/socialmedia](http://kpmg.com/socialmedia)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. NDPPS 597850

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

[www.kpmg.com](http://www.kpmg.com)