KPMG

# Transforming to meet challenging times:

**KPMG's Global CEO Outlook survey**

The view from Leif Zierz, Global Head of Deal Advisory

Judging from the results of the Global CEO Outlook survey, the only thing that is certain over the next several years is change. A resounding 72 percent of global CEOs think the next three years will be more critical for their industries than the previous 50 years. As a result, 42 percent of those CEOs believe this means their companies must transform significantly over that period.

This type of fundamental change can only be achieved through extraordinary efforts. Growth may be taking a back seat with relatively modest expectation (78 percent below 5 percent growth) by the majority of respondents. Indeed investment will need to be made in core competencies and talent.

When asked about their top strategic priorities, CEOs' responses provided some intriguing insights into their plans for their organizations going forward. 'Fostering innovation' topped the list, with 21 percent of CEOs citing that as a priority. That was followed closely by 'stronger client focus' (19 percent), 'talent' (18 percent) and 'disruptive technology' (18 percent).

## Top-line performers lean to deals as an enabler of strategic priorities

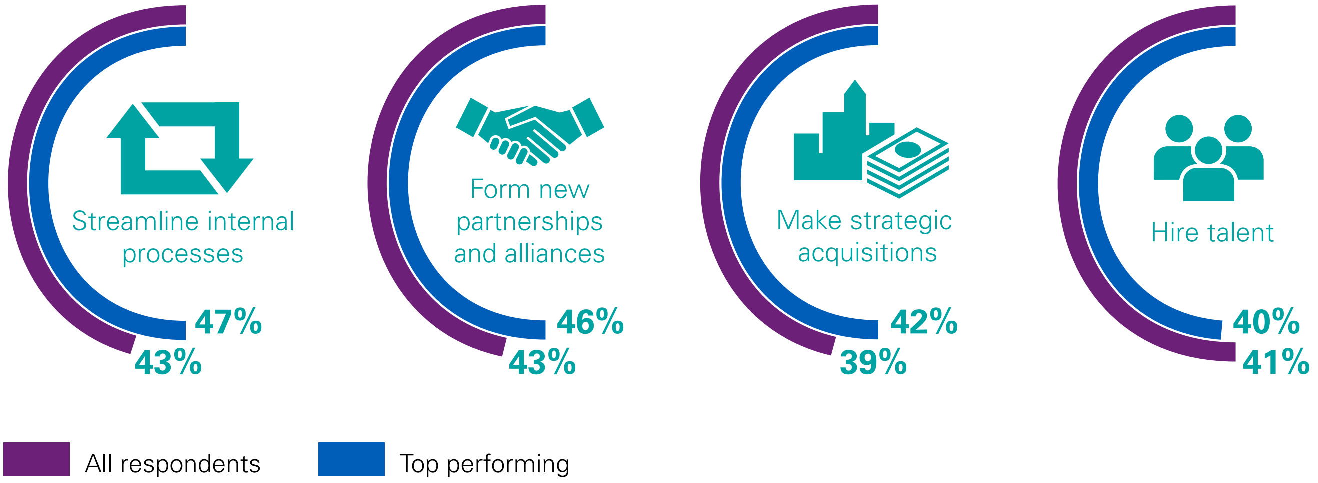
We also asked CEOs what activities they would be undertaking to help accelerate the execution of their strategies.

Forty-three percent responded that they would be forming new partnerships and alliances, while 39 percent said they would focus on making strategic acquisitions.

However, when we asked the self-identified top performers in the group (companies with an average revenue growth of 10 percent or more over the last three years), those CEOs demonstrated an even greater appetite for those activities, with 46 percent identifying new partnerships/alliances and 42 percent citing strategic acquisitions as their preferred growth acceleration strategies.

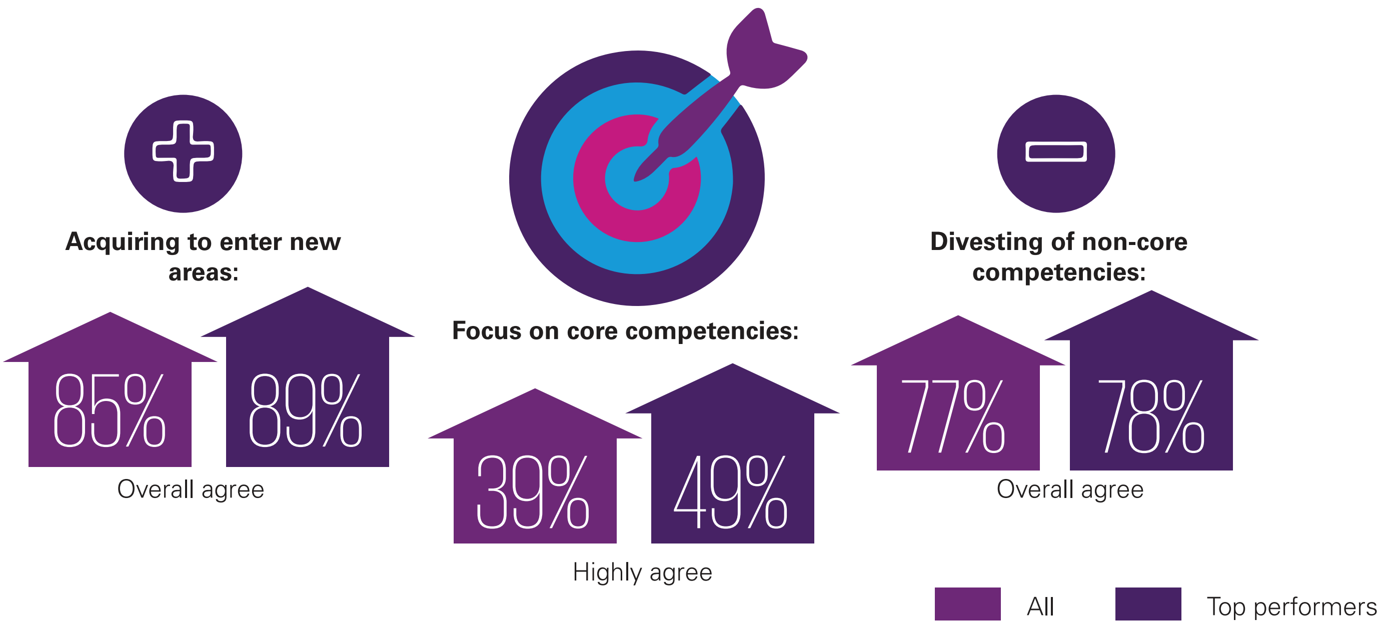
"While all CEOs said internal processes and hiring talent were essential, the CEOs of top-performing companies said they placed new partnerships, alliances and strategic acquisitions at the top of the menu in terms of accelerating the execution of their strategies," says Leif Zierz, Global Head of Deal Advisory for KPMG.

**What is your organization doing to accelerate the execution of your strategy?**




Source: Global CEO Survey 2016, KPMG International

**We will be placing a stronger focus on core competencies**




Source: Global CEO Survey 2016, KPMG International

## A growing focus on collaborative growth

While CEOs indicate they are evenly split regarding organic versus inorganic growth, 58 percent say they are open to using collaborative growth strategies (e.g. partnerships, alliances and collaborations with other firms) as a means to expand their capabilities or extend their footprints in new markets.

According to the survey results, partnerships and joint ventures (JVs) are the most popular types of deals for global CEOs, with 50 percent saying they expect to form at least one mergers and acquisitions (M&A) activity within the next three years.

## The Millennial challenge facing legacy brands

One of the survey's more interesting findings has to do with the high degree to which top executives are grappling with the challenges associated with the growing influence of Millennials. According to the survey, 86 percent of CEOs say they are concerned about the impact of Millennials on their businesses, while 53 percent believe the growing influence of Millennials will impact their company within the next two years.

"In the past several years, we've witnessed a permanent shift in the customer paradigm. Lower costs of design, production and mass marketing mean the timeline from 'idea' to 'disruptive product' is exponentially smaller than it has ever been," says Zierz. "The lower barriers to entry have changed the business landscape and filled it with countless small, disruptive, innovative and nimble companies. As a result, a growth oriented company with an acquisitive strategy could see immense opportunity."

We continue to witness this phenomenon in the consumer space, particularly with larger packaged goods companies (e.g. food, beverage and beauty) acquiring smaller brands at a ferocious pace in order to keep up with consumers' demand for smaller brands.

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Broadly characterized as demanding smaller, local and more 'authentic' brands that prioritize social responsibility, the Millennial generation continues to presents a unique set of business challenges for legacy brands.

## M&A needs deal speed

With increased market disruption and regulatory scrutiny around deals, there is growing sentiment that the traditional view of M&A is no longer viable. "While the regulatory hurdles of mega deals make headlines, CEOs are facing ever-increasing pressures to create real deal value. In today's 'new normal' of rapid disruption, big data and a low growth environment, the public struggles of some deals have led CEOs in our survey to shift their strategies to favor alliances and joint ventures," says Zierz. "This is particularly true among the top-performing firms."

According to the findings of the Global CEO survey, collaborative deals should be part of every company's M&A playbook. And in an increasingly disruptive business environment, the best deals playbook takes into account complexity at every turn and incorporates holistic advisors who are enabled with the right technology and the ability to deliver value at deal speed. Business as usual is simply not a viable alternative for companies pursuing a growth agenda.

## Looking ahead

The pace of change continues to accelerate as the fourth industrial revolution ushers in a challenging new era. The next three years promise to be critically transformative. This speed of change means CEOs need to act now. This includes considering:

— What is your company doing to execute your strategy?

— How can your organization learn from and replicate the growth of top performers?

— What is your plan for driving innovation as competitors, both traditional players and the disruptive upstarts, set their sights on your customer base?

As global CEOs continue to pursue their growth agendas, it is clear that deals, including a growing emphasis on collaborative strategies, will continue to play an integral role in achieving that growth and helping their companies keep pace.

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