

KPMG Transformation Survey

Business Transformation and the Corporate Agenda

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Business transformation has taken hold across the broad corporate landscape due to the confluence of several important triggers, including a tipping point in globalization, a major slowdown in Western economies, significant shifts in technology and energy costs, and the challenges of regulatory compliance.

Introduction

Trends affecting business transformation are unprecedented in their sheer number and intensity. For corporations, change has become the new normal, according to a KPMG survey of more than 900 senior executives from U.S.-based multinationals and asset managers, as well as one-on-one interviews with top executives.

This paper explores the types of business transformations being undertaken and the confluence of factors that triggered them. It also reveals how executives and thought leaders approach the strategy and execution of a business transformation.

Business transformation now has a prominent place on corporate agendas. Ninety-three percent of U.S.-based multinational companies are in some phase of changing their business models, according to KPMG research. Business transformation has taken hold across the broad corporate landscape due to the confluence of several important triggers, including a tipping point in globalization, a major slowdown in Western economies, significant shifts in technology and energy costs, and the challenges of regulatory compliance.

The majority of companies take a strategic approach to transformation by continually aligning their business models with strategy; the rest are split between those who view transformation as a wholesale turnaround that leads to an overhaul of the business model and those who adopt a narrower view, limiting themselves to transforming specific processes, functions or areas.

Customer demand is perceived as the primary trigger for transformation by 33% of survey respondents, or the largest group. This is just a third of all the respondents, which underscores the diversity of signals coming from the marketplace and the relative importance of each of them. To further underscore the complexity of the current business climate, customer demand may itself have root causes as disparate as government sequestration, convergence of emerging technologies or demand for a more service-oriented economy. None of these triggers is a constant, making the continuous aspect and the need for flexibility of business transformation solutions an imperative.

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U.S.-based multinationals in some phase of changing their business models.

Business transformation has a prominent place on the corporate agenda

A vast majority of U.S. multinationals

are making changes, with 93% of the KPMG survey respondents saying their companies are at some stage of undergoing or preparing for transformation (Fig. 1). For top executives at multinational companies, there is no other way. "Our view is 'transform or wither,' 'transform or lose pace,'" says Catherine Bessant, Global Technology & Operations executive at Bank of America. Other executives agreed — in fact, each of the companies profiled here is undergoing transformation or has just completed such an effort.

“We are living in interesting times, with multiple transformation triggers all present at the same time, all equally intense.”

— Robert T. Vanderwerf
U. S. Leader, KPMG Strategic Services Group

This state of affairs results from two factors, explains Robert T. Vanderwerf, U. S. Leader, KPMG Strategic Services Group. "We are living in interesting times, with multiple transformation triggers all present at the same time, all equally intense," he says, pointing to a tipping point in globalization, a major slowdown in Western economies, significant shifts in technology and energy costs, and the challenges of regulatory compliance.

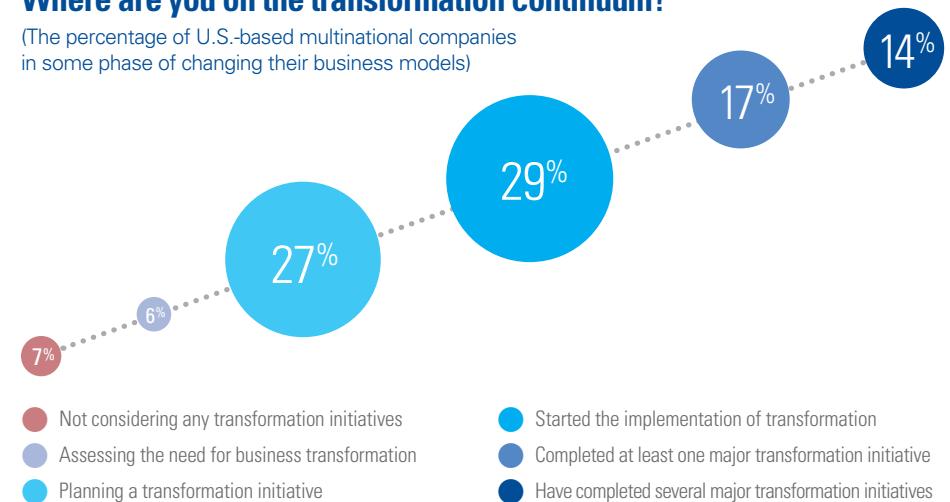
"When four or five significant drivers are changing at the same time, the business environment becomes highly complex," says Vanderwerf. Additionally, as the life spans of these trends continue to shorten, organizations need to respond with flexible solutions they can adapt to the next development.

Christa Carone, chief marketing officer at Xerox, agrees that change is the new normal. "Where we are right now as an enterprise, we would actually say there is no start and stop because the market is changing, is evolving so rapidly. We always have to be aligning our business model with those realities in the marketplace," she says of Xerox, which is transforming from a document technology to a services company.

FIGURE 1.

Where are you on the transformation continuum?

(The percentage of U.S.-based multinational companies in some phase of changing their business models)



What does it take to accomplish a successful transformation? "The right strategic vision, being able to anticipate what your customer is going to want in the future, and leveraging new and disruptive technologies," says Stephen G. Hasty, a KPMG partner and U.S. Innovation

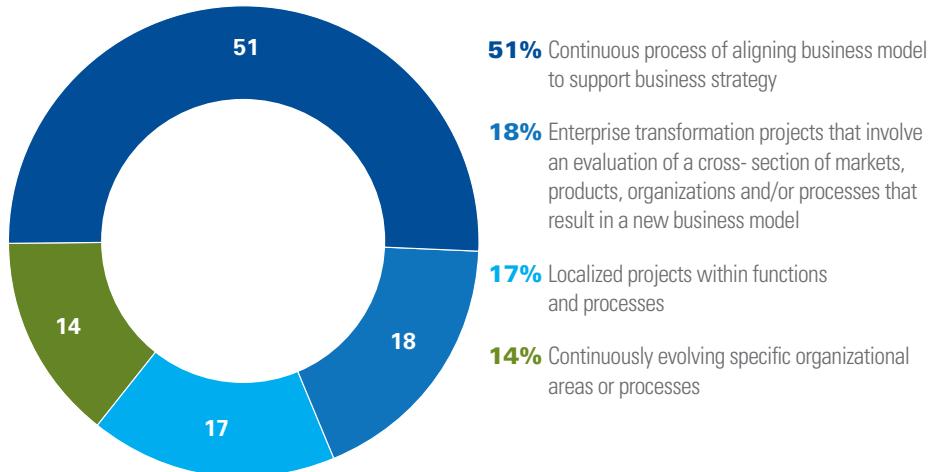
Leader for Advisory. Most companies get the vision right, but the execution is the hard part: more than half of companies undertaking transformation fail to achieve the desired business result, estimates Hasty.

Types of business transformation

According to the KPMG survey, the approach to transformation is mostly ongoing and strategic. The biggest group, and a majority, of respondents (51%) define transformation as a continuous process of aligning business model to support strategy (Fig. 2). The second-

largest group (31%) define transformation as narrower efforts limited to specific functions, processes or areas, continuous or finite. Substantially fewer respondents (18%) define transformation as an all-out turnaround effort that results in an overhaul of a business model.

FIGURE 2.
How does your organization define transformation?



As is the case with most survey respondents, Bessant says that transformation is continuous at Bank of America. "We take the perspective that the concept and the execution of transformation are never complete," she says, "because the marketplace changes, and so do the needs of our clients and customers—and the digital era just accelerates all of that." Bessant defines transformation as non-incremental change, with a medium- to long-term vision and the execution of that vision.

Mitchell L. Siegel, Principal, Financial Services Transformation Leader, agrees, adding "Business model assessment is

a continuous improvement process and the operating model requires ongoing refinement to adjust to the constantly changing marketplace dynamics.

In the case of Lockheed Martin, whose business is operating in a very long cycle industry, leaders look closely at global, socioeconomic and technological macro trends and then adapt the business to them. "Rather than a tipping point or a trigger, we think of business transformation as a continuous process that we have integrated into all the components of our company and how we operate," says Dr. Ray O. Johnson, senior vice president and chief technology officer at Lockheed Martin.

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Global Technology & Operations Executive
Bank of America



AT&T is an example of a vast and deep continuous transformation that has several root causes: the post-acquisition consolidation, technology and culture. Following a decade of significant consolidation, involving the merger of Pacific Telesis Group, Ameritech, AT&T, BellSouth and Cingular, AT&T has become a company of huge scale but with multiple legacy cultures, systems, processes and products. Chairman and CEO Randall Stephenson has led AT&T through a successful comprehensive, strategic and cultural transformation, says Andy Geisse, CEO of AT&T Business Solutions. This coincided with a strategic shift in technology from wireline to mobile. To conduct these deep transformations, AT&T created AT&T University (TU), a continuous program dedicated to changing the culture of executives, including middle and frontline managers.

The company also established four pillars of innovation to create an entrepreneurial mindset. Building on the 137-year heritage of the Labs, AT&T opened up its network to innovation by making important Application Program Interfaces (APIs) available to developers. It also opened AT&T Foundry innovation centers to accelerate the process of bringing new products and services to market, and it created a new crowdsourcing program, called The Innovation Pipeline (TIP) for employees to bring their ideas for new products and services to an online site where the best ideas would be built upon, funded and brought to market.

Types of transformation (cont.)

The second-largest group of the survey respondents (31%) define transformation as focused on specific functions, areas or processes. "All transformations would be enterprise-wide in a perfect world, which would allow us to harness economies of scale," says Steve Phillips, chief information officer at Avnet, a global distributor of electronic components, computer products and embedded technology. "In reality, though, the scale of the transformation needs to be determined by the requirements and the readiness of our customers and of the business in each of the more than 80 countries Avnet serves," he adds.

The company finds that business transformation works best on a regional basis, since Avnet's customers buy and are served regionally. Yet once the transformation is in place in one region, Avnet can look at how and when it can be adapted and implemented in other areas of the business

to meet that area's unique needs. "However, we suspect that this [approach] will change over time based on the way our customers and suppliers go to market," says Phillips.

It's easy to see why just 18% of respondents define their transformation as an overhaul. This is not the type of transformation that companies undertake voluntarily or hone continuously. Put in medical terms, it's not elective but often life-saving surgery. "It's a near-death decision," says Chakib Bouhdary, SAP's chief value officer. "The platforms have to be burning." In the case of SAP, a major transformation was the only solution, after the company's sales declined after the financial crisis in 2008.

The company considered various options, including patching up its existing business model, or making a huge bet on the future and embarking on a major transformation. That last option was chosen. The result of the transformation was HANA, software

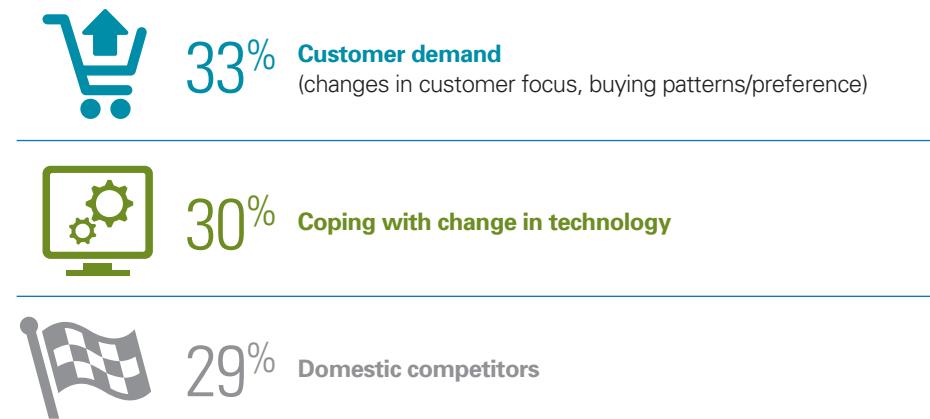
that helps companies run their business in real-time. It is SAP's fastest-growing product ever, in terms of sales, Bouhdary says.

Bouhdary draws a lesson from the company's approach to transformation. "One of the biggest barriers to a successful

transformation is a leader who's wedded to a past success," he says. "They want to fix things, put on patches. Customers' needs are constantly changing. You need to adjust your product and services to their needs. The customer wants something new."

FIGURE 3. Top three triggers for transformation (across all industries)

Transformation is triggered by many diverse causes, with none being considered a primary trigger by more than a third of overall respondents.



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Chief Information Officer, Avnet

Transformation triggers: customer demand

Customer demand is perceived as the primary trigger for transformation by 33% of the KPMG survey respondents, or the largest group. Although it's the largest group, it is just a third of all the respondents, which underscores the diversity of triggers coming from the marketplace and the relative importance of each of them (Fig. 3).

The reason for such disparate answers is that so many different and equally important trends are developing in the market at the same time. To further confound matters, a major trigger such as customer demand may have a different underlying reason, depending on the industry, company or geography, explains Thomas W. Whittle, audit partner at KPMG. For example, "in financial services or healthcare, there is significant new regulation that's redefining customer demand," Whittle says.

As the following examples show, customer demand may have root causes as diverse as government sequestration, convergence of emerging technologies or demand for a more service-oriented economy.

In the case of Lockheed Martin, meeting customer demand means responding to the new reality of sequestration, which is putting pressure on the company's biggest client, the U.S. Government, says Lockheed Martin's Johnson.

To answer this challenge, Lockheed Martin is refocusing product development: it's bringing innovation to the affordability challenge in the same way that, historically, the company used innovation to create enhanced capabilities for its products. One way is by using advances in materials technology to devise stronger, lighter, more affordable solutions. Nanotechnology, for example, is enabling Lockheed Martin to build more affordable systems with enhanced capabilities that are also more sustainable.

Simultaneously, Lockheed Martin is transforming its processes to better serve customers from the private sector, as the company is enlarging its client pool to serve more non-government customers. The company understands all aspects of working with governments around the world, but was less familiar with private markets. To successfully deal with private markets, Lockheed Martin has put in place Innovation Readiness Levels, to make sure that employees understand all the elements of business models in private markets just as well as they understand the workings of governments.

"I'm proud to say that we are developing a very positive track record in understanding all the elements of the various business models outside governments," says Johnson.

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AT&T Business Solutions worked with **Amtrak** on an end-to-end solution that includes cellular, Wi-Fi, satellite, cloud capability and mobile application capabilities. The result is electronic ticket scanning with an iPhone, digital check-ins and revenue recognition.

Triggers (cont.)

An AT&T business customer's demand for an end-to-end solution was the trigger for internal transformation.

"Nobody comes in and says, 'I just want to buy wireline products or wireless products,'" says Geisse. "They're saying, 'I've got this problem and need to transform my business.'" Indeed, AT&T has transformed its entire self, integrating the long distance services, global IP network, and enterprise-class services that were built in legacy AT&T with the wireless strengths and domestic U.S. footprint of the former SBC. AT&T Business Solutions, the operation Geisse heads, is the company's global unit that leverages these capabilities for the global business market, meeting the needs of large global multinational and mid-market companies and, in the U.S. only, small businesses. AT&T's integrated services help the business customer, who wants to deal with one AT&T and not multiple divisions.

Geisse cites the work that AT&T did for Amtrak as an example. Amtrak had a more-than-century-old process for collecting and punching paper tickets on trains, before having them validated and being able to recognize revenue.

The company wanted to move to electronic ticket processing and immediate revenue recognition. AT&T Business Solutions worked with Amtrak on an end-to-end solution that includes cellular, Wi-Fi, satellite,

cloud capability and mobile application capabilities. The result is electronic ticket scanning with an iPhone, digital check-ins and revenue recognition. The main challenge was figuring out how to combine cellular, Wi-Fi and satellite capabilities to ensure coverage everywhere along the train routes, from rural areas to train stations.

But equally crucial was creating an internal organization encompassing all these different technologies in-house. "We couldn't have done that [create a solution for Amtrak] without transforming our business first," says Geisse.

One of the triggers for Avnet's transformation is the increased role of services. While Avnet has always been a services company, the services that its customers and their end-user customers need have significantly changed. To meet this need, Avnet created a new global business model called Avnet Services to transform the type of services it provides. The company also invested in services capabilities, including the acquisition of 12 services companies. While this transformation is still developing, Avnet now offers its customers services related to education, the IT lifecycle and software.



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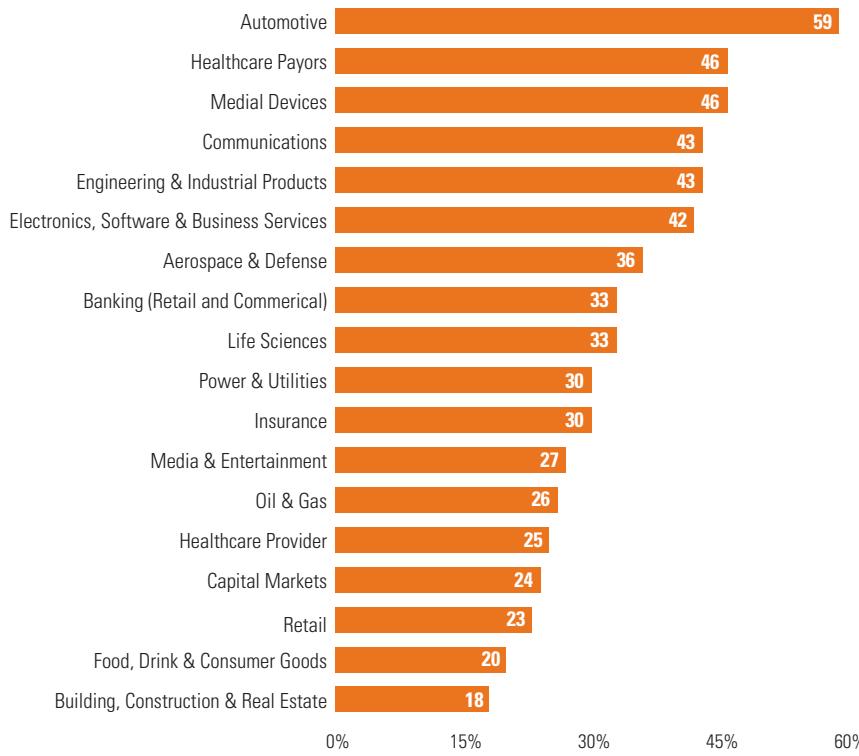
Transformation triggers: customer demand

Global trends, including shifts in demographics away from mature economies and foreign competition, are ranked lower overall. Moreover, there is not much disparity in how many respondents from particular industries perceive them as triggers for transformation—not surprising, as these global trends are applicable to every industry.

Triggers for transformation are largely industry-specific. For example, there is high disparity in how companies from different industries see customer demand as a trigger for transformation. It ranks as the number one trigger overall, with 33% of all survey respondents citing it as a trigger. However, when analyzed by industry (Fig. 4), it's clear that customer demand has the greatest influence in the automotive and healthcare industries.

FIGURE 4.
Customer demand as the primary trigger for transformation

Percentage of respondents who said customer demand is a primary trigger.





Conclusion

It's transform or wither in today's business environment, with multiple transformation triggers creating strong pressure simultaneously. Most corporations understand this, with 93% of survey respondents saying that they have just completed, are planning or are in the midst of a business transformation. The research and interviews conducted during the survey point to the following lessons about the types of business transformations and understanding and addressing transformation triggers:

Getting the right strategic vision is critical. This means being able to anticipate what the customer is going to want and how best to achieve it. It also includes defining the depth and scope of the changes and the redesign of internal processes and structures. Is a major transformation necessary or will a more surgical, limited repositioning be enough? Is the current state of our organization optimal for this type of a transformation?

Execution is the hardest part of transformation. More than half of companies undertaking transformation fail to achieve the desired business result, according to some estimates. In the current complex and fast-changing business climate, organizations often underestimate the significance of operating model refinements necessary to effect Transformation across people, process, technology, data management and risk management components.

The biggest challenge to transformation may be a leader wedded to a past or current success. Executives cannot lull themselves into complacency based on a present revenue stream, but must keep transforming for the future. The transformation needs to be truly continuous, and thus never complete.

Take a broad view of customer demand when embarking on business transformation. Customers need solutions, not specific products or services. Business transformation needs to be aligned with customers' needs—in fact, it needs to anticipate them.

Contributors

KPMG and Forbes Insights would like to thank the following executives for sharing their time and expertise:

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Methodology

This report is based on a survey of 910 executives at U.S.-based multinationals and banking or asset management firms conducted by Forbes Insights in June and July of 2013. Executives were evenly split among 13 industries/sectors. Out of 709 corporations, 90% of executives came from companies with revenues over \$1 billion. Out of 201 banking or asset management firms, all had assets under management of at least \$5 billion. Sixty-seven percent of respondents were C-level executives, and the rest were managing director or above. They represented all major corporate functions.

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