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KPMG **Perspectives**

Looking for growth in all the wrong places

MANUFACTURING CEOs are confident they can achieve growth over the next three years. But growth will require big and bold strategies.

The CEO Outlook, a recent survey conducted by KPMG International that surveyed over 1,300 CEOs from around the world, found that 150 CEOs from the largest industrial manufacturers felt bullish about their short- and medium-term growth potential. Indeed, 84 percent of our respondents voiced confidence in their ability to achieve growth over the next three years.

Dig a little deeper into the numbers, however, and some concerns start to emerge. More than half (51 percent) admit that their growth will likely be limited to less than 2 percent per year over the next three years. Forty-four percent say they are concerned about their ability to increase their overall market share. Fifty-four percent are worried that the current political landscape will have a significant impact on their organization.

The gap between ambition and investment

ONE would think, therefore, that manufacturers would be starting to look for new ways to grow. And that should translate into increased investment into new markets, new ideas and new capabilities.

Manufacturing CEOs certainly seem to want to find new paths to growth. Our survey reports that 47 percent are making innovation a high priority over the next three years. Almost three quarters (74 percent) say they see expansion into new geographic markets as a growth priority. Seventy-six percent say that penetrating new verticals will be a priority.

Yet, our survey suggests a significant mismatch between their growth ambition and their investment plans. Almost half (46 percent) admit they don't plan to put any new investment into innovation (either in new products or into new business models) over the next three years. Just 17 percent say they will put major investment into emerging technologies. Less than 1-in-3 say they plan to put significant new investment into recruitment. Only a third are planning major investment into improving their digital infrastructure.

Time for a plan

ALL of this data begs the question: How exactly do they expect to achieve growth if they don't plan to invest into new ideas, models or capabilities?

According to our survey, most seem to think they will achieve their growth expectations by doing more of the same. Indeed, it seems the highest priority for our respondents is to increase penetration into their existing markets. And almost two-thirds of our respondents (65 percent) say they will scale up their existing operations and processes in order to achieve their growth strategy. A quarter says they will probably conduct some sort of merger or acquisition activity.

But when it comes to making transformative moves, results are worrying. Just 38 percent say they will take on large-scale business model transformation, and only 39 percent suggest they might enter into some form of collaborative partnership or joint venture.

Are you a car or a buggy?

KPMG member-firms' experience and discussions with market leaders suggests that doing more of the same will not be sufficient to drive real and sustainable growth. It will take much deeper, much more disruptive and much more innovative approaches to outperform the market in today's rapidly changing environment.

The reality is that the market is already changing. Those unable to make big, bold steps will likely be left behind.

Today's leaders are the ones that are harnessing technology to create unprecedented integration between their customers, their suppliers, their shop floors and their products. They are sharing information and revenue models in ways that allow them to identify, develop and build new products faster, more efficiently and more profitably. They are developing robust strategies that span the entire enterprise. They are turning risks into opportunities and disruption into competitive advantage. In short, they are redefining what their company does, how they work and what they want to be in the future.

If your organization is not on this path, you may have good reason to worry. In much the same way as Henry Ford killed the horse buggy with new ideas, new approaches and new business models, today's market leaders and disruptors are killing the traditional manufacturer. There will certainly be winners and losers.

Take the threat seriously

VIEWED in the context of this reality, the results from this year's CEO survey are worrying. It will take significant vision, investment and ambition to drive growth in this new environment. That few CEOs seem willing to take bold steps to achieve their growth objectives suggests that many do not fully understand what is at risk.

At KPMG, we believe that it is time for manufacturers to stop playing around the edges and start making radical changes. The risk of doing more of the same far outweighs the risk of disrupting the status quo. Those who ignore this reality do so at their own peril.

The article "Looking for growth in all the wrong places" is written by Douglas K. Gates, KPMG in the United States.

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