

EXECUTIVE PERSPECTIVES ON TOP RISKS

2024 & 2034



Industry leaders view the economy, talent and advanced technologies as top risk issues

by Carol Raimo

Global Leader, Consumer Products and Services Industry Practice, Protiviti

The combined analysis of risk insights from global executives for both 2024 and a decade out reveals several interrelated challenges that may result in significant events with the potential to test an organization's business agility and resilience.

Changes in the profile of top risks from the prior year disclose a number of shifting conditions that may disrupt markets, including events triggered by intensifying geopolitical conditions. Many of those events are expected to have long-lasting impacts on business models and the competitive balance in a nuanced global marketplace. Board members and C-suite leaders who recognize these shifting realities and address them through robust, enterprisewide risk analyses that are aligned with business strategy possess a differentiating skill that positions their organization's readiness and ability to adjust and pivot in the face of inevitable disruptive change as well as or better than their competitors.

In this 12th annual survey, Protiviti and NC State University's ERM Initiative report on the top risks currently on the minds of board members and executives worldwide. The results of this global survey reflect their views on the extent to which a broad collection of risks is likely to affect their organizations over the next year – 2024 – and a decade later – 2034. Our respondent group, which includes 1,143 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months and next decade of 36 risk issues across these three dimensions:¹

- **Macroeconomic risks** likely to affect their organization's growth opportunities
- **Strategic risks** the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organization in executing its strategy

¹ Each respondent rated 36 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organization. For each of the 36 risk issues, we computed the average score reported by all respondents.

Commentary – Consumer Products and Services Industry Group

The Consumer Products and Services industry group faces a long list of headwinds heading into 2024. Inflationary pressure, workforce attrition with talent gaps and protecting customers' data are top on the list of major concerns weighing on the minds of senior executives in the consumer packaged goods (CPG) and retail industry group. Separately, for hospitality and airlines companies, cyber threats, the rising threat of catastrophic natural disasters, and geopolitical shifts and regional conflicts are cited among these industries' top risks.

In Protiviti's latest Top Risks Survey, CPG and retail executives were asked to provide their perspectives on the biggest risks facing their organizations over the next 12 months and a decade ahead. Their views reflect a growing sense of uncertainty in today's business environment, where market competition remains fierce, the costs of goods and labor continue to rise, and companies are desperate for new technologies to better manage risks and improve customer experience.

Even as supply challenges have normalized, the difficult macroeconomic environment has made it challenging for CPG and retail companies to forecast future demand and make growth plans. Industry leaders are exploring ways to retain and grow their customer base with customer loyalty programs and new payment strategies for shoppers.

But how can you pass on the high cost related to inflation and supply chain disruptions to customers without hurting customer satisfaction and loyalty? How do you retain your top talent and keep a lid on rising labor costs? These are tough questions that business leaders must tackle head on, and they can only do this effectively with access to data analytics and market intelligence, which consequently, is identified as the ninth-rated risk for 2024 by CPG and retail executives who responded to the survey.

Below we discuss other top risks identified by CPG and retail respondents.

Macroeconomic and labor market challenges

Few industries have been more impacted by inflation than the CPG industry so it is no surprise that executives cited economic challenges, including inflation, as their No. 1 risk for 2024, with workforce-related challenges coming in at second place.

A change in the interest rate environment is another source of concern. Since 2022, the Federal Reserve's campaign to fight inflation by increasing interest rates has hurt companies' ability to borrow and grow. Although rate increases have slowed this year, business leaders fear the Fed might not reverse course next year if inflation remains high. CPG and retail respondents cited the interest rate issue as the No. 7 risk for 2024.

On the labor front, the CPG and retail industry are experiencing a perfect storm as workers leave in search of a better work-life balance, greater incentives (salary and benefits), flexibility, and a working environment that better supports their mental health and overall well-being. The labor issues and economic fears are clearly interconnected. In the United States, the CPG industry provides 2.3 million jobs and the retail industry, the largest private-sector employer in the U.S., supports 52 million jobs. Although the labor market has remained resilient, job growth is expected to decelerate in the coming months in lockstep with slower economic activity and the prospect of restrictive credit conditions, according to the National Retail Federation.

To address the workforce challenges and transform their relationship with employees, retail business leaders must develop a deeper understanding of the labor dynamic and the forces driving changes across the industry. The conversation should begin in the boardrooms and executive suites, starting with these prompting questions: What do frontline employees and managers want in a job? What will motivate them to show up every day?

The customer should be front and center in the inflation discussion. In particular, as household debt, especially credit card debt, hits an all-time high, brands and retailers need to consider the impact of a stressed consumer and higher interest rates on consumer behavior. They also need to consider which parts of their customer base are more and less impacted by inflation, so they can adjust their marketing and advertising strategies accordingly.

Cost optimization through automation and technology modernization

The economic uncertainty and inflationary pressures are also forcing CPG and retail companies to explore different ways to cut costs. It's a sink-or-swim situation for many, especially smaller companies that have limited purchasing power and ability to negotiate lower cost with suppliers. With margins compressing, companies are reassessing working capital and cash flow management, reducing inventory in warehouses and negotiating pricing with suppliers, among other cost optimization measures.

AI and other technology tools are becoming increasingly important as companies consider running their businesses with fewer people.

Visibility and transparency into data are crucial for making informed cost-cutting decisions, and so companies also are investing time and resources into automation to improve operational efficiencies and data analytics to gain better visibility into all aspects of operations.

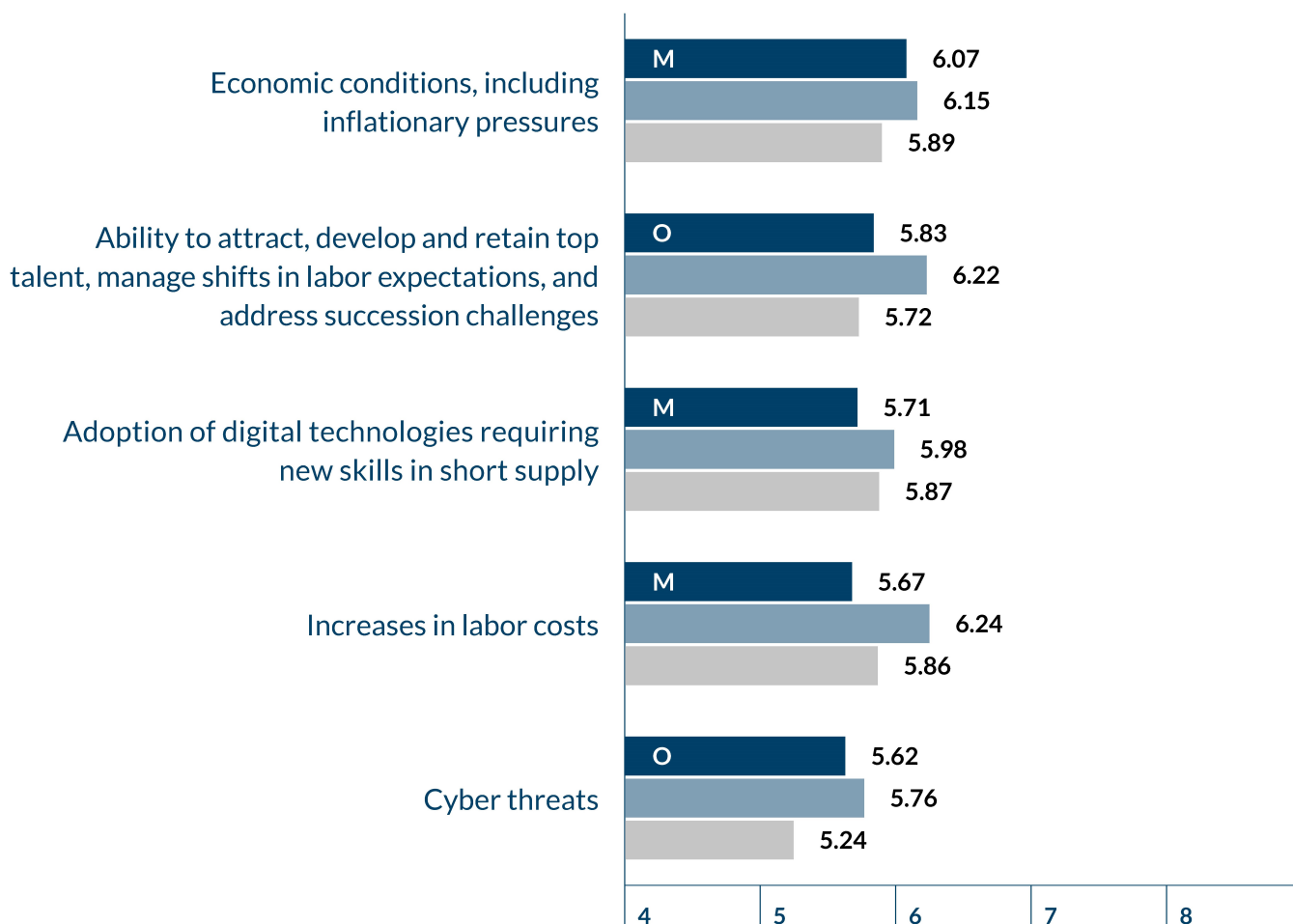
Legacy systems, however, are proving to be a challenge; automation is easier for current technologies, but more difficult for legacy ones. As a result, the retail and CPG executives who participated in the survey said they are particularly concerned about the inability of existing operations and legacy IT infrastructure to meet performance expectations as well as "born digital" competitors. This concern was ranked fifth among the 2024 top risk issues.

CPG clients are shifting away from extensive transformational programs and are instead breaking down projects, developing business cases and focusing on technology modernization. This includes integrating systems to streamline manual labor processes, updating unsupported code to mitigate cyber and operational risks, and improving application features and functionality to meet business demands and gain a competitive advantage. This balance is difficult to manage and prioritize in the current landscape, yet it's necessary to optimize costs and risks.

Additionally, the respondents said they are worried about the ability of their organizations to adopt digital technologies given the shortage in technical staff (ranked 10th for 2024). Despite these concerns, some retail and CPG companies are being aggressive in adopting new technologies. A separate survey conducted by Protiviti recently found that more than half of financial executives in the retail and CPG industry are already deploying generative AI to predict consumer behaviors, suggest timely product recommendations, optimize pricing, mitigate fraud and manage inventory.

AI technologies are becoming increasingly important as companies seek to stay ahead of the competition, run their businesses with fewer people and enhance customer experience. The challenge for some companies will be finding the most efficient way to integrate these technologies into existing legacy systems without hurting productivity or introducing new risks, such as cyber attacks.

Consumer Products and Services – 2024



M Macroeconomic Risk Issue
 S Strategic Risk Issue
 O Operational Risk Issue
 ■ 2024 ■ 2023 ■ 2022

Cybersecurity and data privacy expectations

Ensuring privacy and compliance with growing identity protection expectations has become a C-suite priority in today’s omnichannel environment. Previously, companies relied on third parties to collect and sell consumer data, but now they are keeping it in-house. This shift in data ownership requires them to prioritize data protection.

At the same time, as more retail and CPG companies transform digitally, the threat of cyber intrusion or operational failures that result in data exposures has risen dramatically. Recent industry-related cyber attacks have included digital disruptions to production lines and supply chains. The concerns about cybersecurity are evident from the recent SEC guidance on cybersecurity disclosures, which focus on protecting information and assessing its impact on organizations.

As cyberattacks continue to increase in severity, CPG and retail organizations need to prioritize protection and compliance. It also means paying attention to third-party risks, which could emanate from IT vendors and/or supply chain partners. Organizations that fail to prioritize these issues face executive fallout and brand reputation risk.

Sustaining customer loyalty

The future of customer loyalty and buying patterns remains uncertain. Consequently, CPG and retail respondents rated sustaining customer loyalty and retention as the sixth-ranked risk for 2024. The abundance of options and channels to connect with consumers is among the reasons why companies find it harder to maintain customer loyalty. Loyalty between brands and consumers is being tested as mergers and acquisitions disrupt the marketplace.

Still, customer experience needs to be a focal point and an important battleground for brands to consider. Great products and services are no longer enough; the consumer's experience with purchasing and utilizing the product or service has to be a priority as well. Brands should make decisions with the mindset that they cannot prioritize their own interests over customer satisfaction.

Customer experience needs to be a focal point, and brands should make decisions with the mindset of improving the customer experience continuously.

The big picture: Looking a decade ahead

Due to the current challenging business environment, many CPG and retail organizations are primarily focused on maintenance work rather than funding transformational programs. This lack of forward investment and focus on routine operations are likely to continue until there is more clarity and confidence in the business environment.

Like in previous years, CPG and retail respondents were asked to look into their crystal ball and identify risk issues they expect over the next decade. The ability to attract, develop and retain top talent, manage shifts in labor expectations, and address succession challenges came in at No. 1, followed by the rapid speed of disruptive innovations, and sustaining customer loyalty and retention.

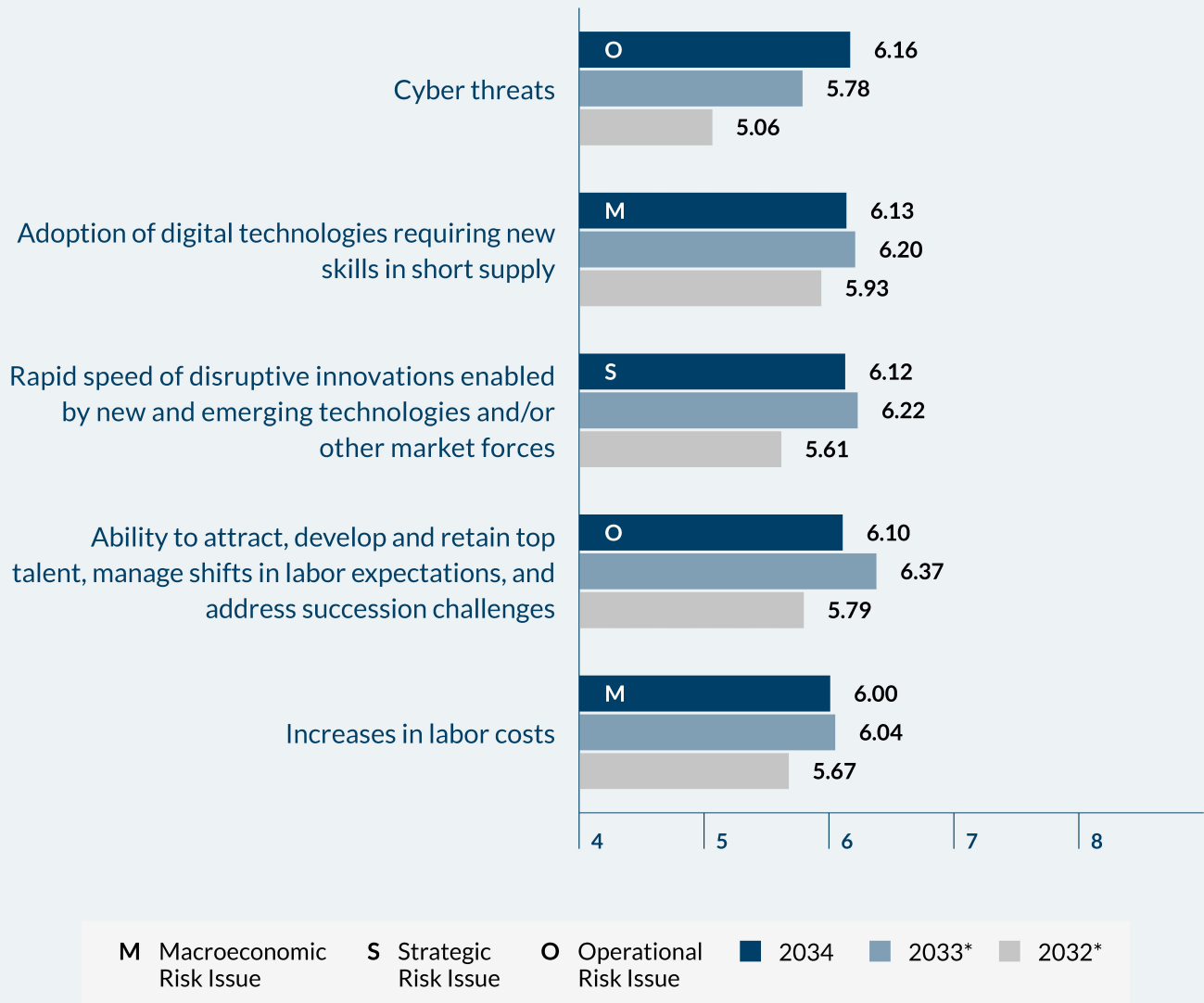
Hospitality Industry

The industry is slated to record its best year ever in 2023, a reflection of its resilience in the face of major headwinds and years of setbacks. Still, industry leaders are concerned about several major risks heading into the new year, including a potential return of effects of the pandemic.

Cyber threats top the list of risks for hospitality executives. This is no surprise. In recent months, there has been a rise in reported cyberattacks using malware in the gaming industry. The liability exposure and reputational risk here are significant because the gaming industry collects a vast amount of personal data and preference information from its guests, making it a prime target for cyberattacks.

In addition to the cyber threats, the hospitality respondents identified the rising threat of catastrophic natural disasters and pandemic-related government policies and regulations as their top three risks for 2024. Rising labor costs and adoption of digital technologies requiring new skills round out the top five.

Consumer Products and Services – 2034



* This data was reported as 2032 and 2031 results, respectively, in our prior year reports. We have shifted our terminology to reflect a decade out, thus have revised these year references in the interests of clarity.

In recent years, the lodging industry (e.g., hotels, motels, resorts, timeshares) has been focused on updating their technology infrastructure, especially guest-facing technology, which is important for enhancing guest experiences and streamlining processes. Interactive gaming and online gaming providers are also driving the development of new systems and infrastructure.

Clearly, the industry is still mindful of the impact of the pandemic and its lingering effects. The cruise line segment, for example, experienced significant losses during the pandemic and is now navigating the uncertainties of potential future disruptions. Given the pandemic experience, it makes sense that executives fear that a turn of events, such as a COVID variant or a decline in consumer confidence, could have a material impact on the industry's recovery.

The worry over natural disasters makes sense given the location of properties and the fact that safety and security of guests and employees is always a top priority for the industry. It may also be related to increased focus on ESG, and consumer expectations around the “E” in ESG or environmental responsibilities.

The high labor cost is both a reflection of inflation and the effects of the exodus of workers in the wake of the pandemic. According to the Journal of Hospitality and Tourism Management, the hospitality industry lost more than 8.2 million jobs between February and April of 2020, making it the hardest-hit industry in the United States.

Airline Industry

Airline executives cited increased labor costs, geopolitical shifts and regional conflicts, and economic conditions, including inflation, as their top 3 risks issues for 2024. Like hospitality, the airline industry is expected to return to profitability this year after several years of disappointing financial performance.

But even with the strong recovery, the industry is keeping a close eye on the macroeconomic picture, which continues to create a lot of uncertainty. For the industry, higher costs relating to energy prices and labor, and an escalation in geopolitical events, are big risks that could reverse the already fragile gains made toward profitability.

About the Executive Perspectives on Top Risks Survey

We surveyed 1,143 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 36 unique risks on their organization over the next 12 months and over the next decade. Our survey was conducted in September and October 2023. Respondents rated the impact of each risk on their organization using a 10-point scale, where 1 reflects “No Impact at All” and 10 reflects “Extensive Impact.” For each of the 36 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

Read our *Executive Perspectives on Top Risks Survey* executive summary and full report at www.protiviti.com/toprisks or <http://erm.ncsu.edu>.

Contact

Carol Raimo

Managing Director, Consumer Products and Services Industry Leader

carol.raimo@protiviti.com

Protiviti (www.protiviti.com) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, digital, legal, HR, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the 2023 *Fortune* 100 Best Companies to Work For® list, Protiviti has served more than 80 percent of *Fortune* 100 and nearly 80 percent of *Fortune* 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

© 2023 Protiviti Inc. An Equal Opportunity Employer M/F/Disability/Veterans. PRO-1223
Protiviti is not licensed or registered as a public accounting firm and does not issue opinions on financial statements or offer attestation services.

protiviti®