



Chief Risk Officer Survey

Industry perspective:
Consumer & Retail

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Introduction

The pressure is on for companies to align their risk strategies to their growth strategies and enhance overall trust and resilience. Doing so requires a robust risk function that utilizes the latest and greatest technologies to proactively manage and respond to various evolving risks. Moreover, businesses need a diverse skill set of team members who excel at critical thinking.

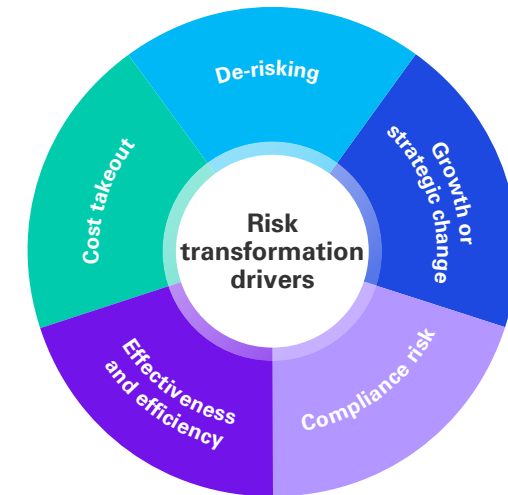
To better understand the evolving issues facing corporations, KPMG conducted the 2023 Chief Risk Officer Survey. U.S. respondents included organizations across six industries with at least \$4 billion in annual sales or \$25 billion in assets under management. An overarching survey report was recently released sharing feedback from these risk executives regarding their points of view about the current state of enterprise risk management, as well as their outlooks for the future of enterprise risk functions.

Now, taking a deeper dive into those survey responses, this report highlights key takeaways from CROs at 41 U.S.-based consumer products and retail (C&R) firms regarding their top priorities, challenges, and intentions. Their responses, presented with comparisons to other industries, indicate which areas risk leaders perceive are most vital to improving risk management practices across C&R businesses.

We found that C&R risk leaders are most challenged by a possible economic downturn or recession, complex compliance regulations, cybersecurity, and supply chain disruptions. C&R leaders' responses indicate they have a strong desire to continue digitization across the enterprise to enhance their risk function's overall efficiency and effectiveness, especially as the industry looks for new ways to mitigate unprecedented shrink. Dealing with ongoing financial constraints is also a major concern. To work through their top issues, risk executives in C&R tell us they have their sights set on driving optimization through better use of high-powered risk management tools, such as artificial intelligence (AI) and machine learning (ML), to get ahead—and stay ahead—of various compliance regulations. CROs in C&R also intend to focus on targeted training for their diverse workforce and potentially consider outsourcing or co-sourcing certain tasks.

In this report, we also provide actionable recommendations C&R corporations can use to strengthen their risk management practices, both within their functions and across their organizations. This guidance is aligned to key data insights from our survey, as they pertain to five intersecting drivers of risk transformation (Exhibit 1).

Exhibit 1. Five intersecting drivers



De-risking: Organizations' efforts to reduce risk exposure and hedge against expected market conditions

Growth or strategic change: Organizations' organic or inorganic growth; change in products, services, delivery channels; and/or other large-scale strategic initiatives

Compliance risk: New or emerging regulatory requirements, non-compliance with existing requirements, or need to enhance the relationship with oversight authorities

Effectiveness and efficiency: Increase the quality, consistency, extensibility, and confidence in risk management requirements and outputs

Cost takeout: Reduce the overall costs associated with the governance, maintenance, oversight, and execution of risk requirements and practices



De-risking

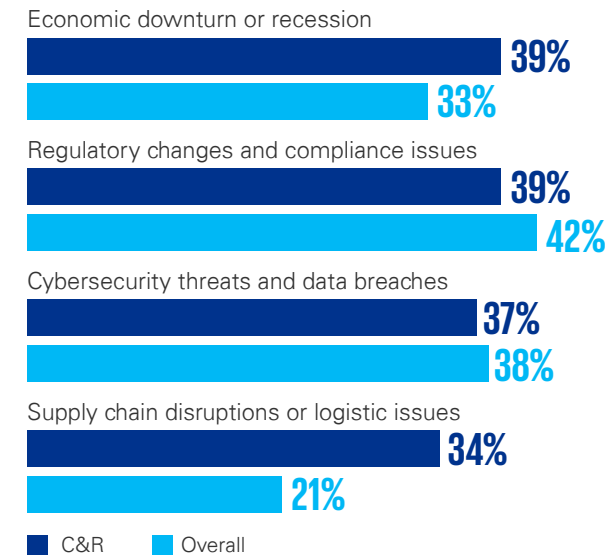
Organizations' efforts to reduce risk exposure and hedge against expected market conditions

Key findings

- To develop a robust de-risking strategy, C&R CROs say economic downturn or recession and regulatory changes and compliance issues are their primary concerns (39 percent each) over the next two to five years. This makes sense given the strain most C&R corporations feel when consumers can no longer afford to spend money in their stores. These concerns also relate to shrink, which typically comes in the form of theft, especially during times of economic trouble. What used to be considered by retailers as a local issue for individual stores is a problem that has gotten so out of hand that it is now a CEO talking point. Cybersecurity threats (37 percent) and supply chain disruptions (34 percent) were also among C&R CROs' top challenges. Interestingly, these concerns can all be tied back to shrink in one way or another.
- To help circumvent some of their biggest risk hurdles, CROs in C&R say the top three areas they will focus on addressing are: increasing training for employees (59 percent), improving data and analytics (49 percent), and cutting costs (44 percent). Notably, the C&R sector has one of the largest share of CROs who will increase employee training as the primary de-risking method to take on these challenges.
- For many C&R businesses, improving data and analytics is key to de-risking because it could help them identify and manage emerging risks that may otherwise go undetected. Overall, data and analytics can play a crucial role in discovering accurate and actionable insights for important decision-making.

Exhibit 2. Top challenges within next 2–5 years

Q. What do you think are the biggest challenges your organization will face within the next 2–5 years?



Recommendations

- Because economic downturn and recessions recur, C&R businesses need to adopt robust de-risking strategies to strengthen their financial resilience and develop effective compliance frameworks.
- To reduce risk, C&R firms should elevate risk awareness and strengthen resiliency by improving understanding of vulnerabilities through storage, maintenance, and analysis of data. They should also use advanced dashboarding capabilities and other tech-enabled tools to enable real-time and continuous monitoring to uncover new and evolving risks. Also, retailers can manage shrink by potentially investing in facial recognition software so thieves who cannot be prosecuted under local law can be identified quickly and escorted from the premises.
- Many countries have complex regulations around protecting their citizens' data privacy. A robust incident response plan is essential to preparing for advanced cyber threats and potential data breaches. In fact, technology firms should have privacy assessments built into their product launches.
- The C&R sector should develop risk management policies that help every employee think about de-risking opportunities that are specific to their daily roles. The C&R industry must properly identify how to target specific education programs to the appropriate groups of employees because their workforces vary greatly in terms of skills and education level. Therefore, training resources need to be highly targeted and specialized.



“Organized retail theft is having a dramatic impact on the industry. Not only do C&R companies fear consumers are not spending due to economic challenges, but now they also have organized attempts to take and steal goods.”

— Kent Cowser, Partner, Advisory – Products
Line of Business Leader, Risk Services



Growth or strategic change

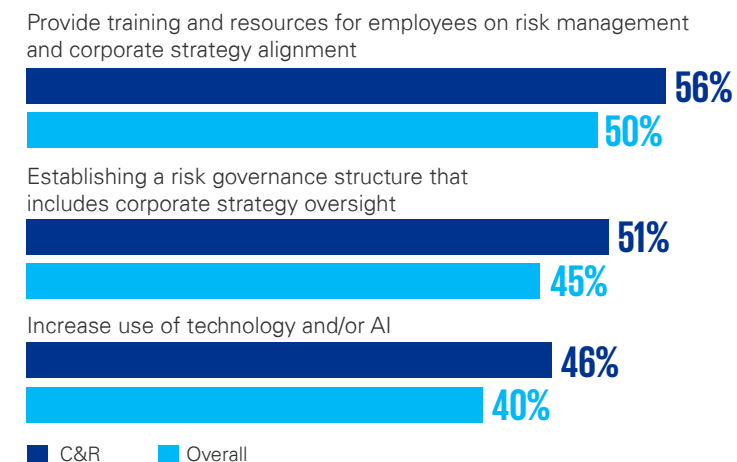
Organizations' organic or inorganic growth, change in products, services, delivery channels, and other large-scale strategic initiatives

Key findings

- More and more, organizations are looking to align their risk objectives and company-wide growth strategies to ensure their organizations are focused on the right risks at the right time to help drive organizational value. Comparing each sector (Exhibit 3), C&R has a significant number of CROs who identify providing training and resources for employees on risk management and corporate strategy (56 percent) as a key factor in achieving alignment with business strategy.
- To support harmony between risk management strategy and business growth, risk teams need significant buy-in from the top down. Most C&R organizations (75 percent) are well supported by their C-suites to blend these two strategies. Still, 24 percent of CROs who say they receive moderate support from senior leaders are looking for additional backing from management in critical areas, such as the C-suite's attention to support risk management and the overall alignment of risk management efforts.
- Notably, 50 percent of C&R risk leaders—the lowest share when compared to other sectors (collectively 71 percent)—say they are well prepared or very well prepared to address challenges of reputational damage or negative public perception. This signifies they need to develop a proactive plan for crisis management and adaptability to offset major setbacks that may harm stakeholder trust.

Exhibit 3. Strategies to align risk and strategic goals of the business

Q. Looking ahead over the next 2–5 years, what can your organization do to effectively align or continue to align risk objectives to the strategic goals and priorities of the business?



Recommendations

- Investing in highly capable and business-savvy talent will help risk functions challenge businesses when needed and contribute considerable value. Even the most skilled risk professionals need continued training, particularly around strategic thinking. They can also identify better ways to bring risk management into areas that have been operating in silos. But training inside the risk function is not enough. Offering specialized education to address highly diverse workforces will help companies avoid mistakes. Targeted learning opportunities should be available for all employees outside of risk departments. Additionally, educating risk teams to better understand business goals and challenges is also beneficial.
- Risk leaders can help C&R organizations make decisions and investments where there is greater certainty of upside and reduced severity of downside, enhancing value to the enterprise. As such, the risk framework should be designed to surface and disseminate information that business decision makers should know but don't know, provide informed perspectives on "what if" scenarios," and tap the brakes when appropriate.

"Employee turnover rates in the consumer products and retail industry have historically been high. However, the current situation is even more challenging due to companies implementing work policies that require corporate employees to return to the office. As a result, there is a growing concern about the increased loss of skilled employees."

— Duleep Rodrigo, Principal, U.S. Sector Leader, Consumer & Retail



Compliance risk

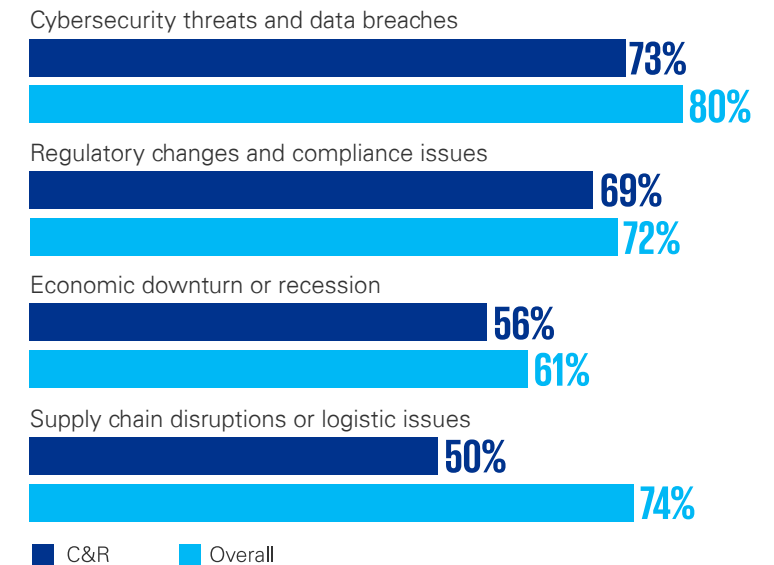
New or emerging regulatory requirements, non-compliance with existing requirements, or need to enhance the relationship with oversight authorities

Key findings

- In determining how ready they are to respond to and manage their topmost challenges, 69 percent of CROs in C&R say they are well prepared to take on regulatory changes and compliance issues. Intriguingly, 100 percent report they feel well prepared to manage risk related to environmental, social, and governance (ESG), which is a strikingly higher share than the overall response (84 percent) across all sectors. This tells us they have a strong understanding of the public's rising awareness around sustainability and its impact on business performance.
- Now more than ever, the C&R sector faces new roadblocks in the forms of varying regulatory changes and increased compliance requirements worldwide. Notably, more than half of CROs in C&R (61 percent) are concerned about compliance risks arising from low implementation of technologically supported compliance tools. That said, it makes sense that these respondents also said one of their top modernization priorities has been spearheading regulatory compliance and change-management initiatives to minimize risks associated with compliance within the last two years (41 percent), on which they will place even more focus (54 percent) within the next two years.

Exhibit 4. Preparedness to address risk challenges

Q. Of the top challenges your organization will face within the next 2–5 years that you selected, how prepared is your organization to respond to and appropriately manage these risks?

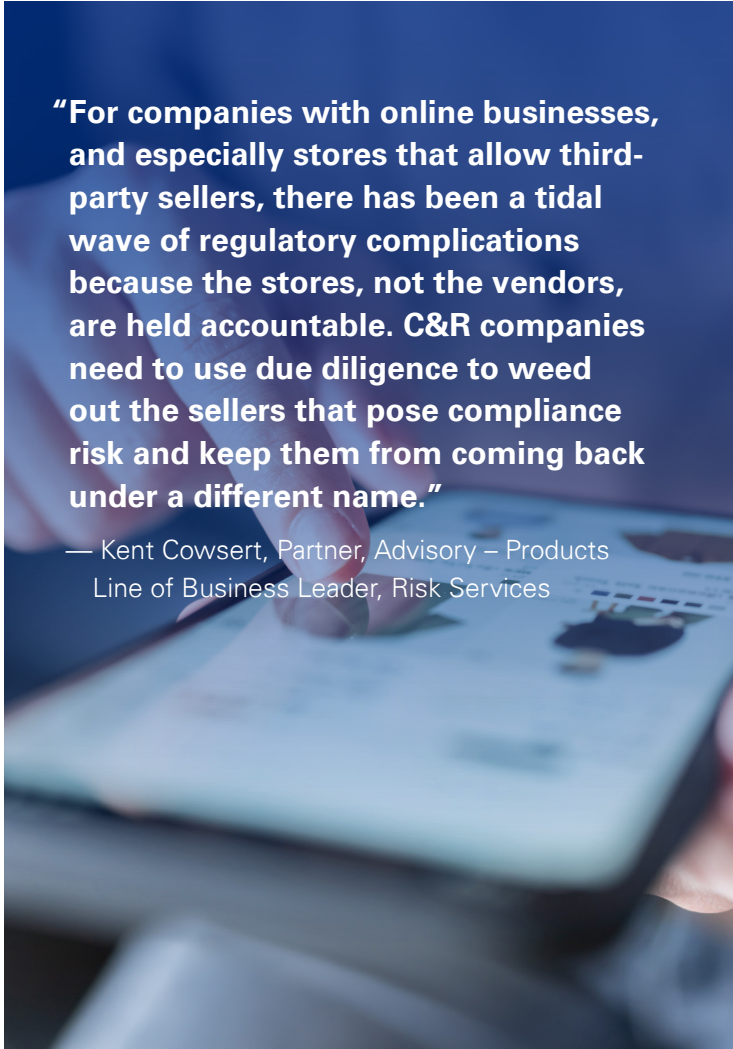


Percentages represent respondents who answered "Well prepared" or "Very well prepared."



Recommendations

- From the start, prepare to make changes to adhere to a variety of different and conflicting regulatory requirements, particularly around data privacy and cybersecurity at both the local and regional levels. For example, built-in privacy assessments should be included wherever possible. A healthy budget is also key to preparing for unknown hurdles that may arise from complex regulations in varying regions.
- Since C&R organizations face a wide range of complicated compliance regulations that vary depending on regional requirements, they should implement a robust regulatory change-management strategy—enabled by technology, such as AI, ML, and data and analytics—to proactively prepare the appropriate teams to stay abreast of and manage regulatory differences at the federal, state, and local levels.
- Prioritize compliance risk as integral to strategic business priorities by building compliance assessments, expanding efforts to understand the principles that regulators are looking to see, and appropriately assessing all potential risk impacts.
- Staying up to date on compliance requires the latest and most advanced technologies such as AI, ML, and automation. Modernizing compliance risk capabilities by building scalable and integrated risk and compliance programs will help risk deliver the same or expanded capabilities, but in a more efficient way. Simplification across risk frameworks, technology, reporting, and services is also helpful to the organization as a whole.



“For companies with online businesses, and especially stores that allow third-party sellers, there has been a tidal wave of regulatory complications because the stores, not the vendors, are held accountable. C&R companies need to use due diligence to weed out the sellers that pose compliance risk and keep them from coming back under a different name.”

— Kent Cowsert, Partner, Advisory – Products
Line of Business Leader, Risk Services



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07

08

Effectiveness and efficiency

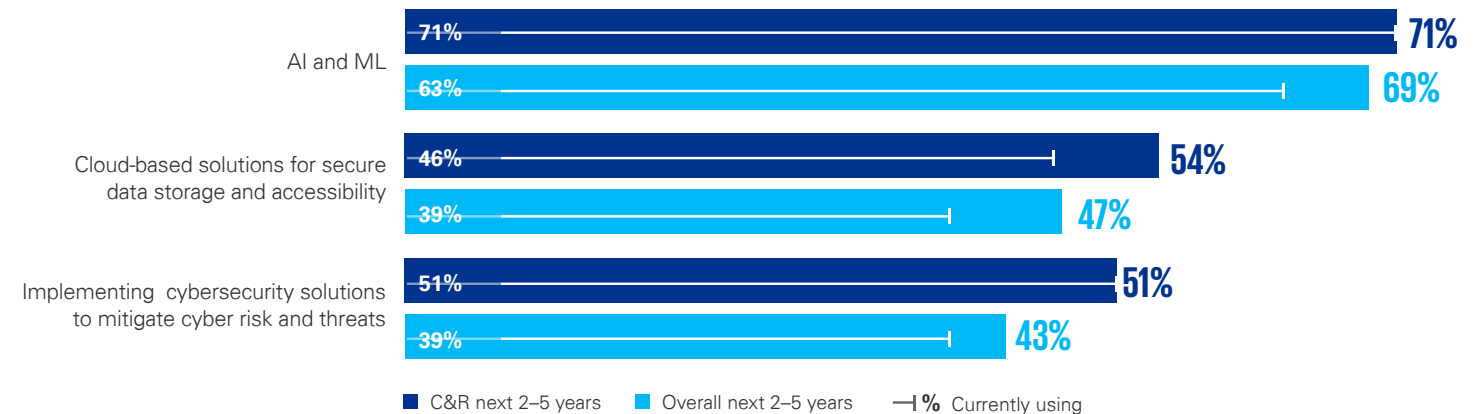
Increase the quality, consistency, extensibility, and confidence in risk management requirements and outputs

Key findings

- For budget allocation, the top priority for C&R risk executives today is technology-driven risk management (98 percent), followed by information technology infrastructure and security, and compliance monitoring and regulatory reporting (both 95 percent). Within the next year, these are expected to remain the top-funded areas, with even more C&R firms adding funds to technology-driven risk management (100 percent) and information technology infrastructure and security (98 percent) down the line.
- C&R has been leaning on digital tools and solutions to accelerate risk management processes to enhance their function's credibility. So far, industry leaders say they have leveraged AI and ML (71 percent), implemented cybersecurity solutions to mitigate cyber risk and threats (51 percent), and cloud-based solutions for secure data storage and accessibility (46 percent). Over the next two to five years, even more C&R risk leaders will rely on cloud-based solutions (54 percent).

Exhibit 5. Tools to optimize risk management

Q. Which digital tools/solutions are you using to accelerate risk management processes within your organization? Looking ahead to the next 2–5 years, which digital tools/solutions do you believe would further assist and optimize your risk management processes?



Recommendations

- A proper digital environment enables the risk function to embed risk management closer to the origin of the point of risk, automate routine processes, reduce manual efforts, and accelerate access to risk information. Combining the best digital tools across the risk ecosystem is the best way to empower and proactively transform how risks are detected and addressed.
- C&R risk organizations that use modern technology to improve, update, and enhance their risk operations can more proactively manage risk. This will allow them to protect already narrow margins and enhance consumer trust.
- As digitization is expanded, organizations must also change to support new tools and practices. This will help sustain efficiency through an integrated, digital-first strategy and operating model, rather than building one-off solutions created in a vacuum.

“Retail businesses are increasingly focused on reducing inventory shrinkage. This issue has gained significant attention and has become a top priority for CEOs in various companies. One effective solution to address this problem is by harnessing advanced technologies.”

— Duleep Rodrigo, Principal, U.S. Sector Leader, Consumer & Retail



01

02

03

04

05

06

07

08

Cost takeout and optimization

Reduce the overall costs associated with the governance, maintenance, oversight, and execution of risk requirements and practices

Key findings

- When considering cost-saving measures, most risk leaders in C&R are interested in outsourcing or co-sourcing certain areas. The majority of C&R risk executives selected operational risk assessments and process improvement as the top areas they would consider outsourcing (41 percent), followed by technology-driven risk management (37 percent). It is evident that CROs in this sector are very focused on improving their use of technology to enhance their risk management practices while working with budget constraints.
- Of course, outsourcing has its own inherent risks. While there is the potential for major cost savings, 34 percent of CROs in C&R are concerned, and 24 percent are very concerned with third-party/vendor risks due to technology outsourcing or integration.
- Unfortunately, the C&R industry naturally experiences high turnover rates due in part to the nature of their diverse workforces. Hiring new talent to bolster risk functions can be extremely difficult, with corporations continuously being asked to do more with less. That is why investment in existing employees, through training and upskilling, is favored (59 percent)—the highest response when compared to all sectors—over hiring more talent (17 percent) when preparing for and addressing challenges.

Exhibit 6. Risk management areas considered for outsourcing

Q. Which areas of risk management within your organization would you consider outsourcing or cosourcing to external partners in order to enhance the efficiency and effectiveness of risk mitigation strategies?



01

02

03

04

05

06

07

08

Recommendations

- Alignment of risk and overall business strategies can help organizations strike a balance between cost savings and optimization. With technology at the heart of risk management, finding a middle ground between implementing the best tools for each risk area and choosing which tasks should be outsourced is vital to an optimized risk function.
- Outsourcing and co-sourcing can result in tremendous cost savings. Relying on vendors that specialize in certain complicated areas, such as cybersecurity and ESG, takes the burden off organizations to handle the entire risk ecosystem, all at once, and all on their own.
- Create an ongoing and enterprise-wide risk management strategy that ensures third-party vendors are worth the investment. Since risk associated with third parties can so heavily impact the companies that partner with them, rigorous vetting must be performed. Therefore, every vendor needs to be properly vetted, and safeguards need to be in place so that the risk of hiring them does not outweigh any monetary savings.
- Weigh outsourcing and co-sourcing decisions against the process changes and additional resources required to maintain the necessary level of risk control and governance. Remember that core elements of risk management should never be outsourced as the risk is too great.
- For complicated, high-risk areas with significant stakeholder attention—such as compliance, cybersecurity, and ESG—use service providers that can reduce costs while also driving other long-term value, such as growth, speed, and enhanced reputation. Some providers combine their methodologies, technology, and skills into managed services for ongoing transformation, which are backed by strong advisory capabilities in risk, regulations, and forensics.

“Modern managed services are very different from traditional outsourcing models based on labor arbitrage for transactional work. Today’s leading providers are strategic collaborators. They combine advanced tech, data management, and sector expertise to deliver critical risk processes, such as cybersecurity and regulatory compliance, with outcomes like stakeholder trust, customer retention, and resilience. They can also reduce total cost of operations by as much as 15 to 45 percent, without prohibitive up-front capital investments.”

— David Brown, Principal, Advisory,
Global Head, Managed Services

How KPMG can help

KPMG Risk Services brings the strategic vision and technical edge to help you earn the trust of your stakeholders. Our deep C&R industry skills concentrated in risk, regulation, cyber, and ESG, and our time-tested change experience, combine to create one powerful capability.

KPMG teams can help you anticipate and balance risk to generate value and a competitive advantage across your enterprise. By incorporating a detailed approach to risk, compliance, cyber, and ESG, we can help you identify new opportunities.

We are obsessively focused on the delivery of your strategy, your priorities, and your agenda. Using tools and solutions that accelerate your modernization journey and balance risk, we then apply deep domain knowledge across the spectrum of risk and regulatory issues, along with our skills in risk, technology, and consulting, to help drive borderless collaboration to convert the opportunities of risk into a sustainable competitive advantage for your organization.

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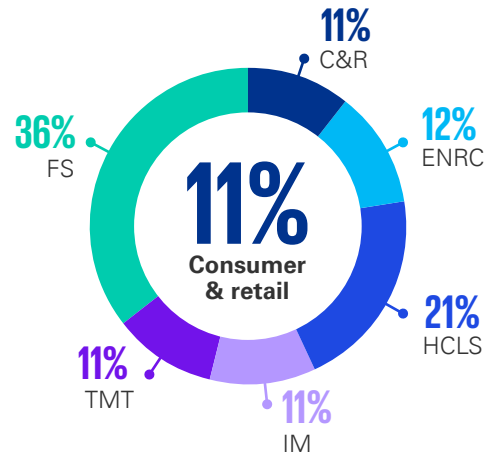
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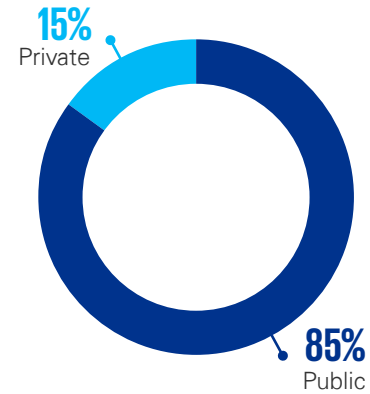
Research methodology

From July to September 2023, KPMG conducted an online survey of 390 enterprise risk officers representing U.S. organizations across six industry sectors with at least \$4 billion in annual sales or \$25 billion in assets under management (AUM). Forty-one respondents participated from the C&R sectors. Our research is designed to track trends in enterprise risk management and provide an outlook on the future of the enterprise risk function. Survey questions explore risk officer views on current and expected trends in the following areas: Risks and readiness, activities and investments, roles and approaches, and maturity and modernization.

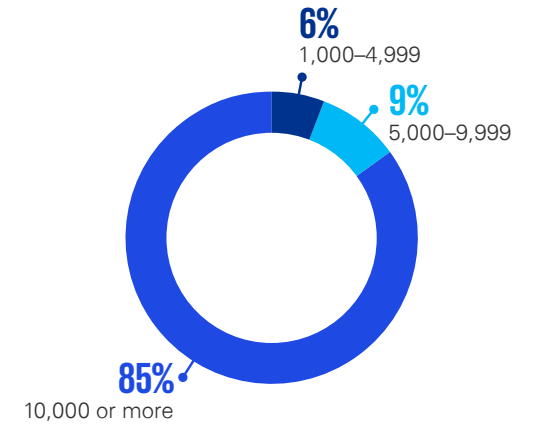
Organizational sector



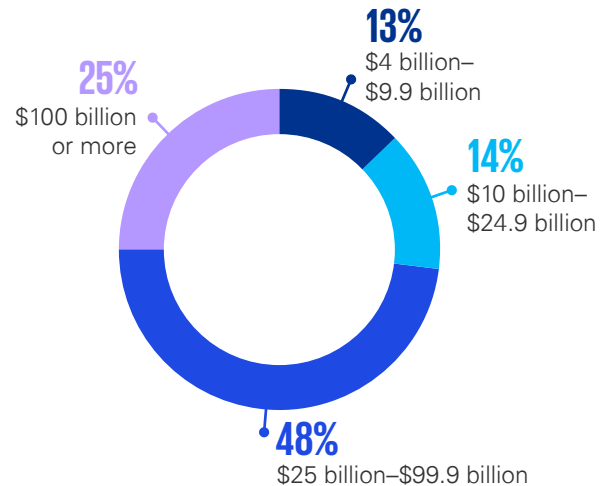
Organization type



Full-time employees in the company (Globally)



Company's annual revenue



Of the 390 enterprise risk officers responding to the survey, 41 respondents (11%) participated from the C&R sectors.

Notes: N=390; Single select; Percentages may not total 100 due to rounding.



01

02

03

04

05

06

07

08

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KPMG is recognized as a leader in risk consulting



Financial risk



Third party assurance



Client advocacy in risk*

KPMG ranked No. 1 across multiple risk categories in Source's report, *Perceptions of Risk Firms in 2023*.

The Source study, *Perceptions of Risk Firms 2023*, is based on a U.S. client and prospect perception survey about risk consulting firms, led by Source. It reveals what 300 senior users in the U.S. think about the 16 leading risk advisory firms and examines how clients see firms differently as they move from awareness, to shortlisting a firm, to becoming a direct client. The report is intended to help in understanding each firm's positioning in the market and the overall competitive landscape in which they operate. For more information please visit: <https://www.sourceglobalresearch.com/>

*Advocacy score is based on the percentage of KPMG client respondents that say they would use the firm again and would put their personal reputation on the line for the firm.

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01

02

03

04

05

06

07

08

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