CEO Imperative Series

US execs focus on GenAI strategy to accelerate growth

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> “The pace of innovation in AI is light speed and CEOs need to move fast to gain a competitive advantage. But there are big strategic questions.
>
> **Dr. Khalid A. Khan**
> Principal, EY-Parthenon
> Ernst & Young LLP

61%
of US CEOs expect higher revenue growth in 2024.

69%
of US CEOs expect higher profitability in 2024.

US executives are optimistic about revenue, profits, transactions and GenAI.

CEOs’ profitability expectations for their companies are overshadowing economic fears.

Business leaders are also optimistic about the promise of generative AI (GenAI) strategy to accelerate business transformation. While it could take years for GenAI investments to play out, tech transformation needs to happen now and is high on CEOs’ agendas as they contemplate how artificial intelligence (AI) can give them a strategic advantage, according to the October 2023 EY CEO Outlook survey.

Meanwhile, CEOs are closely watching geopolitical, macroeconomic and market risk, and the continued high cost of capital. Our latest survey shows CEOs expect higher growth in revenue and profitability in 2024 compared with 2023.

CEOs cautiously optimistic on adopting generative AI technology

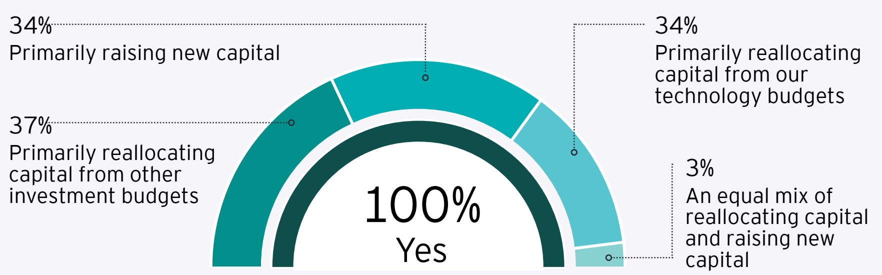
Notably, all the CEOs we surveyed are making or planning significant investments in GenAI — many with the caveat that they remain uncertain about the direction the technology will take.

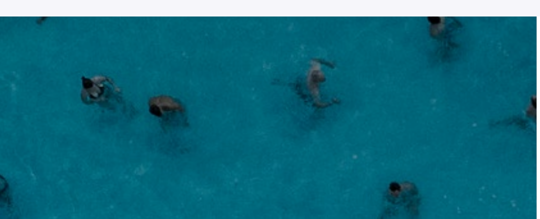
CEOs are in a quandary. While 62% agree their organizations must act now on GenAI to avoid giving competitors a strategic advantage, 61% say uncertainty around GenAI makes it challenging to develop and implement an AI strategy.

With the speed of AI developments, the cost involved, ethical considerations, potential regulatory scrutiny, and other uncertainties, funding plans for now are multilayered: 37% of CEOs plan to reallocate capital from other investment budgets, 34% say they will primarily raise new capital, and 26% indicate they will reallocate capital specifically from technology budgets.

Q **Are you currently making or planning significant investments in generative AI, and if so, how are you funding this?**

The respondents were allowed to select one option only.





> "Not all assets coming to market are underperforming. Changing market and governance/regulatory conditions mean companies need to divest healthy assets.
>
> **Andy Lorenzetti**
> EY Americas Sell and Separate Leader

55%
say a rise in companies claiming GenAI expertise makes targeted investments harder.

As companies consider the investments required to build AI capabilities tailored to their business needs, leaders face significant choices and challenges in their GenAI strategy. These include whether to use open-source or proprietary large language models (LLMs) for their AI systems, and whether to build, buy or partner on their AI systems. Many businesses may claim they have AI experience, but 55% of CEOs agree it's hard to identify credible partners or acquisition targets.

A key differentiator for the C-suite will be the proprietary data, gathered from across the enterprise, used to train and enrich LLMs. CEOs need to prioritize a robust data strategy in their GenAI-driven business transformation.

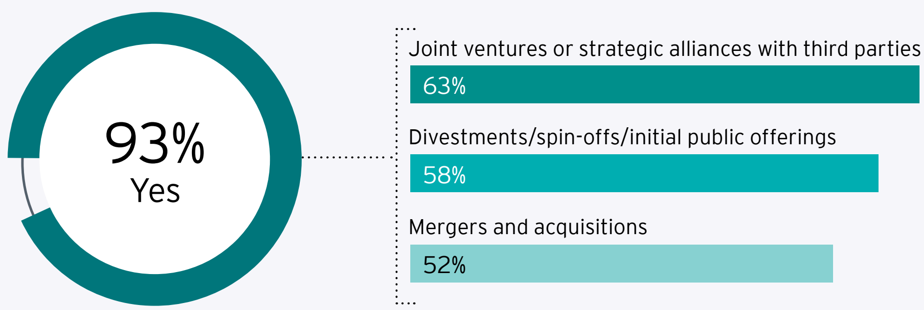
The speed and maturity of technology may drive transactions

As adoption of transformative AI and other technologies moves at a rapid pace, CEOs indicate a robust appetite for transactions, at a time when they're also more optimistic about their companies' financial outlook.

The US has led a rebound in mergers and acquisitions (M&A) this year, and our survey reflects it: 52% of US CEOs plan M&A over the next 12 months, considerably higher than our global survey, which finds only 35% planning deals. In addition, 58% of CEOs plan to divest an asset in that period as leaders seek to fund capital spending in multiple areas. Also high on the CEO agenda is forming joint ventures or strategic alliances with third parties (63%) as leaders contemplate lower-risk ways to embrace innovative technologies.

Q **Do you expect to actively pursue any of the following transaction initiatives over the next 12 months?**

The respondents were allowed to select multiple responses.
(7% of respondents chose "No")



> “Geopolitical events are a concern, given the potential impact on startup innovation, particularly regarding AI.

Elizabeth Kaske
EY Americas Buy and Integrate Leader

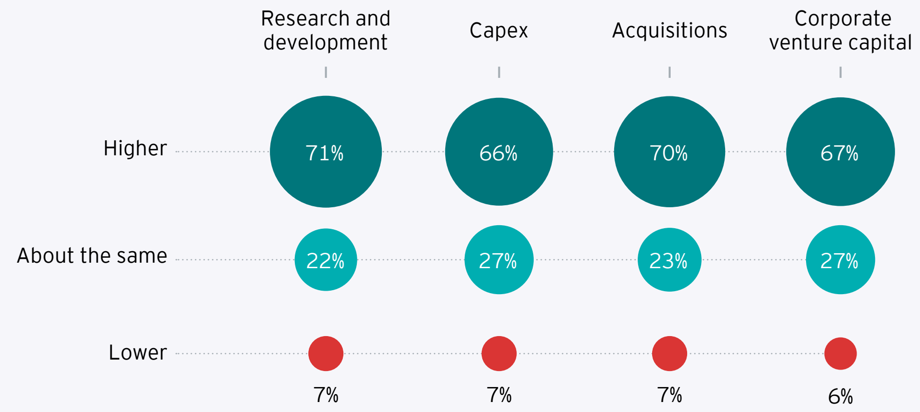
71%

of companies expect their investment in research and development to be higher in 2024 compared with 2023.

What could curb all this enthusiasm? Geopolitical uncertainty could dampen profit expectations; according to CEOs, the top two barriers to maximizing revenue growth and profitability in 2024 are increasing investment costs, and slower economic growth in key markets. With AI buzz as a backdrop, CEOs acknowledge they need a multilayered investment strategy for 2024. Research and development (R&D) is the most likely to see higher investment in 2024 (71%), followed closely by acquisitions (70%), corporate venture capital (67%) and capex (66%).

Q How will your investments in the following areas change as a percentage of revenue in 2024 compared with 2023?

The respondents were allowed to select one option for each statement.



Contacts

For a conversation about your AI and transaction strategy, please contact us:

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About the survey

On behalf of the global EY organization, in September and October 2023 FT Longitude, the specialist research and content marketing division of the Financial Times Group, conducted a survey of 1,200 CEOs from large companies around the world. This anonymous online survey aims to provide valuable insights on the main trends and developments impacting the world's leading companies as well as business leaders' expectations for future growth and long-term value creation. Respondents represented 21 countries (Brazil, Canada, Mexico, the United States, Belgium, Luxembourg, the Netherlands, France, Germany, Italy, Denmark, Finland, Norway, Sweden, the United Kingdom, Australia, China, India, Japan, Singapore and South Korea) and five industries (consumer and health, financial services, industrials and energy, infrastructure, technology, media and telecoms). Surveyed companies' annual global revenues were as follows: less than US$500m (20%), US$500m–US$999.9m (20%), US$1b-US$4.9b (30%) and greater than US$5b (30%).

- The CEO Imperative Series provides critical answers and actions to help CEOs reframe their organization's future. For more insights in this series, visit ey.com/en_gl/ceo.

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