

Tech is everything. But it's not enough.

**Seeking services that are
tech-enabled and strategy-led**

KPMG and HFS Research
Managed Services Outlook 2023-2024



Foreword

Your company is probably in some phase of business transformation. And with rapid, ongoing changes, it will continue to be.

That's because in order to keep up with innovation, regulation, risk, talent, and other market dynamics, you need nimble, scalable operating models that are always evolving.

To build those models, companies are using managed services. Unlike other types of outsourcing, this class of services goes beyond transactional cost reduction to drive sustained transformation with strategic outcomes. And since as-a-service processes are ongoing, you can get them on a multi-year subscription with predictable costs, remote delivery, and the option to flex up or down to meet changing needs.

Strategic collaboration for the transformation journey

How do you choose the right managed services provider? Technological capabilities are of course fundamental, because there's no such thing as an analog transformation.

However, when it comes to the capabilities of leading providers, technology is a minimum requirement. To tap the full value proposition of managed services and create competitive advantage, progressive firms are evaluating providers based on the domain expertise they bring to the table.

That's according to our recent market study, the *KPMG and HFS Research Managed Services Outlook 2023-2024* and we're pleased to present the enclosed findings.

To be sure, advanced technologies are critical for the operations of the future. But true transformation requires people and technology working in harmony—toward meaningful business outcomes, not just tech outcomes.

To that end, the study suggests that companies want managed services that are enabled by tech but led by strategy and knowledge—in digital, industry, and functional domains. This linkage between people and technology is at the heart of successful managed services engagements.



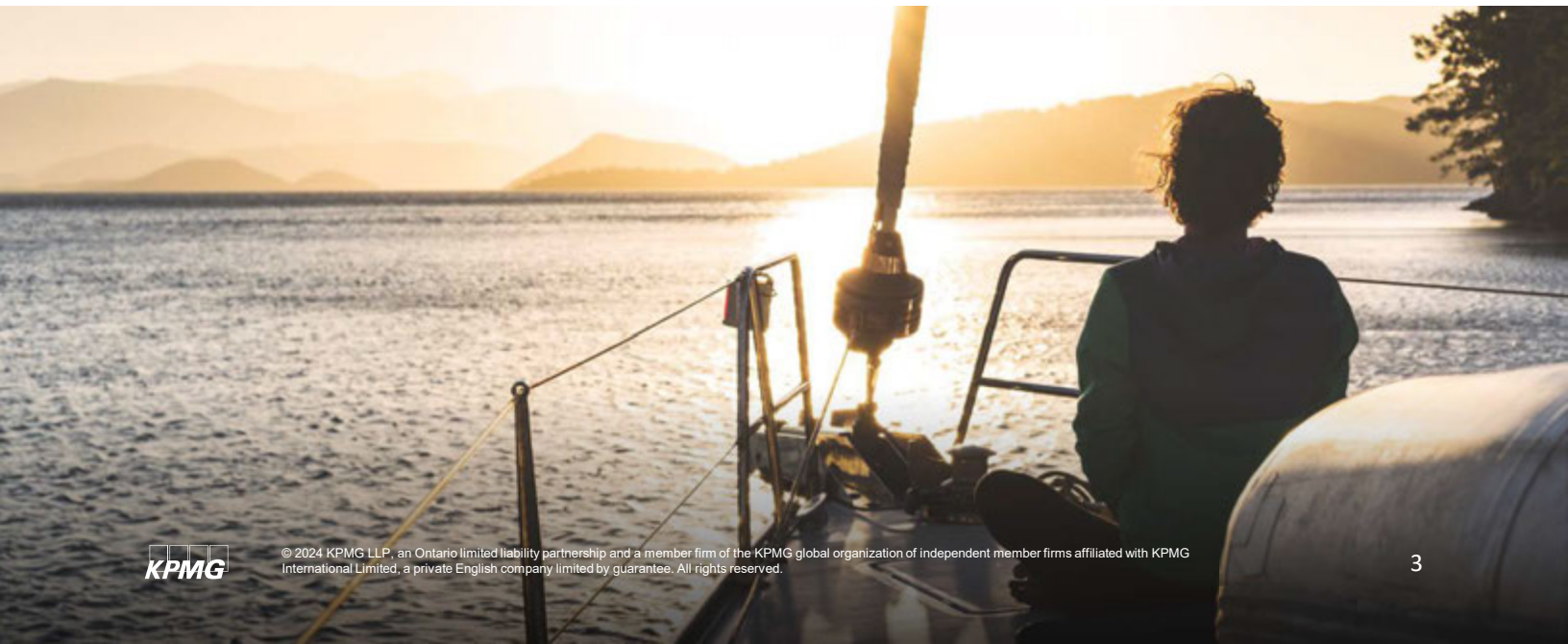
About the study

KPMG and HFS Research conducted a study to understand the market’s approach to managed services for business transformation. This research builds on a similar study conducted in 2021, which established a baseline for managed services deployment globally.

The enclosed findings are based on a survey of 1,022 business leaders around the world—including directors, functional heads and C-level executives—who are involved in managed services decisions. They represent a mix of companies—the majority with at least \$1 billion in revenue—across numerous sectors, including banking and capital markets; healthcare; energy, utilities and natural resources; asset management; technology, and media and telecommunications.

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Key findings

Managed services are part of the playbook for sustained transformation.

73%

of companies have implemented managed services in at least some areas of their business.

62%

of respondents see managed services as clearly different from traditional outsourcing.

Top goals include:



Accessing new technology



Driving strategic priorities

Therefore, companies are broadening the scope, with a continued move toward high-value, knowledge-intensive processes.

64%

have launched managed services for a business function or at scale across the enterprise.

Close to
70%

have implemented that same scope in cybersecurity, human resources, customer service, and sales and marketing—the areas of highest uptake.

More than
60%

of firms use managed services at scale or in a business function for research and development (R&D) and industry-specific core operations.

To drive the most value from managed services, companies are seeking providers with capabilities beyond technology.

Top five reasons for choosing a managed services provider

Process expertise **26%**

Industry expertise **24%**

Advisory capability **14%**

Technology platforms and capability **12%**

Data and analytics capabilities **10%**

Percentages denote respondents listing this factor as their top reason.

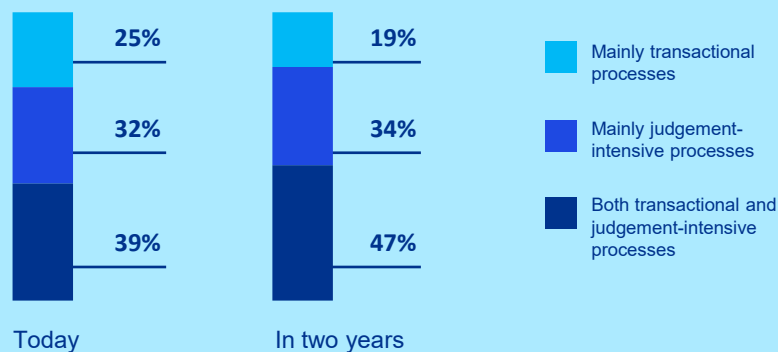
A new definition for a new era

As managed services become critical in the transformation journey, companies perceive them differently now than in years past. The model is shaking its legacy reputation as mainly an offshore solution for back-office activities.

62 percent of respondents see managed services as clearly distinct from traditional outsourcing, which focuses more on transactional or piecemeal services. They define managed services as the delivery of key processes or sub-processes on a subscription, as-a-service basis.

From transactional to transformational

The scope of managed services



Beyond the back office

Companies' use of managed services is also continuing to move toward judgment-intensive work—and not just in noncore processes. The work also includes core operations that historically were too sacrosanct to transfer.

For example, nearly two-thirds of respondents have deployed managed services at scale—either in a business function or across the enterprise—for industry-specific operations such as pharmacovigilance or mortgage lending. About the same number of respondents are using managed services for R&D.

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Outsourcing can be beneficial in terms of cost savings and efficiency gains, but it can also create challenges such as a fragmented set of policies and procedures. Managed services is a more holistic approach that combines advisory services with domain expertise, a level of maturity, and platform and delivery services.

Dave Brown,
Global Head, KPMG Managed Services
Principal, Advisory, KPMG in the U.S.

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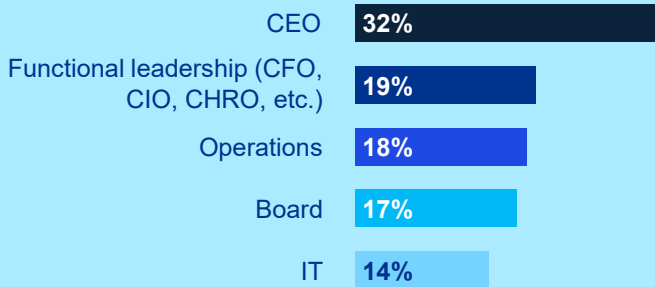
Beyond cost savings

Another sign of the changing definition is a difference in goals. Buyers say their primary reasons for adopting managed services are not only to reduce costs but also to access new technology and drive strategic priorities, such as growth, operational resilience and regulatory compliance.

Notably, freeing up of internal staff for other activities—a hallmark of “your-mess-for-less” models based on labor arbitrage—is now near the bottom of the goals list. That’s another sign that managed services are breaking away from legacy perceptions.

As managed services increase in strategic value, the use of them has become a senior-level decision. In fact, more than half of respondents said the decision is made by C-level leaders, and another 17 percent said it’s made at the board level.

Who makes the decision to use managed services?



One reason for this is that executives are focusing more on alternative delivery models since learning in the COVID-19 pandemic that many different kinds of work can be performed remotely.

Primary goals for adopting managed services

- 01 Access to new technology
- 02 Cost savings and efficiency
- 03 Driving other strategic priorities (e.g. operational resilience, growth, agility, compliance etc.)
- 04 Predictable costs
- 05 Access to best practices
- 06 Accelerated innovation
- 07 Faster speed to market
- 08 Improving stakeholder trust
- 09 Access to scarce talent
- 10 Freeing up internal staff for other activities



Service delivery is a C-level imperative; our global business services (GBS) group reports to the CEO. While most outsourcing today is focused on labor arbitrage, there is an increasing interest to use managed services as an underpinning for location diversity, service management improvements, human capital allocation, and automation. In all these evaluations, access to subject-matter expertise and advisory capability is a critical component.

Pawel Kalinowski,
Executive Director of GBS Strategy,
Organon



Beyond technology

Remote delivery requires the right technology, but the most successful transformations don't stop with tech. That's why executives are choosing service providers based in large part on their expertise—particularly in specific industries, business processes, and data and analytics.

It's these kinds of capabilities that align managed services to strategic outcomes rather than transactional outputs. The findings suggest that executives are increasingly seeking managed services that are tech-enabled and strategy-led.

In addition, a third of respondents say that advisory capabilities—in areas such as process improvement, regulatory compliance, and cybersecurity and other risks—are among their top three reasons for choosing a managed services provider.

Companies are also seeking specialized guidance from providers to harness technologies, talent and processes for ongoing transformation.

The prioritization of advisory capabilities is another indicator that, when it comes to the delivery of high-value processes, companies want strategic collaborators in the transformation journey—not low-cost processors.

Ranking the reasons to choose a managed services provider*

43% of companies mention **industry expertise**

39% mention **data and analytics**

37% mention **process expertise**

36% mention **tech platforms and capability**

33% mention **advisory capability**

*Percentages denote respondents listing each factor among their top three reasons.

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As GBS organizations progress their way up the value curve beyond simply lowering costs and as cost savings opportunities become less robust, it will be important that they bring their strategic partners along with them, which may mean constructing new commercial relationships that graduate from traditional low margin low innovation to next-gen managed services that reward partners and show higher value beyond marginal cost savings.

Stephen Hosley,
Senior Vice President of Global Business Services,
Estée Lauder Companies

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Defining the new generation of modern services

Modern managed services combine sophisticated technologies with human expertise, data insights, leading practices, and alliances with software vendors—all packaged in a multi-year, as-a-service subscription with predictable costs. These services, usually delivered remotely, take responsibility for knowledge-intensive processes in the front, middle and back office. In addition to reducing costs, the best managed services drive strategic outcomes such as accelerated innovation, accurate forecasting, regulatory risk management, stakeholder trust, and agile adaption to market change.

Appetite for advantage

As companies look at managed services in a new way, they're implementing them more widely than in years past. The model is at a mature state of adoption, with more than 70 percent of respondents implementing managed services in at least a few areas, and more than 60 percent implementing them at scale.

Managed services at scale

Where companies use them the most*

72%

Customer service

69%

HR

68%

Cybersecurity

68%

Sales and marketing

*percentage of respondents deploying managed services for a business function or at scale across the enterprise

Getting value from managed services

Adoption is particularly high in certain parts of the business. For example, in cybersecurity, nearly 40 percent of respondents use managed services across the enterprise, while nearly 30 percent use them for a business function.

Executives believe there are three functional areas where managed services will provide the most value over the next two years—risk and compliance, applications management, and cybersecurity.

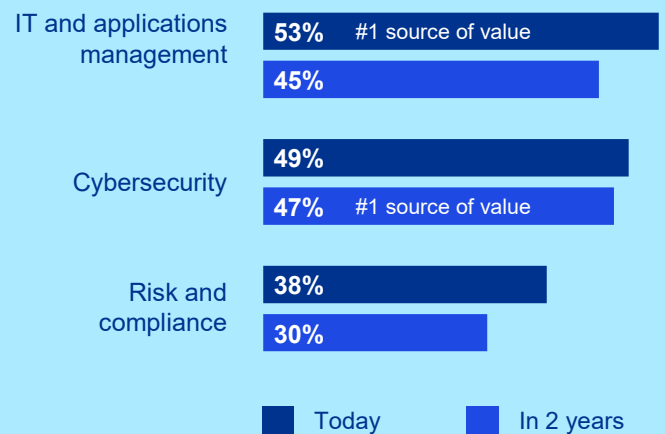
— Cybersecurity

One of the areas where companies continue to receive particularly high value from managed services is cybersecurity. In fact, in the next two years, respondents expect this functional area to deliver more value than any other managed service.

That finding reflects many companies' ongoing struggle to keep up with evolving cyber threats and protect critical assets.

Value in different functions

Executives say managed services will deliver the most value—both today and tomorrow—in these top three functional areas:



Leading managed services providers answer the call by combining sophisticated automation and behavior analytics with robust expertise—in areas like identity management, application security, and threat detection and response. In addition to managing risk, these services enable companies to accelerate transformation initiatives by embedding security into the business.

The other two functional areas where companies expect to receive the most value from managed services—both today and in the next two years are:

— Applications management

As companies increasingly adopt software as-a-service (SaaS), they're using managed services to continually optimize their platforms. These services—including SaaS updates, functionality enhancements, process customizations, data integrations, and more—improve the long-term return on cloud investments.

— Risk and compliance

From financial crime to regulatory change, organizations face compliance risks that are persistent threats to growth. Managed services help meet compliance obligations quickly and cost-effectively, while also protecting reputation, inspiring stakeholder trust, and uncovering valuable insights from compliance data.

These three areas of managed services value point to the importance of deep expertise in addition to technology. Companies are seeking specialized guidance from providers to harness technologies, talent and processes for ongoing transformation.



Top tech in managed services

Given that applications maintenance is a key area of value, companies anticipate that SaaS is the technology that will feature most heavily in their managed services in the next two years, while on-premise platforms will feature less.

Companies also expect adoption of other technologies to increase significantly in the next two years. Here are the top four:



Artificial intelligence



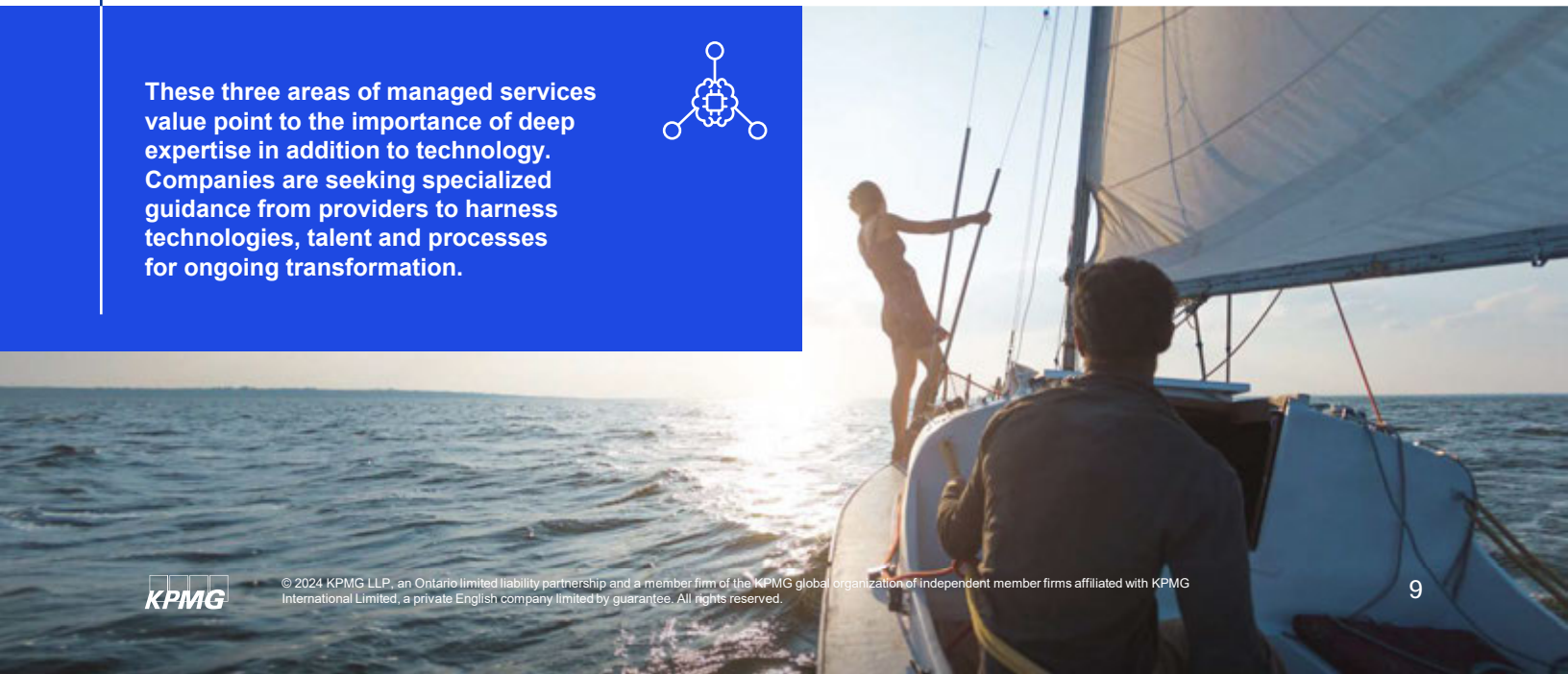
5G



Blockchain and distributed ledgers



Web3 and metaverse



Overcoming concerns with the way forward

Managed services are clearly growing in importance, so it's natural for organizations to also have some growing concerns. Three of the top five challenges in adopting managed services relate to risk, while the other two pertain to organizational and executive alignment.

Some of these concerns highlight the importance of savvy change management, which is a key capability of the strongest services providers. It helps prepare the organization for a new operating model.

Notably, several of respondents' top concerns from two years ago are now at the bottom of the list, showing a rapidly increasing acceptance of managed services as a leading practice:

— Cultural proneness to work through internal teams and shared service centers

In an about-face, this number one barrier in 2021 now ranks dead last. The finding suggests that companies are welcoming managed services as an integrated operating model.

— Process maturity

In 2021, the number two most cited barrier was that companies' processes may not be mature enough for managed services, but it now ranks significantly lower in the list. This drop could suggest that companies have addressed their process concerns with new technology or other improvements. Or it may indicate that companies are placing more trust in service providers to redesign their processes.

Top five barriers to adoption (ranked by number of responses)

01 Lack of organizational alignment

02 Concerns about loss of control

03 Negative socio-political perception (e.g., potentially sending jobs to another country)

04 Lack of C-level sponsorship

05 Concerns about risk and compliance

Leading providers help buyers assess processes based on potential value, not maturity. Whereas process maturity is usually a cost-reduction topic often related to labor arbitrage, value is about redesigning processes to deliver other meaningful outcomes in the right time frame, with the right success metrics, to enable ongoing transformation.

— Providers' lack of domain knowledge

This concern was another top-five barrier from 2021, but it now ranks second to last. Companies are clearly more satisfied with providers' expertise and, indeed, process expertise and industry expertise have become respondents' top two reasons for choosing a managed services provider.

The journey ahead

It's not enough to just transform. To sustain competitive advantage, organizations must do it continually—which is why managed services have become a key part of the journey.

Moreover, as modern managed services go beyond transactional cost reduction to drive strategic imperatives, companies are seeking providers who are knowledgeable collaborators, not mere executors. Executive and board leadership are actively evaluating providers based on their robust experience in transformation initiatives, their contribution of new ideas and services to the operations strategy, and their ability to flexibly meet changing priorities.

In short, tomorrow's most effective operating models won't be based on tech alone. Instead, as this study suggests, they will thrive at the intersection of innovation, expertise, and strategy.

Taking action

- 01 To sustain your business transformation**, explore ways to develop nimble, scalable operating models that can continually evolve amid market change.
- 02 Consider managed services for some processes.** The model offers predictable costs, sustained outcomes, remote delivery, and the option to flex up or down to meet changing needs.
- 03 To create a competitive advantage through managed services**, look for providers who bring not only advanced technology but also collaborative professionals with deep business, technical and industry expertise, along with strong advisory capabilities. Remember that true transformation is always human, with people and technology working in harmony.
- 04 Look for managed services that are tech-enabled but strategy-led**, helping you define your vision, operationalize it, and pivot as needed.
- 05 Change your view from transactional to transformational**, using managed services to not only reduce costs but also drive growth, resilience, agility, innovation, and other enduring outcomes.



About KPMG Managed Services

Business transformation is the path to sustained advantage. But transformation is not a fixed destination; it's an ongoing journey. How can you continually evolve your business functions to keep up with ever-changing targets?

KPMG Managed Services can help.

We combine advanced technology with business and technical expertise to handle knowledge-intensive processes across your enterprise—on a subscription, as-a-service basis. We aim to cut your total cost of operations by 15 to 45 percent, in addition to driving outcomes like resilience, customer and employee retention, stakeholder trust, and competitive advantage.

Drawing from our renowned knowledge across functions, processes and industries—plus smart analytics, data governance and change management—KPMG Managed Services is tech-enabled but strategy-led. We help you operationalize your growth ambition, so you can accelerate your transformation journey while minimizing disruption and risk.

[Learn more about KPMG Managed Services](#)

About HFS Research

HFS Research is a world-renowned visionary analyst organization focusing on change agents that enable organizations to streamline digital operations, access rapid and critical data to base decisions, and exploit the increasingly available global base of talent.

HFS coined the term “Generative Enterprise™” in 2023 that articulates the pursuit of AI technologies based on large language models (LLMs) such as ChatGPT to reap huge business benefits to organizations in terms of continuously generating new ideas, redefining how work gets done and disrupting business models steeped in decades of antiquated processes and technology.

HFS analysts are respected for their no-nonsense insights based on demand-side data and engagements with industry practitioners and have specific focus across key industries such as financial services, healthcare and life sciences, manufacturing, consumer goods, travel and hospitality, and technology.

[Learn more about HFS Research](#)

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