KPMG

AI & generative AI in functional transformation

A practical guide to the opportunity for AI across the front, middle and back office

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Introduction

The world of business is abuzz with the potential of Generative AI (gen AI). While artificial intelligence and machine learning have proven successful in solving specific problems, the user interface and new content creation capabilities of gen AI make it relevant to a wider range of organizations and business functions. Despite AI not being a new concept, it's moving quickly. As a result, CxOs must think fast when it comes to understanding how to leverage this technology.

Embedding gen AI capabilities into functional transformation can drastically improve speed and efficiency by eliminating redundant or manual activities. Furthermore, this technology has the potential to drive significant profitability, improve compliance and enhance the overall customer experience. But, as with all AI technology, the effectiveness of gen AI is entirely dependent on the quality of the underlying data and well-engineered prompts. For gen AI to provide maximum value to organizations, it must be executed and integrated in the right way within key operational functions.

57%

of respondents from the KPMG 2023 global tech report believe generative AI will help them achieve short-term business ambitions over the next one to three years. The finding suggests an opportunity to allay fears, explore possibilities and pursue safe implementation.

Introduction to generative AI in functional transfomation

KPMG professionals understand that core organizational functions are the primary drivers of gen AI implementation. These functions have a crucial role in executing organizational strategies, creating and protecting value, building an effective enterprise architecture, and maintaining data. Furthermore, certain operational functions possess potential disruption opportunities and can harness the power of gen AI across five enabler categories:

Content and insight generators
Generative tools that can create blog posts, emails, images, etc.

Information extractors
Summarize and analyze large data sets and documents, in short and long form.

Smart chatbots
Virtual assistants that can interact conversationally, based on defined logic.

Language translators
Tools to translate into multiple languages, as well as build out content.

Code generators
Convert text inputs into code in various programming languages.

These enabler categories could apply to the main functions as follows:

Type 1 content and insight generators — could be used to reduce time and effort needed to create materials in areas such as:

- Generating financial and management reporting and commentary.
- Creating financial models to help with budgeting, forecasting and scenario analysis and develop presentations to support board meetings.
- Bringing data into templates and models to generate trends, risks and opportunities.

Type 2 information extractors — gen AI can be a powerful research tool, able to find and synthesize data and publicly available material to generate insights on markets, competitors and customers. Analyses could be tailored to geographies or markets.

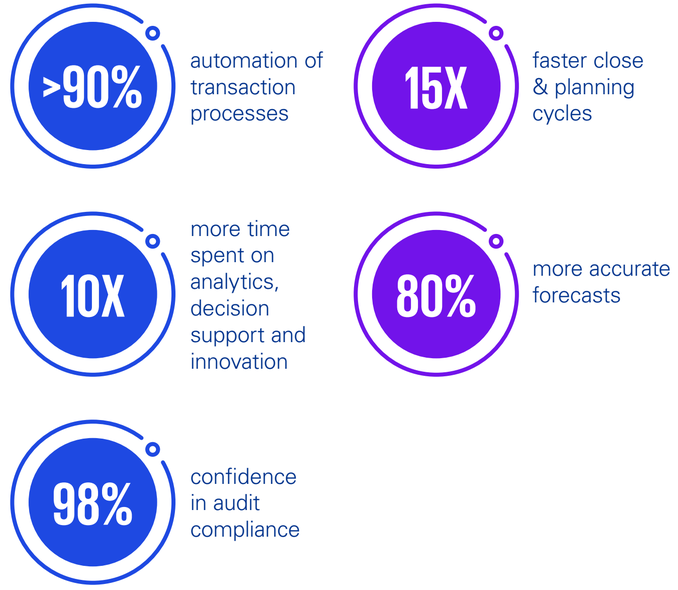
Type 3 smart chatbots — could be used to field incoming inquiries to the function, especially as a first line of support. This can significantly reduce low-value work by staff and improve quality and response times for frequently asked questions.

Type 4 language translators — could help with report generation for multilingual enterprises operating or reporting in foreign jurisdictions, especially where lots of unstructured data is being reported from many sources (e.g., sustainability reporting).

Type 5 code generators — could be used to generate **low-code** apps, removing the need for professionals to perform coding (e.g., helping users to access self-serve data, analyze it and build better story presentation). gen AI can also help diagnose and fix system issues by evaluating code, discerning what's broken and executing new code.

By unlocking the power of digital technologies, AI has the potential to deliver significant value to the organization's critical business functions.

For example:



Source: Extrapolation of KPMG Surveys and cross-industry assessment of the impact of AI use cases in Finance.

Generative AI can help deliver value across critical functions, including:

- Marketing, sales, service and commerce
- Procurement
- Supply chain management
- Finance
- HR
- IT management

Five emerging use cases of gen AI in marketing, sales, service and commerce

Orchestrated customer experience can help to increase profitable sales

Five gen AI applications in the marketing, sales, service and commerce function that could contribute to attracting more customers and increased retention

1 Improve personalized and targeted marketing reach

Use of AI-led data analytics to improve lead generation and answer customer queries to improve above funnel conversion rates.

Increase prospect volume

2 Increase engagement levels

Use of AI to deliver improved personalized experiences using, for example, content and optimized pricing to accelerate the path to purchase.

Increase conversion rates

3 Better support activation and onboarding

Use of AI to automate verification and onboarding to reduce costs, improve customer satisfaction and accelerate time-to-revenue.

Accelerate onboarding timeline

4 Nurture customers with care

Use of AI to improve customer privacy, security and self-service support and to anticipate potential issues, for example, fraudulent activities.

Increase trust

5 Retain more customers, reduce churn

Use of AI to proactively retain customers by delivering personalized experiences that are focused on driving customer lifetime value and loyalty.

Improve retention rates

Potential benefits and productivity gains

Five emerging use cases of gen AI in procurement

Generative AI has the potential to automate, optimize and transform procurement processes, driving enhanced efficiency and strategic decision-making

Five gen AI applications in procurement that can automate processes, enhance strategic planning, optimize financial management and improve procurement efficiency

1 Transform category management

Use of AI automates category management, synthesizing internal/external data for dynamic strategies and pre-emptively identifying potential risks using continuous assessment.

Dynamic category strategy

2 Elevate sourcing efficiency

Use of AI automates RFx processes in procurement, streamlining requirement generation, RFx creation, supplier evaluation, and decision-making.

Streamlined procurement decisions

3 Dynamic contract lifecycle management

Use of AI in contract management automates contract creation, negotiation support, compliance verification, risk detection, performance tracking, and renewal processes.

Enhanced contract management

4 Streamline user procurement

Use of AI in the buying process enables product discovery, simplification of the buying journey, and guidance towards compliant suppliers.

Simplified compliant purchasing

5 Revolutionalizing financial procurement

Use of AI in procurement finance optimizes invoice processing, payment schedules, reconciliation, cash management, and boosts predictive insights.

Optimized financial management

Potential benefits and productivity gains

Five emerging use cases of gen AI in supply chain

Generative AI has the potential to significantly improve efficiency, decision-making, compliance and maintenance in supply chains

Five gen AI applications in the supply chain function that can help drive efficiency, facilitate predictive insights, enhance compliance, optimize maintenance and advance sustainability

1 AI-powered integrated planning and scenario modeling

Utilizes AI to analyze data, enabling predictive insights and planning, generating strategic supply chain scenarios for informed, adaptable decision-making.

Advanced predictive planning

2 Distributed order fulfillment

Use of AI in order fulfillment optimizes picking, packing and delivery routes via real-time analysis, enhancing efficiency and customer satisfaction.

Streamlined order fulfillment

3 AI-enhanced quality management

Use of AI revolutionizes quality control, automating documentation and facilitating real-time anomaly detection for improved efficiency and product reliability.

Automated quality assurance

4 AI-enhanced supply chain visibility

Use of an AI-driven tool to map multi-tier supplier networks, assign risk scores, integrate regulatory requirements, and enhance visibility on inherited and concentrated risks.

Integrated risk visibility

5 Intelligent demand & network optimization

Use of AI for precise demand forecasting, segment analytics, cost-to-serve insights, strategic network and inventory optimization, enabling real-time adaptability and transparency.

Adaptive forecasting optimization

Potential benefits and productivity gains

Five emerging use cases of gen AI in finance

Finance should be at the center of gen AI adoption across the organization

Five gen AI applications in the finance function that can improve organization-wide understanding and storytelling

1 Cross-functional performance commentary

Use of AI to generate narrative content accompanying financial reports and forecasts, which enhances the storytelling and understanding of risks and trends. Create content for investor calls.

Improved understanding of financial performance

2 Contract generation and review

Use of AI to elevate contract lifecycle — generate standard contracts with preferred terms and wording — monitor and review risk and profit of existing non-standard contracts.

Reduce levels of financial risk

3 Optimize quote to cash

Use of AI to analyze large volume datasets to identify patterns and trends for accounts receivable aging and delinquency rates.

Improved cashflow

4 Financial regulation compliance

Use of AI to condense new regulations (such as those related to GAAP, IFRS or tax) into key takeaways for business functions. Use of gen AI to improve financial crime compliance by aggregating data and creating an accurate portrait of each customer.

Identify and manage compliance risks

5 Benchmarking and peer analysis

Use of AI to analyze quarterly earnings reports (and other public documents) to extract competitor insights and understand trends to inform own strategic direction.

Understand better how you compare to the market

Potential benefits and productivity gains

Five emerging use cases of gen AI in HR

Some HR leaders recognize the role gen AI has in shaping the workforce of the future

Five gen AI applications in the HR function to improve employee experience and retention

1 Personalize onboarding

Create personalized onboarding plans, checklists, training and check-ins and welcome messages for new hires. Answer common questions and provide guidance on policies, procedures and benefits.

Streamline onboarding

2 Supercharge employee learning

Use of AI to develop engaging personalized learning at point of need. Individualized career advice that can improve employee satisfaction and engagement.

Match learning to requirements

3 Enhance recruitment experience

Create tailored job descriptions that align with organizational strategic goals. Generate screening questions and interview guides based on the role and requirements.

Recruit more effectively

4 human-centered employee support

Handle employee (or candidate) cases or questions in a timely and empathetic manner. gen AI can also initiatively route questions to the appropriate team(s), escalate immediately when needed, and respond in the correct language.

Enhance employee and candidate experience

5 Holistic and prescriptive workforce analytics

Use of AI to collate data from multiple sources to build more complete HR reporting and more in depth job data to inform workforce.

Understand complete picture of how HR and the workforce is performing

Potential benefits and productivity gains

Five emerging use cases of AI & gen AI in IT management

Improving IT delivery and return on IT investments

Five AI and gen AI applications in the IT management function that can help accelerate deployment and aid talent development

1 Improve service availability and performance

Using AI Ops and predictive maintenance to improve service performance through intelligent alerting, root cause analysis, anomaly and threat detection, auto-healing, automated patching, and capacity optimization capabilities.

Maximize availability to users

2 Drive innovation and faster feature development

Using gen AI code generation and TestOps capabilities for rapid prototyping to accelerate time to market for new features, while freeing up time to focus on discovery and innovation.

Deploy at market speed

3 Prevent security incidents and resolve them faster

Leveraging AI as force multiplier for SOC to enable faster threat detection and resolution, using advanced pattern detection capabilities for AI to take autonomous, preventative action, escalating for SOC validation where needed.

Reduce security incidents and risks

4 Automate IT documentation and scheduling

Using RPA and gen AI for IT knowledge asset development and management — e.g. for troubleshooting guides, end user FAQs, process documentation or job descriptions, or for IT workforce scheduling and optimization.

Increase IT productivity and reduce costs

5 Improve and personalize employee experience

Using AI-powered content search, customization and summarization capabilities with results personalized for different user personas. This involves using conversational AI to tailor training and end user support for different employee archetypes.

Upskill user and IT workforce and improve satisfaction

Potential benefits and productivity gains

Aligning gen AI with your functional transformation: a strategy for success

Offering point-AI solutions across different functional areas may provide short-term benefits, but it is unlikely to deliver significant long-term advantages. In fact, it could create a technology legacy problem in the future. Instead, a more strategic approach is recommended, in which gen AI can complement and enhance existing transformation initiatives and can be ingrained within the organization's operating and technology model.

Organizations that have undergone a transformation with KPMG Powered Enterprise are in the ideal position to exploit the KPMG Target Operating Model and integrate gen AI into their function. KPMG professionals can help establish how the organization's AI strategy is aligned with the overall vision, identifying the most impactful AI priorities within their function's processes. Following that, they can develop digital solutions focusing on those priorities to drive an AI-driven functional transformation.

KPMG firms' functional gen AI starts with the model answer, leveraging leading practice and pre-configured on the world's leading SaaS platforms. This approach to implementation of gen AI has numerous benefits, such as ensuring a strong connection between intelligent automation and essential processes, having a reliable data model that aligns with the business's needs, and an efficient organizational structure with the appropriate roles, capacities, and digital fluency to support the transformed function. This way, organizations can confidently operate within the established governance framework for that function, allowing for more effective decision-making opportunities.

> "The number of businesses with leadership buy-in for emerging tech has more than tripled, from **10 percent to 38 percent in 2023.**"
>
> Source: KPMG 2023 global tech report

Media attention has highlighted the reputational risks brands can face when using gen AI if not implemented correctly. Therefore, proper planning and testing should be conducted before deploying this technology. It is crucial to fully understand ethical, cyber, IP and other considerations before proceeding.

KPMG's approach can help organizations reduce risk by adopting KPMG's leading gen AI practices. Through the KPMG Target Operating Model, AI capabilities are already designed and integrated into the approach, with possible impacts considered across all six layers.

Governance

Adapting to reflect emerging gen-AI-related governance structures, e.g. Responsible AI principles

Performance insights and data

Adapting the data architecture to enable gen-AI-centric data intelligence to allow for more compelling storytelling

Technology

Extending the technical architecture to include gen AI tools and technologies. Highlighting new AI capabilities that are created by cloud platforms, including impact on the existing technical footprint

Functional process

Enhancing the point of view of 'what good looks like' deep into the maturity model to reflect the impact of gen AI. Augmenting the vast selection of leading practices to bring them to life with gen AI and reflect Responsible AI principles. Reflecting the highest impact uses of gen AI throughout the role-based process flows

People

Highlighting new labor roles used throughout the function as well as the capabilities needed to support their use

Service delivery model

Reshaping to account for service delivery through automation and reflect potential impact of digital labor on shared service centers and centers of excellence

Effective implementation of gen AI relies heavily on data readiness. To achieve optimal results when implementing gen AI, businesses must focus on the Performance Insights & Data Layer of the Target Operating Model. However, most organizations may need to undertake significant work surrounding their data before fully capitalizing on its potential. Therefore, it is crucial to work alongside advisors who possess the right combination of data skills and experience to maximize the capability of data within an AI-enabled function.

Data strategy

Robust framework to capture the business use cases, model inventory, model limitations and any net new risks can help to enable firms to more closely align the business ambitions with the use of these technologies to demonstrate value while complying with relevant regulations and legislations including ethical considerations.

Data management, governance and lineage

Clear data accountability including well-defined roles and responsibilities in sourcing, processing and distributing the data. Track Data Lineage and Data Catalogue to enable better discoverability and improve on understanding of the data to help ensure its used for the right purpose here.

Data architecture

Having a highly interoperable and seamless integration between the various platforms in your ecosystem can reduce data friction and enable quicker access to the data needed.

Data quality

Clearly defined single sources of data truth can help to ensure there is a baseline of ‘clean’ and reliable data to use. Large quantities of good quality data is needed to effectively ‘train’ your AI-based model/machine to automate processes and produce desired outputs such as security classifications, trend analysis and prediction generation.

Data enablement and literacy

Secure buy-in from senior stakeholders to be ‘ambassadors’ of the benefits of data and AI in order to drive adoption and embed a culture of good data practice and innovation. Build data literacy with user communities to democratize the power of good data and its ability to power technologies such as AI and ML.

The wider transformation picture

The KPMG Powered Enterprise transformation methodology is highly adaptable to gen AI, enabling businesses to deliver this technology seamlessly across their crucial front, middle and back-office functions. Our methodology excels in areas such as vision, data architecture, talent development and value realization, intercepting emerging technology as well as providing a sound framework for deploying (and maintaining) Responsible AI.

Vision

Foundation

Develop and align stakeholders around a common vision of a future target operating model with gen AI. Understand what insights you want to achieve and what data will be needed.

Validate

Defining and validating the detailed target operating model to successfully transform with gen AI

Adapting your operating model and underlying data architecture as appropriate. Be clear about what you are going to do and when, and have a clear idea of data quality issues.

Construct

Building and testing the AI-embedded solution

Ready your team for working with AI. Skills can then evolve towards 'knowing what to ask'. Build and test each design layer of the target operating model using an iterative testing process.

Deploy

Value realization

Deploy the approach and implement the target operating model to users. Have a mechanism for capturing the expected benefits to justify the investment and future projects.

Evolve

Continuous innovation

To get lasting value beyond implementation, use gen-AI-enabled managed services for ongoing process optimization, data management, analytics, and agile adaptation to market change. Create a model for capitalizing on emerging innovation, while managing cross-functional impacts.

Responsible AI

Be able to demonstrate to stakeholders that you have deployed AI in a way that is explainable, reliable and fair — and continually regulates its ongoing use in the organization.

How KPMG professionals can help

KPMG firms believe that the full potential of AI can only be achieved when its power is combined with human experience and creativity, underpinned by the foundational principles of trust. This will allow business models to be changed and value to be accelerated, unleashing new opportunities for growth and success.

KPMG's experienced professionals can help guide organizations through enabling responsible gen AI and implementing other leading practices that drive change and transformation across the organization. This includes optimizing operating models or launching the necessary transformation initiatives to drive organization-wide change.

With a dedication to helping organizations recuperate their investment in AI/gen AI, KPMG firms leverage their advisory capabilities and managed services to drive strategic outcomes for the transformation of core organizational functions. The KPMG team's approach to functional transformation focuses on achieving measurable results while enhancing organizational performance.

For organizations that have a modern ERP platform but have not yet invested in a modern target operating model, KPMG professionals can guide you through an operating model-led transformation. This can help bring KPMG leading practices together with gen-AI-enabled processes.

For organizations that haven't yet undergone a KPMG Powered Enterprise transformation, still running on legacy software, or early on in their transformation journey, KPMG professionals can help you through a transformation with Powered Enterprise, enabled by gen AI, on the leading cloud platforms such as Microsoft, Oracle, SAP and Workday.

For organizations that have a modern ERP and operating model but want to continually optimize them for long-term value, KPMG firms offer managed services through KPMG Powered Evolution. These services combine advanced technology and human experience to help you absorb software updates, integrate data and systems, and drive ongoing return from your cloud investment.

KPMG Powered Enterprise brings a collection of advanced tools, platforms and accelerators that help organizations to manage change, implement digital-first and keep improving. KPMG Powered Enterprise and the KPMG Target Operating Model are designed to reflect that transformation should be a continuous process of evolution, while intercepting technologies that can be revolutionary.

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For more information on how KPMG is using Generative AI to transform member firms' own processes, and our approach to transformation, click the links below:

Leveraging Generative AI in the workplace

KPMG Target Operating Model — KPMG Global

KPMG Trusted AI

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