Top global market trends and predictions for 2016 and beyond

Key findings from KPMG's Global Sourcing Advisory 4Q2015 Pulse Survey

About the survey

KPMG's Shared Services and Outsourcing Advisory practice is pleased to release key findings from its 4Q15 *Sourcing Advisory Pulse survey*.

KPMG's Global Sourcing Advisory Pulse surveys are a quarterly review of Global Business Services (GBS) market trends in both developed and emerging economies. The survey is based on input and observations from over 1,000 KPMG sourcing advisors speaking on behalf of their clients and the leading business, IT, and cloud service providers.

In the fourth quarter of each year, KPMG expands the scope of the survey to include not only global sourcing trends but also insights from consultants across all of its Advisory practices on a broad range of global business, technology, and socioeconomic market trends. Accordingly, this report discusses major trends and predictions for 2016, as well as various ways in which organizations can benefit from improved global sourcing capabilities such as GBS.
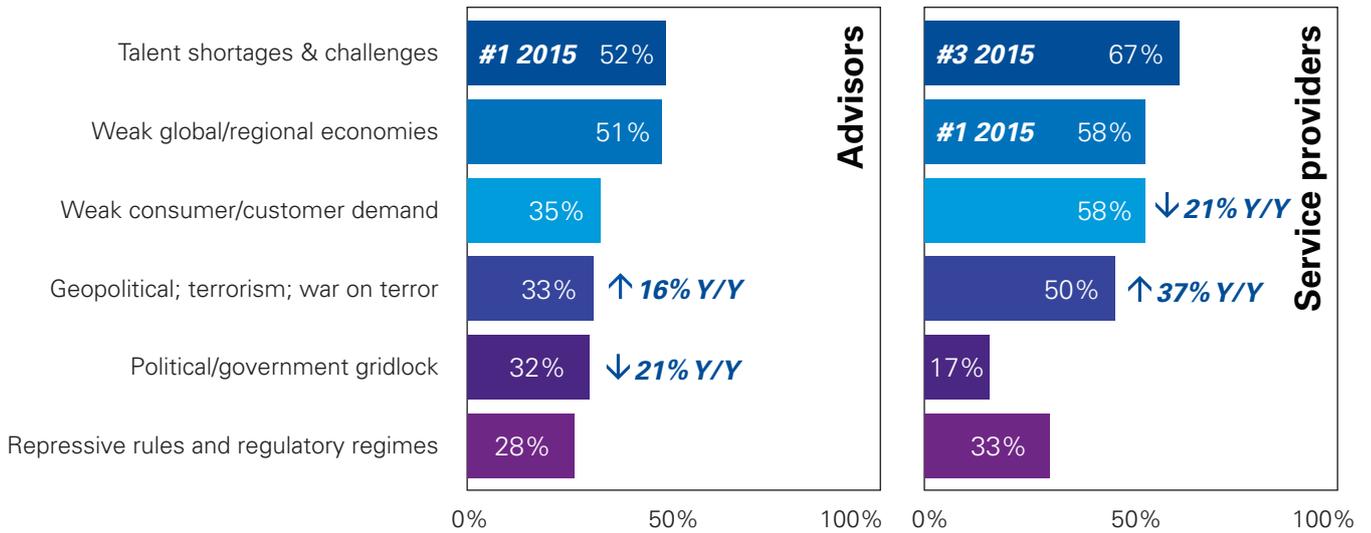
> Many of the top trends and predictions identified — particularly negative trends, challenges and enablers for top initiatives — are tied closely to global sourcing in general and GBS in particular. The need to continually reduce costs, address talent gaps and talent management shortages, exploit Big Data, and efficiently implement innovative technology are all efforts that GBS organizations and capabilities can enable and support. Consistent global operating models, standardized global process support through the integration of underlying technology applications and systems, strong governance structures, and highly leveraged and utilized global talent pools are all components of a competitive business model in the market today. They are also core elements of a successful GBS organization. When organizations assess how best to respond to negative challenges in the market, exploit positive ones, and successfully undertake critical initiatives, GBS should be top of mind as one of several key enablers.

David J. Brown, Partner, Global Lead, Shared Services and Outsourcing Advisory, KPMG

Twenty percent of organizations view a move to a GBS operating model structure in 2016 as a strategy to address the current market trends.

Source: KPMG, *GBS Maturity Research Study*, 2014–2016

2016 trends with biggest negative impact on user organizations

Advisors

Talent shortages & challenges	*#1 2015* 52%
Weak global/regional economies	51%
Weak consumer/customer demand	35%
Geopolitical; terrorism; war on terror	33% ↑ *16% Y/Y*
Political/government gridlock	32% ↓ *21% Y/Y*
Repressive rules and regulatory regimes	28%

0%   50%   100%

Service providers

Talent shortages & challenges	*#3 2015* 67%
Weak global/regional economies	*#1 2015* 58%
Weak consumer/customer demand	58% ↓ *21% Y/Y*
Geopolitical; terrorism; war on terror	50% ↑ *37% Y/Y*
Political/government gridlock	17%
Repressive rules and regulatory regimes	33%

0%   50%   100%

Source: KPMG's Global Sourcing Advisory 4Q2015 Pulse Survey

Talent challenges

As in 2014 and 2015, survey respondents were most concerned about talent shortages and talent management. This was especially the case with advisors supporting global efforts and those operating in North and South America. These concerns were accompanied by the prospect of continued weaknesses in global economies and certain consumer markets.

These challenges — and especially those involving talent — are not cyclical and will not diminish any time soon. They are a "new norm" and any organization's strategic and operational plans and models must address them.
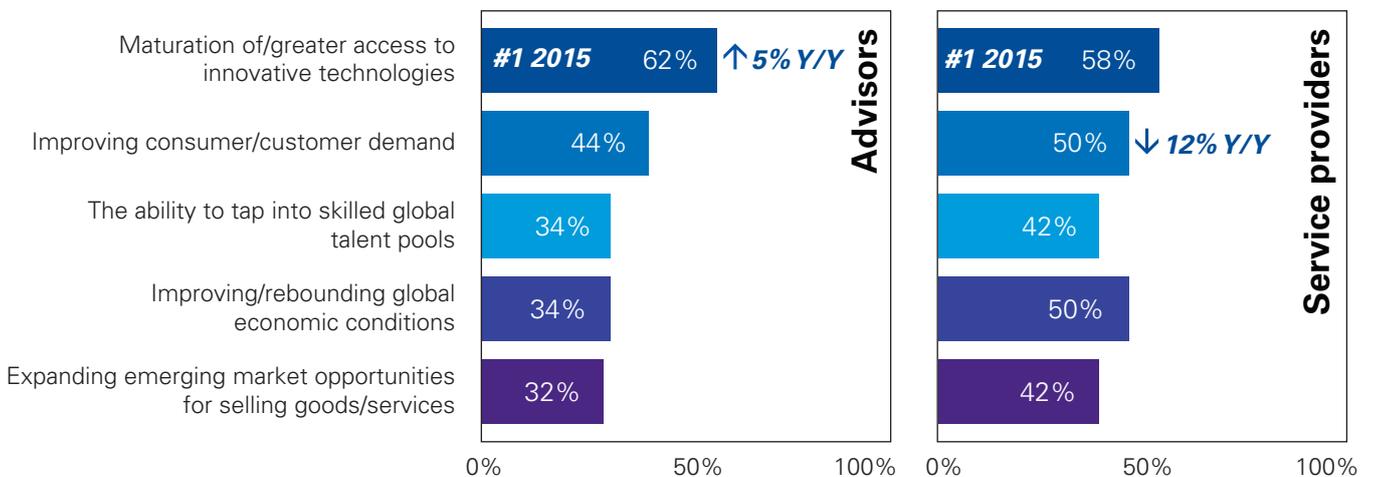
It is also highly likely that negative geopolitical events, political gridlock, and overregulation will continue to grow as challenges, often in an intertwined manner, and thus must also be factored into business strategies and models.

> If organizations don't have the right talent, they can't exploit the new technologies required to address such initiatives as Big Data.

Stan Lepeak, Global Research Director, Management Consulting, KPMG

2016 trends with biggest positive impact on user organizations

Advisors

Maturation of/greater access to innovative technologies	*#1 2015* 62% ↑ *5% Y/Y*
Improving consumer/customer demand	44%
The ability to tap into skilled global talent pools	34%
Improving/rebounding global economic conditions	34%
Expanding emerging market opportunities for selling goods/services	32%

0%   50%   100%

Service providers

Maturation of/greater access to innovative technologies	*#1 2015* 58%
Improving consumer/customer demand	50% ↓ *12% Y/Y*
The ability to tap into skilled global talent pools	42%
Improving/rebounding global economic conditions	50%
Expanding emerging market opportunities for selling goods/services	42%

0%   50%   100%

Source: KPMG's Global Sourcing Advisory 4Q2015 Pulse Survey

Technology enablement

This year's top positive trends once again include the use of innovative technology and the increased ability to leverage pools of highly skilled talent on a global basis. There is a great deal of potential for organizations that can successfully exploit innovative technologies such as Big Data, Robotics Process Automation (RPA), and the cloud.

However, for many organizations, technology-based innovation is still very much a work in process — and for some only wishful thinking. Early-stage planning and development is not the same as implementation.

For example, Big Data can make organizations much smarter in their decision-making, but only if they have the talent to manage, interpret, and then apply this data to business problems. Leveraging Big Data usually requires a significant upgrade in skills in both the business and IT sides of the organization. In the same way, RPA holds great potential over the long term to improve process efficiencies and lower operating costs, but high-end RPA is still in its infancy, and new skills are required to operate and exploit RPA platforms.
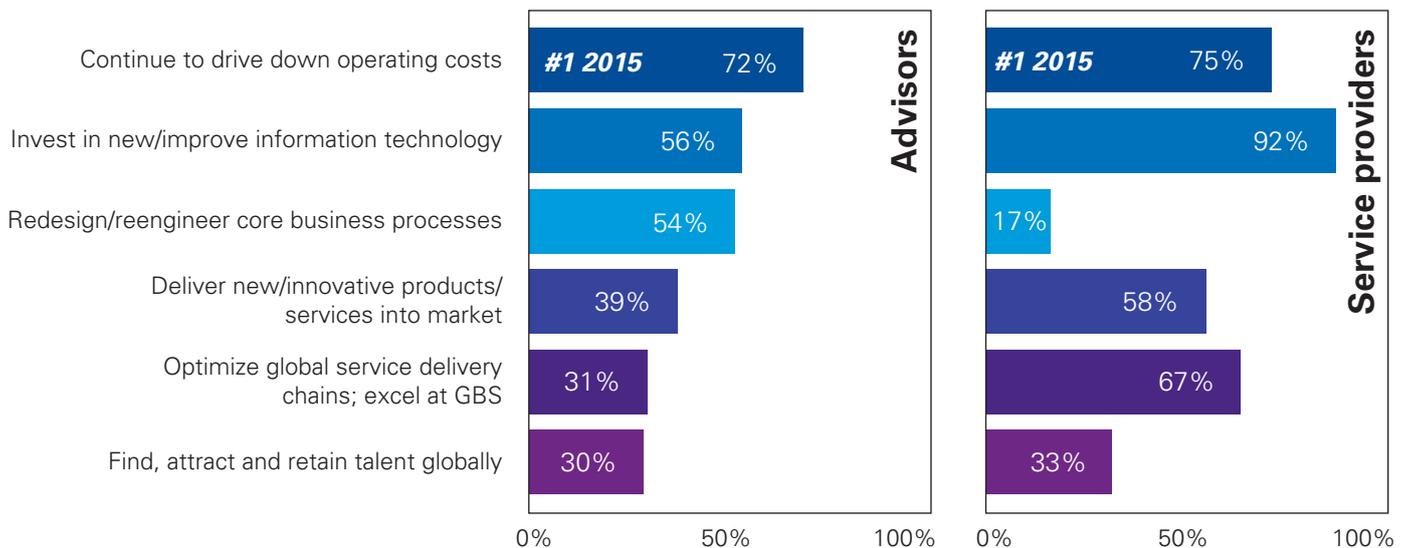
In short, technology enablement will include both benefits and challenges related to change management, organizational structuring, and even political and socioeconomic developments as firms, markets, and governments address a potentially massive shift in what is needed to support a competitive and sustainable workforce.

> Organizations need skilled talent on the back end for implementation, but they also need front-end support from information architects to help guide the technology investment toward bottom line results.

Stan Lepeak, Global Research Director, Management Consulting, KPMG

Top 2016 user organization initiatives

Advisors

Initiative	Value
Continue to drive down operating costs	#1 2015 — 72%
Invest in new/improve information technology	56%
Redesign/reengineer core business processes	54%
Deliver new/innovative products/services into market	39%
Optimize global service delivery chains; excel at GBS	31%
Find, attract and retain talent globally	30%

Service providers

Initiative	Value
Continue to drive down operating costs	#1 2015 — 75%
Invest in new/improve information technology	92%
Redesign/reengineer core business processes	17%
Deliver new/innovative products/services into market	58%
Optimize global service delivery chains; excel at GBS	67%
Find, attract and retain talent globally	33%

Source: KPMG's Global Sourcing Advisory 4Q2015 Pulse Survey
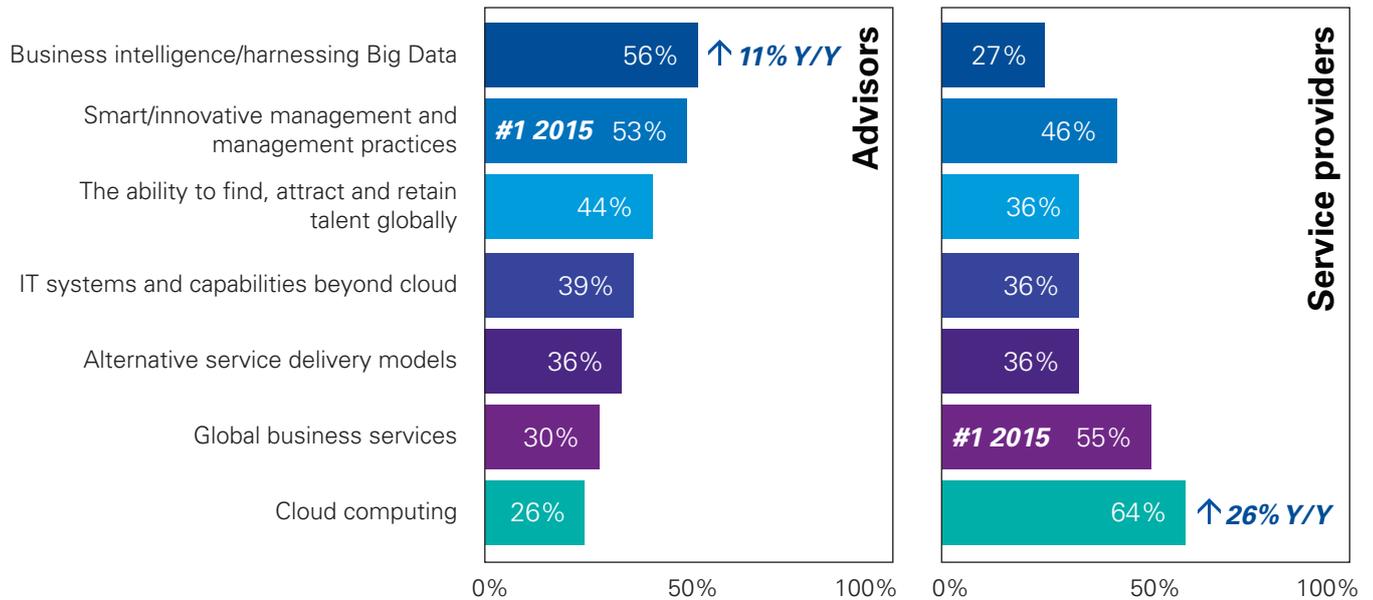
Cost reduction

In today's business environment, cost reduction is more than just squeezing suppliers or shaving a few percentage points from expenses. Organizations have to spend money to save money.

This is the central paradox shown by the chart above. Although the top initiative is about driving down costs, the next three require expenditures to execute, especially the second initiative (investing in new technologies) and the fourth (delivering innovation). To cost-justify these expenditures, organizations must invest in ways that help ensure quick wins and relatively short payback periods.

Some examples of this include migrating existing applications to the cloud, jettisoning costly legacy systems, adopting new cost-efficient technology, and working with business partners to share costs. The key point is to remain realistic and make sure all relevant parties including business units, IT, and management are in sync with their plans and goals.

Top capabilities required to successfully undertake 2016 initiatives

Advisors

Capability	Advisors
Business intelligence/harnessing Big Data	56% ↑ *11% Y/Y*
Smart/innovative management and management practices	*#1 2015* 53%
The ability to find, attract and retain talent globally	44%
IT systems and capabilities beyond cloud	39%
Alternative service delivery models	36%
Global business services	30%
Cloud computing	26%

Service providers

Capability	Service providers
Business intelligence/harnessing Big Data	27%
Smart/innovative management and management practices	46%
The ability to find, attract and retain talent globally	36%
IT systems and capabilities beyond cloud	36%
Alternative service delivery models	36%
Global business services	*#1 2015* 55%
Cloud computing	64% ↑ *26% Y/Y*

Source: KPMG's Global Sourcing Advisory 4Q2015 Pulse Survey

The 2016 plan — challenges and required capabilities

Large, global organizations often struggle to be nimble. They need seasoned executives and staff resources to take advantage of the latest and greatest technology. But worldwide demographics, inadequate educational systems, and the changing tastes of millennial workers mean that talent shortages and the war for talent are here to stay. Addressing these points requires organizations to ask the hard questions — How to shake up talent and talent management models to better find, train, and nurture resources? How to identify and reduce the number of underperformers? And, if organizations want to invest in new technologies such as RPA, is the right talent in place to support these investments?

In terms of capabilities required to successfully undertake 2016 initiatives, Big Data rose to the top this year, and the recurring theme of talent increased in importance. Big Data has great potential, but it is more about having the people to exploit it than the technology itself.

Five key takeaways

— The current war for talent is not part of a business cycle but rather the new norm for global organizations. The same can be said for the continued importance of innovative technology.

— Talent and technology are intertwined — organizations will need tech-savvy workers who have the analytic capabilities, background, and training to take advantage of today's technology.

— Organizations will have to spend money through technology investments to save money through systems that are more cost-efficient.

— Organizations will need to be realistic and focused in their selection of new technology and markets.

— Big Data/Business Intelligence will be the most important technological enabler required to successfully undertake 2016 initiatives.

To learn more about KPMG's 2016 sourcing trends and predictions, and the impact of or potential strategies for response, please contact:

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