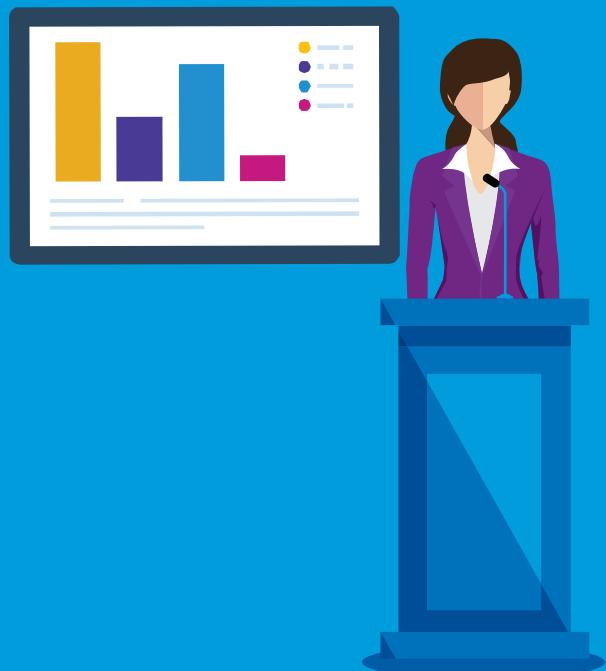




Top trends and predictions for 2017

KPMG Global Insights Pulse

Q4 2016



KPMG International

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About the survey

The KPMG Shared Services and Outsourcing Advisory practice is pleased to release key findings from its KPMG 4Q16 Global Insights Pulse survey. The Shared Services and Outsourcing Advisory practice has a specialized team of more than 1,000 professionals within KPMG's global network of independent member firms operating in 155 countries.

KPMG Global Insights Pulse surveys are a quarterly review of global business services (GBS) market trends in both developed and emerging economies. The surveys focus on identifying and interpreting key market conditions, characteristics and best practices in all areas of shared services, outsourcing and third-party business and IT services.

Summary - Key findings

Survey topics

- **Negative trends**
- **Positive trends**
- **Organizational initiatives**
- **Process and technology investment areas**
- **Market sentiment**

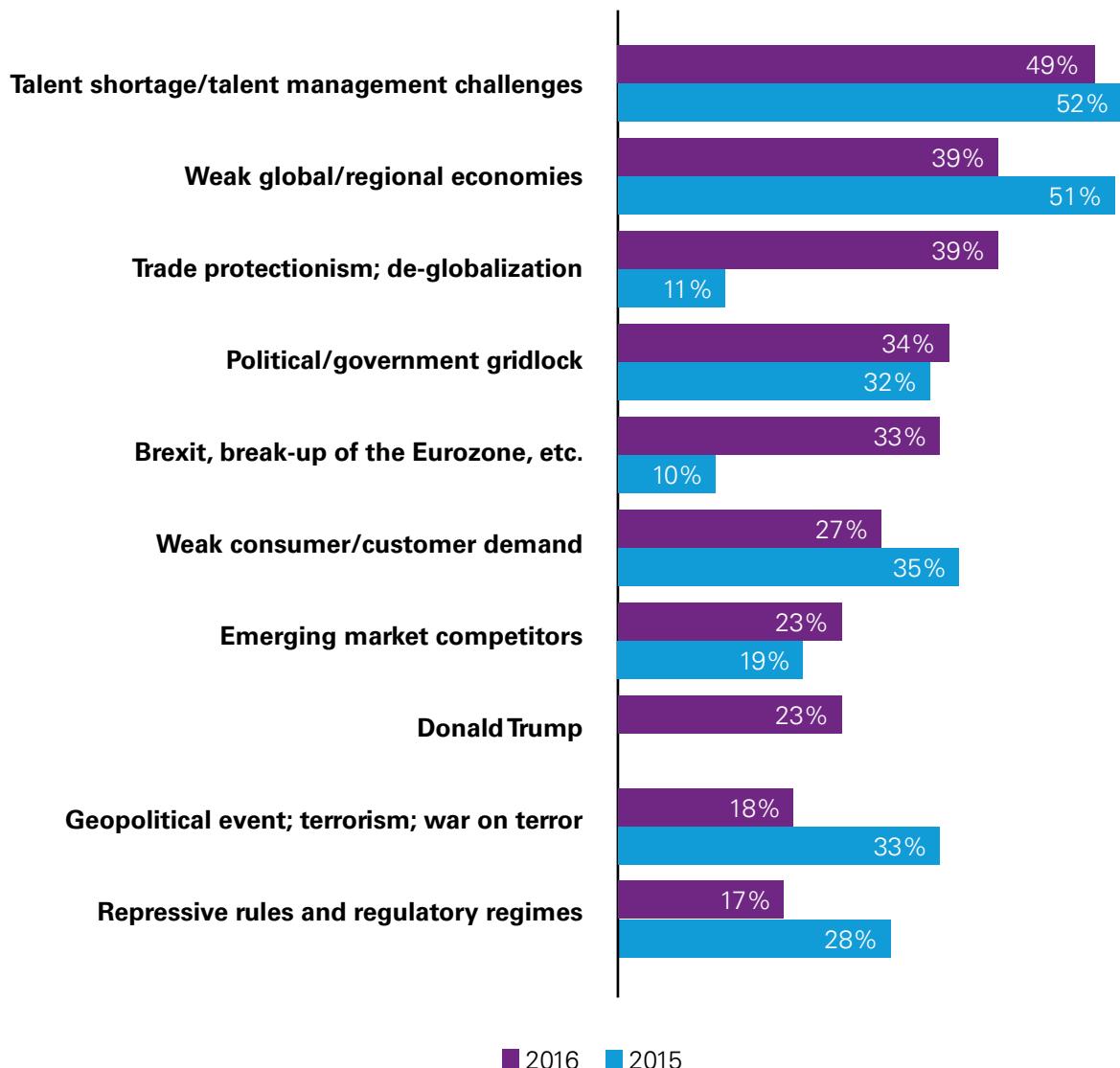
The 4Q16 survey showed a measured but growing optimism regarding global economic conditions in 2017. Compared with last year, fewer respondents cited a weak economy or inadequate IT infrastructure as negative trends.

There is still concern related to increased skilled talent shortages, increased trade protectionism, political gridlock, and President Trump. However, respondents showed increased optimism overall about market growth and reduced regulations, especially in the US and parts of Europe.

Businesses are also encouraged by the benefits gained through innovative technologies such as data and analytics, cloud computing, and process automation. These technologies are seen as an effective way to address market challenges, enhance product and services, and manage talent shortages — all while helping to lower operating costs.

Top negative trends

Talent shortages, weakening economies, and trade protectionism



Source: KPMG Global Insights Pulse survey, 4Q 2016

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Although talent is still a big issue, it's significant that talent concerns were slightly less in 2016 than in 2015. Many factors are involved, but process automation certainly plays a big role in this trend. Just as mechanical robotics have automated blue collar jobs in manufacturing, process automation and cognitive intelligence systems are affecting white collar jobs such as back office clerical functions and customer support at call centers. By all estimates, the digitization of labor will be a game changer in global markets for decades to come.

- David Brown

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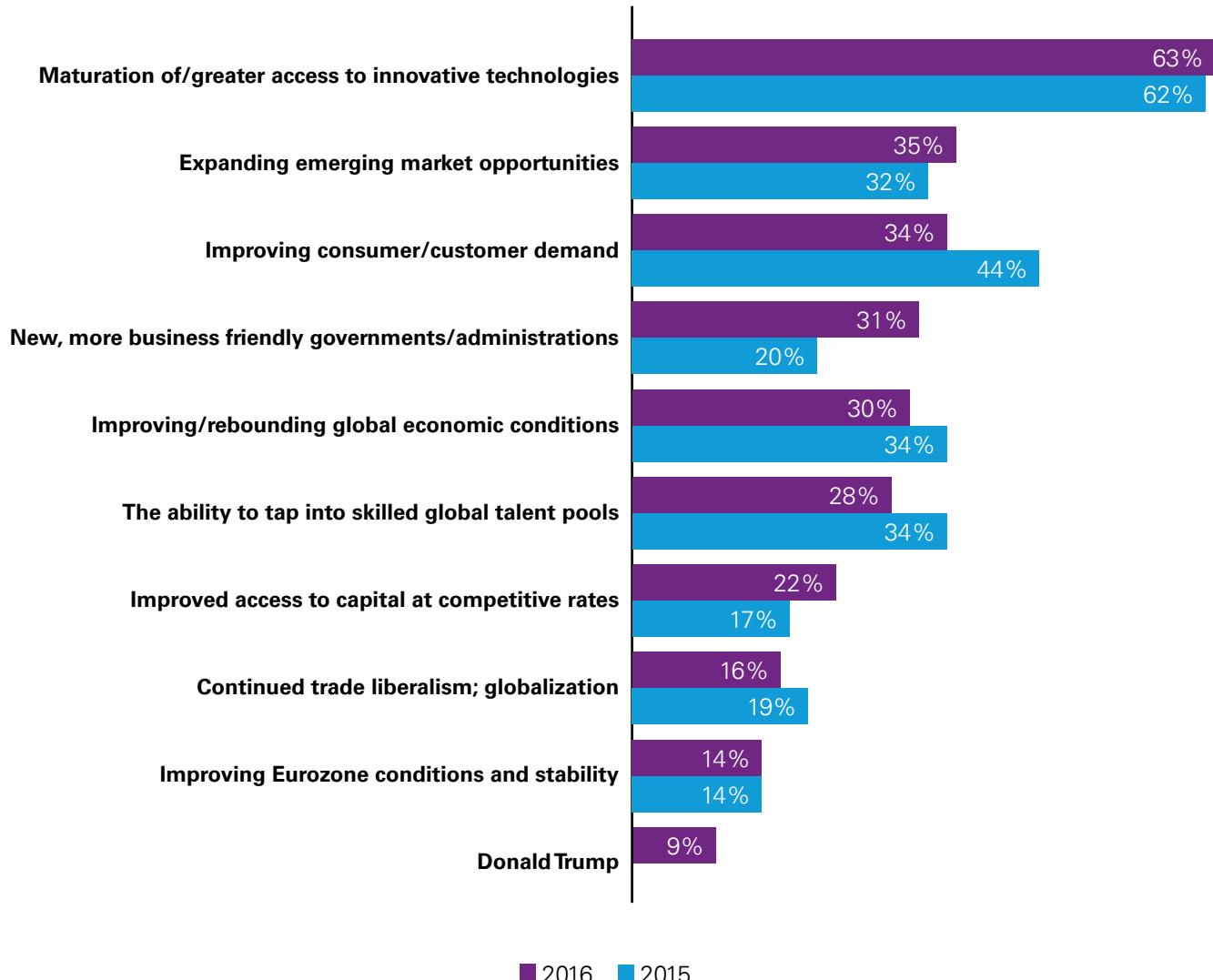
For the past three years, the top two negative trends — talent scarcity and economic uncertainty — have remained the same. Compared with 2015, respondents in 2016 were slightly less concerned about talent issues, but the topic was still ranked number one, especially with multinational organizations. In 2015, respondents were still alarmed by the prospects of a double-dip recession, accompanied by reduced customer demand. By 2016, a weak global or regional economy was still ranked second, but the survey suggested a growing confidence in the economy and overall prospects for growth.

The areas that showed the greatest change from 2015 to 2016 included trade protectionism, Brexit, the possible breakup or realignment of the European Union, and what might be called the de-globalization of the world's economy. Trade protectionism concerns were strongest in North America, driven by uncertainty about Donald Trump and a possible renegotiation or rejection of international trade agreements such as NAFTA.

Terrorism was considered less of a threat, and respondents placed "repressive rules and regulatory regimes" much lower on their list of negative trends, suggesting that they expected governments such as the US would be adopting a more business-friendly stance in 2017.

Top positive trends

Innovative technology, emerging markets, and improved demand



Source: KPMG Global Insights Pulse survey, 4Q 2016

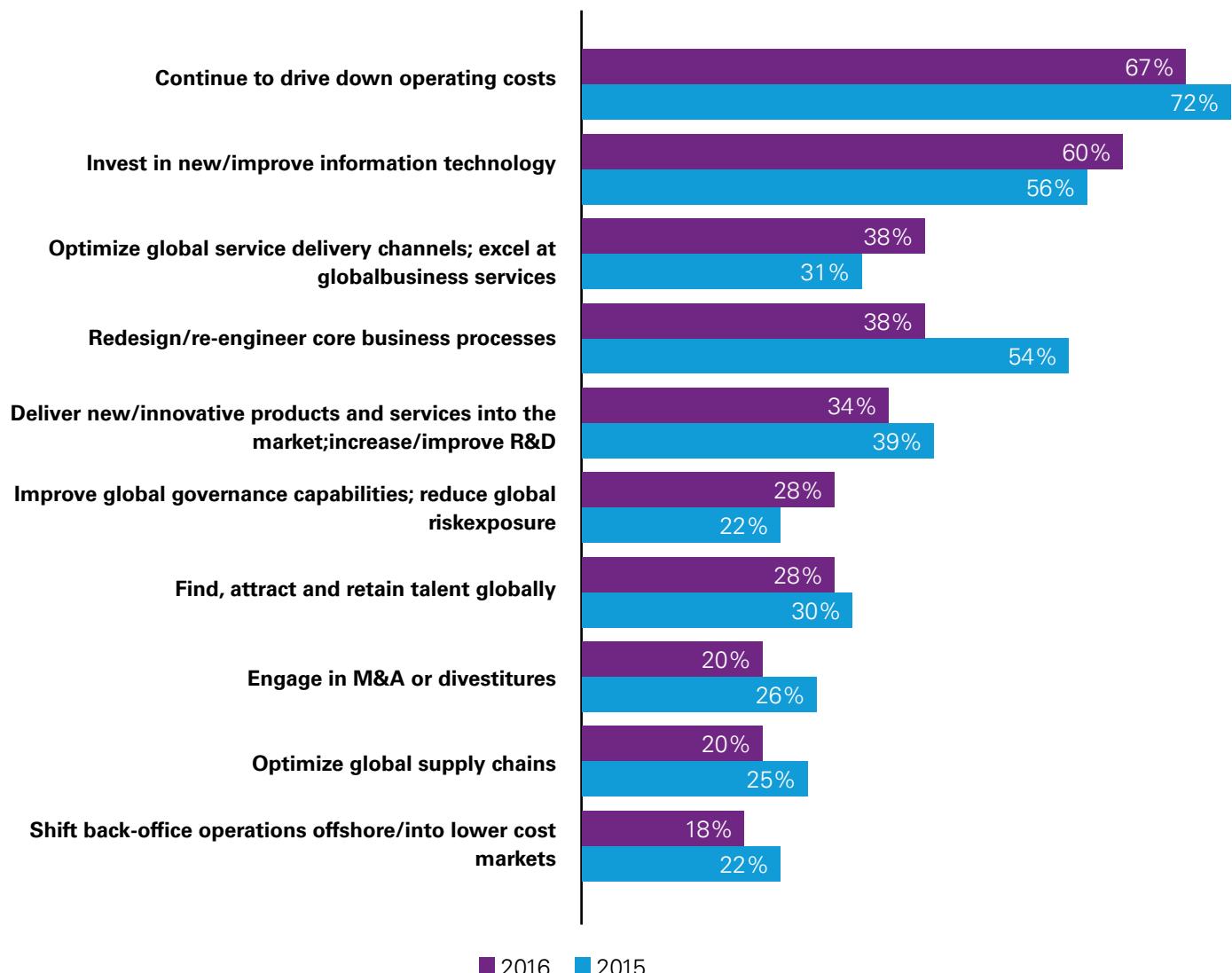
Innovative technology retained its ranking as the trend with the biggest positive impact. Organizations continue to realize the benefits of process automation to reduce costs, improve customer service, and address talent shortages. Process automation is also being integrated with cognitive intelligence capabilities to provide end-to-end solutions.

This technology is used by many organizations to support growth opportunities in emerging markets, a positive trend that has moved from the fifth to the second rank in the past year. Process automation is being used to support service facilities like call centers and to provide services directly to the local populations.

North American organizations are especially bullish on the possibility of tapping into global talent pools, and respondents overall were decidedly more optimistic this year about new, business-friendly government policies and regulations.

Top user organization initiatives

Reduce operating costs, improve IT, and enhance global services



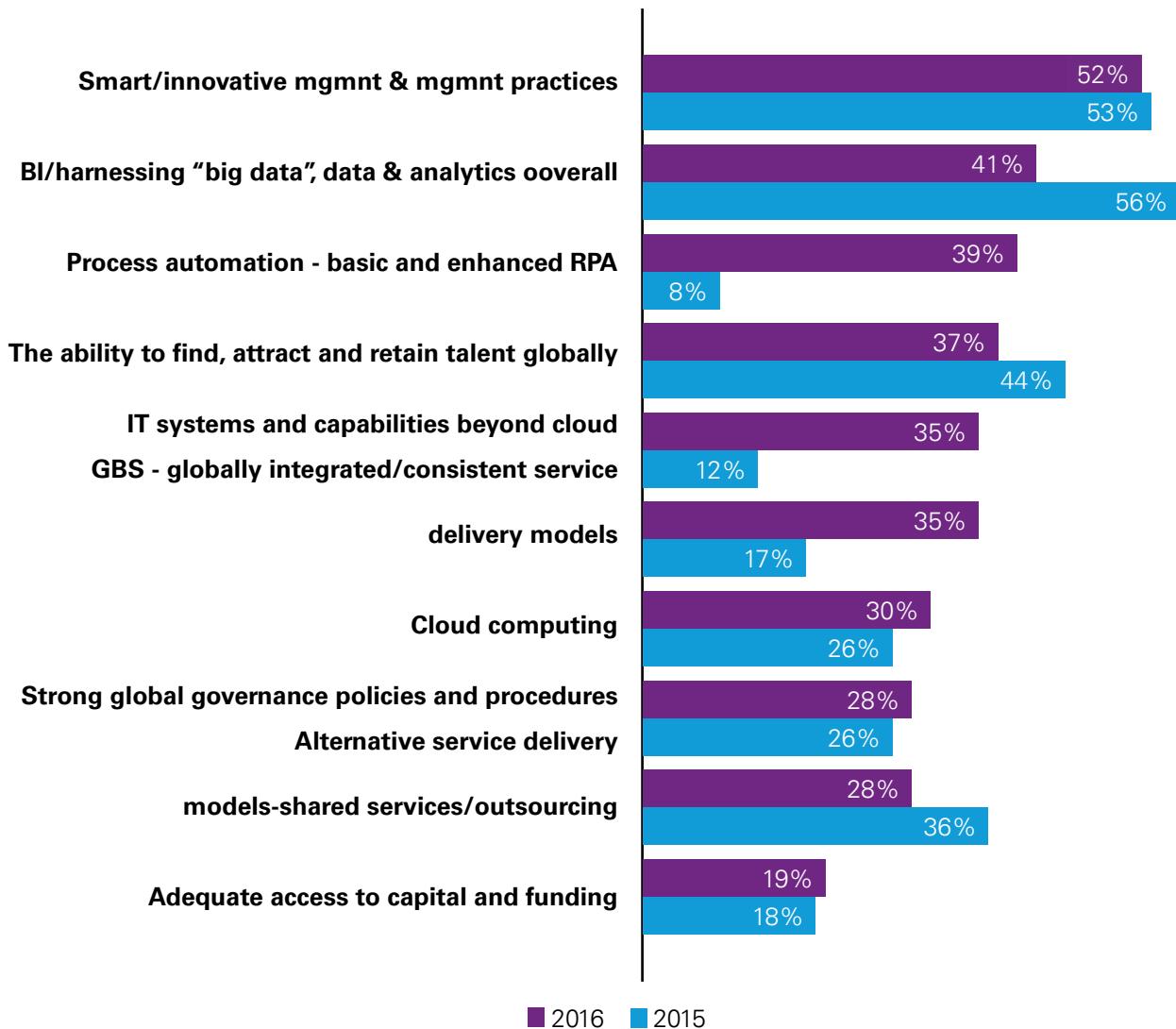
Source: KPMG Global Insights Pulse survey, 4Q 2016

Compared to last year, cost reduction and IT investments maintained their top ranking for respondents. In many areas, IT was cited as a way to lower costs by enabling the shift of back-office operations to off-shore locations or into lower cost markets. At the same time, respondents were fully aware of the threat of de-globalization driven by nationalism, protectionism, and shifting political alliances. A business model that included a call center in Southeast Asia, for example, might have to be reconsidered in the light of newly elected leaders in developed economies.

The need to optimize global service delivery models and excel at GBS moved up from number five to number two in importance. KPMG has found that adoption of GBS as the preferred service delivery model is a high priority for most large companies today. The model includes a collective set of resources, capabilities, and systems to deliver integrated support services such as IT, finance and accounting, human resources and procurement across an organization. Implementation can be a challenging process, but the high ranking of GBS as an initiative suggests continued support and development of this service model.

Top capabilities required to successfully undertake initiatives

Smart management, big data and analytics, and process automation



Source: KPMG Global Insights Pulse survey, 4Q 2016

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One of the good things about innovative technology is that adoption doesn't have to be a linear progression. Companies might leapfrog the competition by, for example, moving directly to cognitive intelligence solutions without going through the initial step of process automation. However, the possible downside of rapid adoption is where processes and people can't keep pace with change, causing a level of disruption that might cancel out any productivity or efficiency gains. Companies need a strategic and comprehensive roadmap to guide technology adoption across the enterprise.

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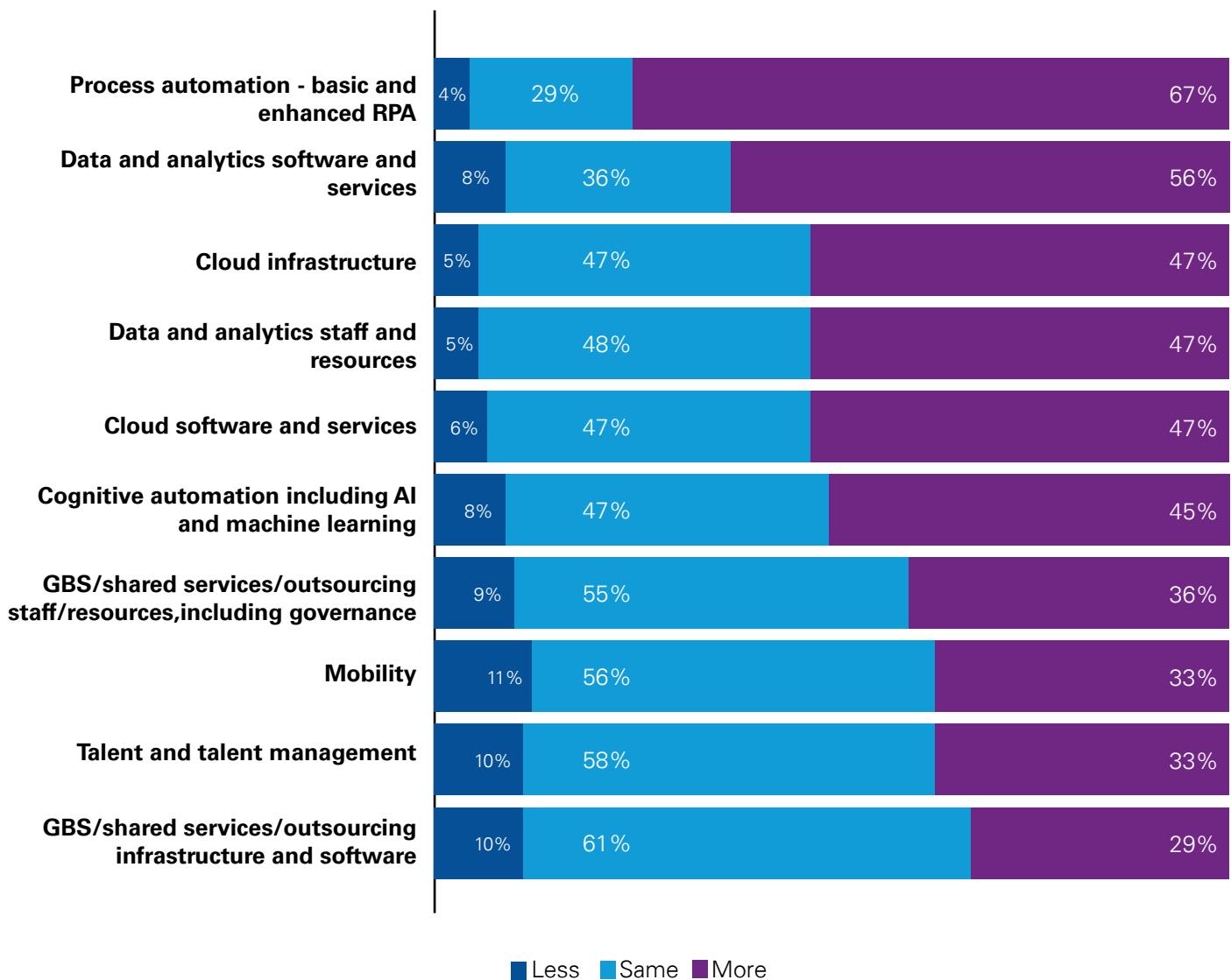
- Lee Ayling

Just as respondents spoke candidly about the challenges of poor management, they emphasized the importance of smart management in the successful implementation of initiatives. Process automation, including robotic process automation, saw a sharp increase in importance over 2015, suggesting that automated services continue to expand in the size and number of implementations.

Trends in investments for data and analytics remained stable. Respondents still place the greatest emphasis on analytic tools for business intelligence, business process management and enterprise performance management. Talent with data and analytic skills along with foundational infrastructure capabilities were in a virtual tie for second place.

Third party analytical services and the acquisition of firms providing data and analytics tools/services trailed this list, suggesting that most organizations prefer to keep their data and analytics capabilities in-house.

Investment appetite for 2017 versus 2016



Showing how responses can not only change but also reverse direction in a year, process automation went from second to last as an investment area in 2016 (see chart above) to the most attractive investment possibility for 2017.

Source: KPMG Global Insights Pulse survey, 4Q 2016

Actions to consider

Based on data from the Global Insights Pulse Survey, current events, and information gathered from the field, KPMG professionals recommend that organizations consider the following actions in 2017:

- Assess your current and future outsourcing strategies. Key factors include changes in labor arbitrage, the impact of process automation, market growth, and tax implications of off-shoring versus on-shoring.
- Evaluate your strategic people agenda in terms of recruitment, training, succession planning, and possible shortages of skilled talent.
- Develop different scenarios that describe the possible growth of protectionism and its impact on your organization. With a new administration in the US, companies need to carefully consider the possible impact of changes in trade laws, the imposition of heavy tariffs, currency market volatility, and a realignment of economic partnerships between companies and nations.
- Review your current tax position regarding off-shoring. Consider the implications of possible changes in government policies and incentives.

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