KPMG

Building solutions for digital disruption

Not if, but how

KPMG Global Insights Pulse
Q1 2017

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 Q1 2017 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 leading practices in all areas of shared services, outsourcing, and third-party business and IT services.

Summary – Key findings

— Addressing digital disruption is a top priority for organizations but where to start remains elusive.

— As with last year's Pulse survey on digital disruption, organizations remain concerned about how best to address digital disruption and enable digitization. But many are still focused primarily on tactical benefits such as reduced headcounts and operating costs.

— Compared to the 2016 survey, organizations less often cited limited IT systems as a barrier to digitization. In fact, implementing technology that supports basic process automation is the easy part. The hard part is deciding how to use this technology to support more strategic goals.

— Robotic process automation (RPA) remains a clear automation choice to reduce costs, but organizations are also showing more interest in cognitive automation. A key question here is how and where organizations should implement cognitive solutions to address their specific business needs.

— Organizations need the right vision and, oftentimes, better and different internal skills to capitalize on digitization.
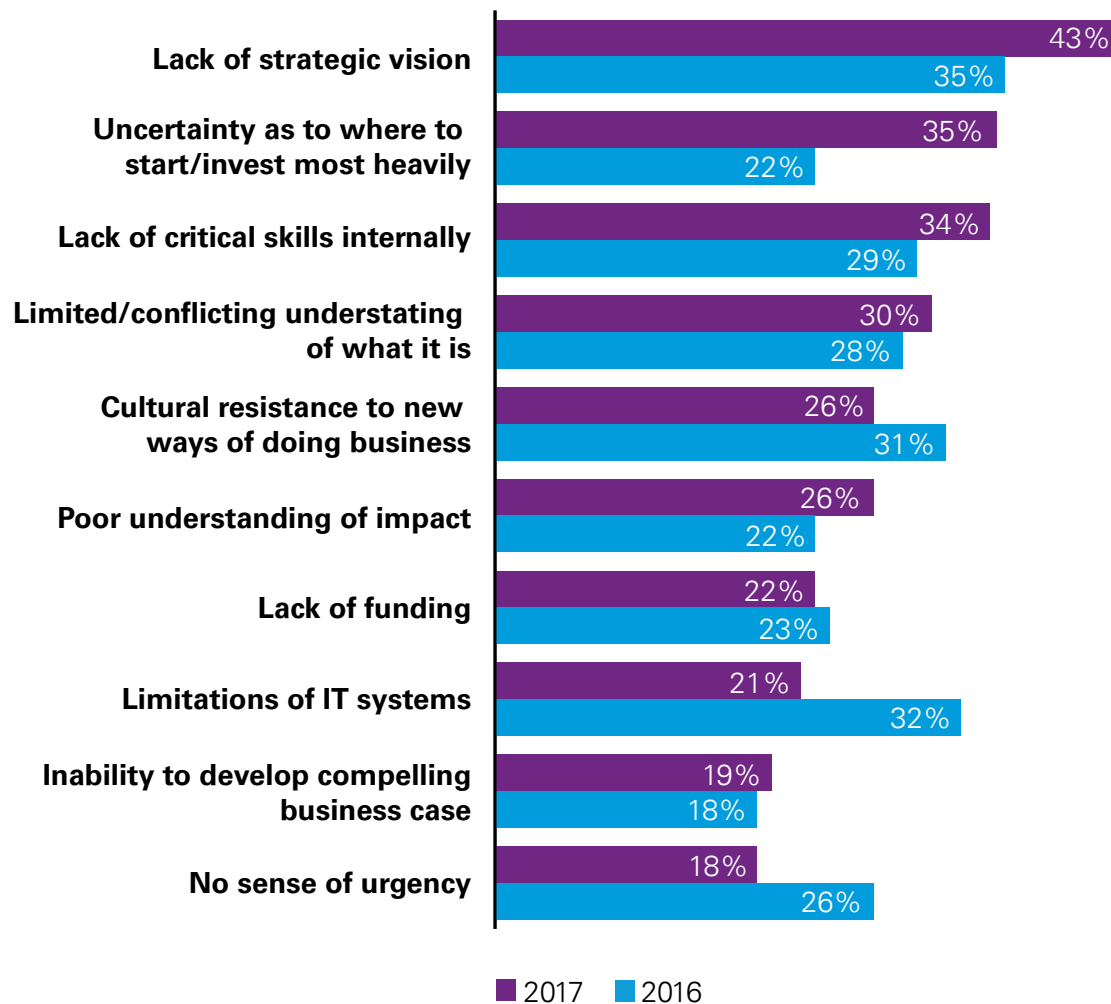
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"The technology is not the hard part. Deciding how to use it and when to implement it is the hard part. Organizations need both long-term digital strategies and plans as to how they will execute those strategies with specific applications. Lack of action is not a viable option."

— David Brown
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The digital disruption paradox continues

Top 10 biggest challenges to digitization

Challenge	2017	2016
Lack of strategic vision	43%	35%
Uncertainty as to where to start/invest most heavily	35%	22%
Lack of critical skills internally	34%	29%
Limited/conflicting understating of what it is	30%	28%
Cultural resistance to new ways of doing business	26%	31%
Poor understanding of impact	26%	22%
Lack of funding	22%	23%
Limitations of IT systems	21%	32%
Inability to develop compelling business case	19%	18%
No sense of urgency	18%	26%

■ 2017 ■ 2016

Source: KPMG Global Insights Pulse survey, Q1 2017

In March 2017, KPMG conducted a global survey of its own practitioners on the topics of digital disruption and digitization. All major markets were represented. Many results were similar to those in last year's survey. This is not surprising given that a number of issues and opportunities involving digital disruption remain largely the same.
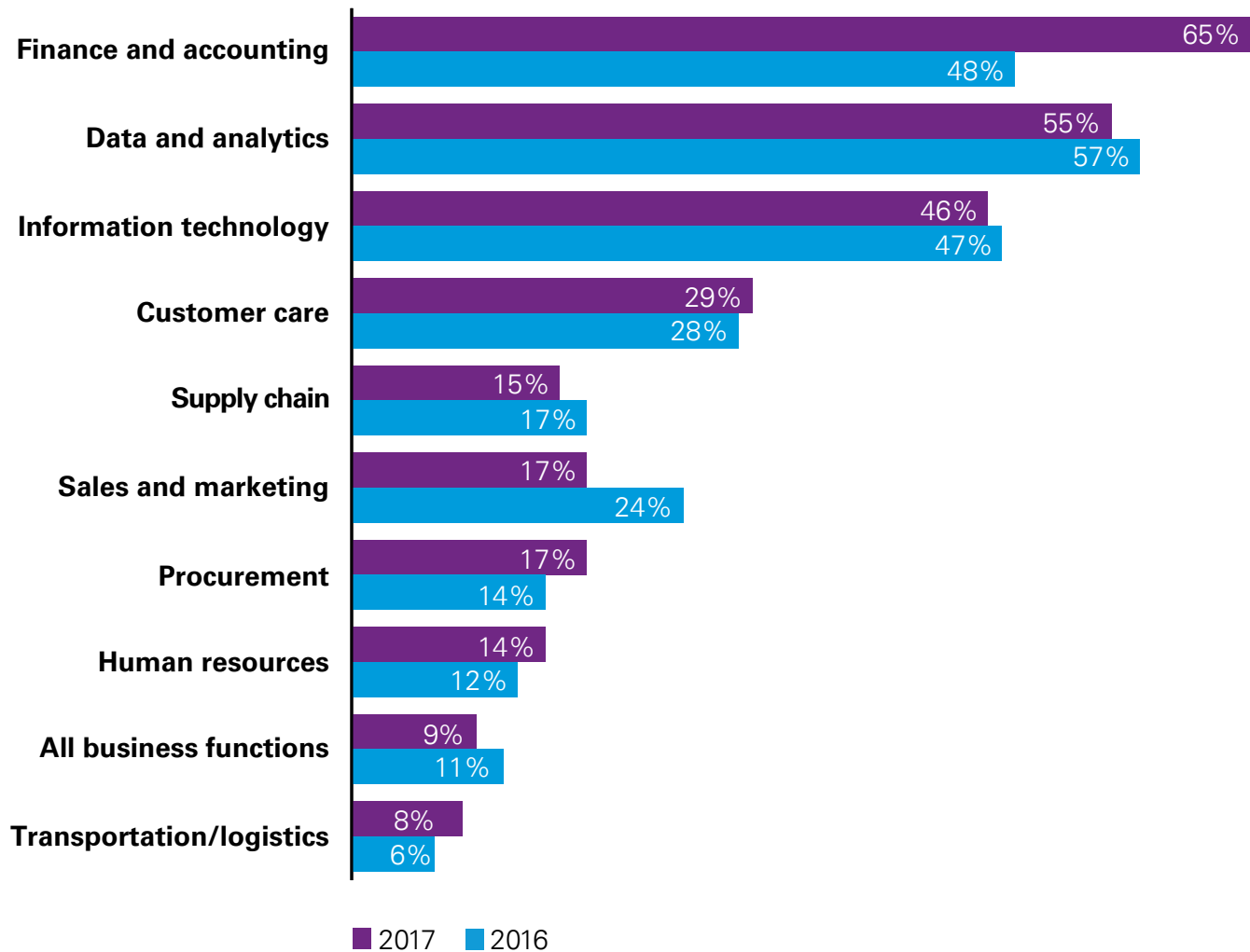
As in 2016, organizations recognize the importance of the digitization of labor. They understand that digital technology is not limited to mobile platforms and process automation. It also includes cloud computing, data analytics, visualization, and machine learning. They also know that digitization has the potential to provide improved visibility into operations; additional data to support a faster decision-making process; more robust and responsive customer relationships across touch points; improved collaboration; stronger partnerships; better cross-functional ownership and accountability for business initiatives; and improved competitive advantage.

However, despite an awareness of the broad set of benefits automation can deliver, many organizations are still thinking in terms of reduced headcount and lower overhead instead of longer-term, more strategic benefits. Most organizations have multiple RPA initiatives and systems to help them work better, faster, and cheaper, but lag in adoption of next-generation technologies such as cognitive automation to enable them to work smarter.

The result is a potentially serious disconnect between the technologies' potential and their adoption and usage, based in part on a misunderstanding of the opportunities that digitization can potentially provide.
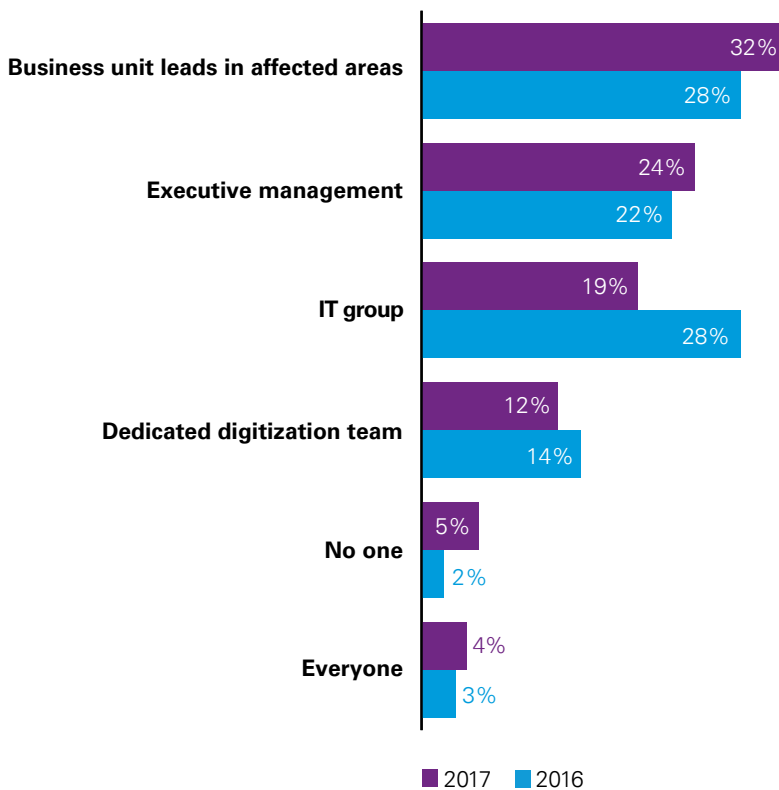
But where to start?

Functional areas with most focus on and investments in digital disruption

Functional area	2017	2016
Finance and accounting	65%	48%
Data and analytics	55%	57%
Information technology	46%	47%
Customer care	29%	28%
Supply chain	15%	17%
Sales and marketing	17%	24%
Procurement	17%	14%
Human resources	14%	12%
All business functions	9%	11%
Transportation/logistics	8%	6%

■ 2017   ■ 2016

Source: KPMG Global Insights Pulse survey, Q1 2017

Functional group most often leading digitization efforts

Business unit leads in affected areas
- 32%
- 28%

Executive management
- 24%
- 22%

IT group
- 19%
- 28%

Dedicated digitization team
- 12%
- 14%

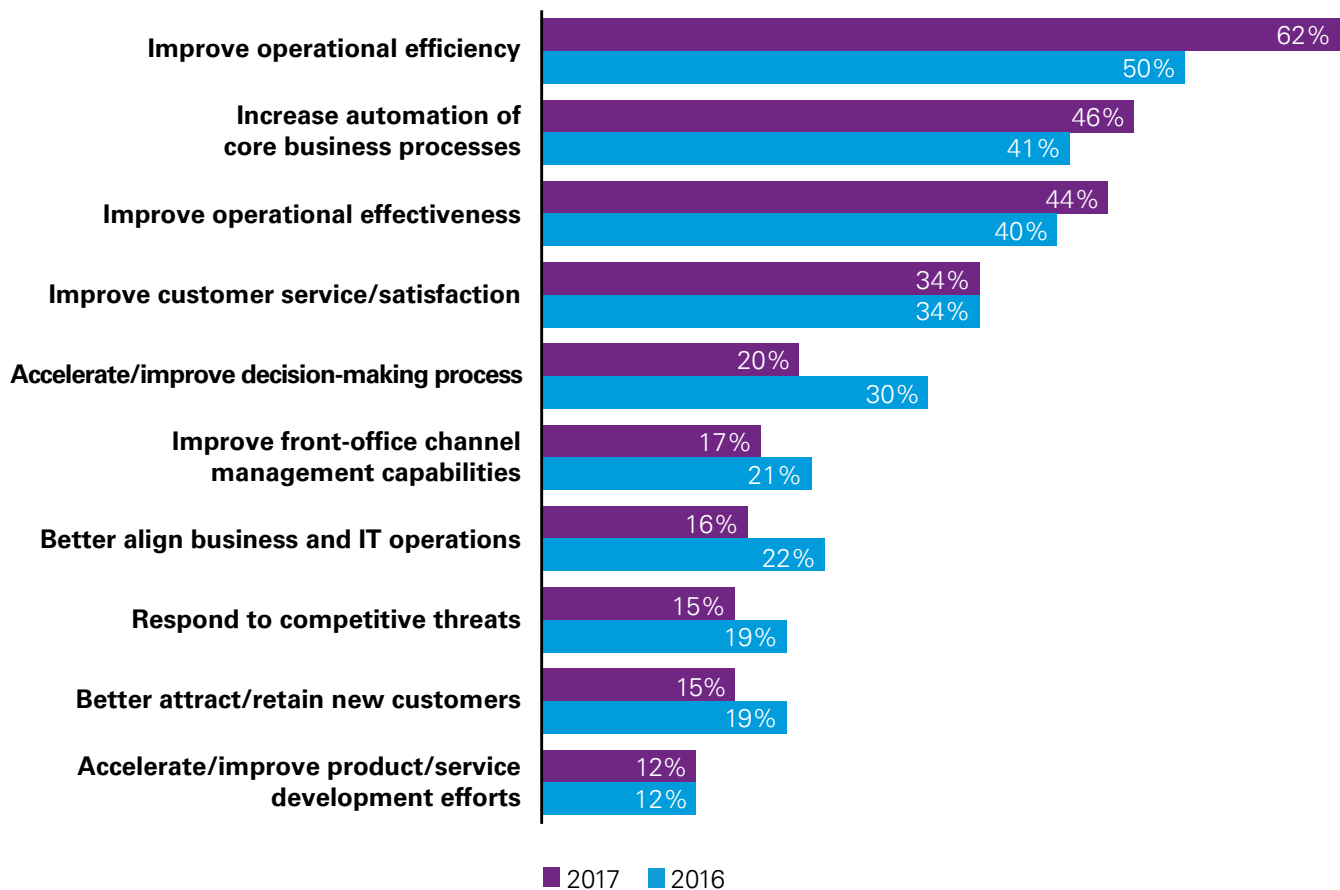**No one**
- 5%
- 2%

Everyone
- 4%
- 3%

■ 2017 ■ 2016

Source: KPMG Global Insights Pulse survey, Q1 2017

Our survey shows more uncertainty than last year about where to start efforts toward increased digitization. In part, this uncertainty might be "the curse of too many options." Organizations hear confusing and conflicting stories from an increasing number of vendors, service providers, and internal "champions." As a result, they find it difficult to reach a conclusion about which technology is best for their needs and how to prioritize their technology initiatives. For example, what makes sense for finance and accounting might not be appropriate for procurement, even though these two functions impact one another at multiple levels.

Begin with a clear vision

Top 10 perceived benefits of digitization

Benefit	2017	2016
Improve operational efficiency	62%	50%
Increase automation of core business processes	46%	41%
Improve operational effectiveness	44%	40%
Improve customer service/satisfaction	34%	34%
Accelerate/improve decision-making process	20%	30%
Improve front-office channel management capabilities	17%	21%
Better align business and IT operations	16%	22%
Respond to competitive threats	15%	19%
Better attract/retain new customers	15%	19%
Accelerate/improve product/service development efforts	12%	12%

■ 2017 ■ 2016

Source: KPMG Global Insights Pulse survey, Q1 2017

Knowing where to start requires that organizations have a clear vision for digitization and the internal skills to turn this into a reality. The vision should recognize that digitization will impact every part of the organization and should identify specific transactional and strategic applications of digital technologies based on a realistic assessment of legacy IT systems, the strengths and limitations of internal resources (IT and otherwise), cultural resistance to change, and how digitization can align with the organization's business model. In addition, organizations should look at the implementation of a digitization strategy as a long-term process. Shorter-term projects can drive new efficiencies and result in cost savings that can free up capital to fund larger, more broad-based initiatives.
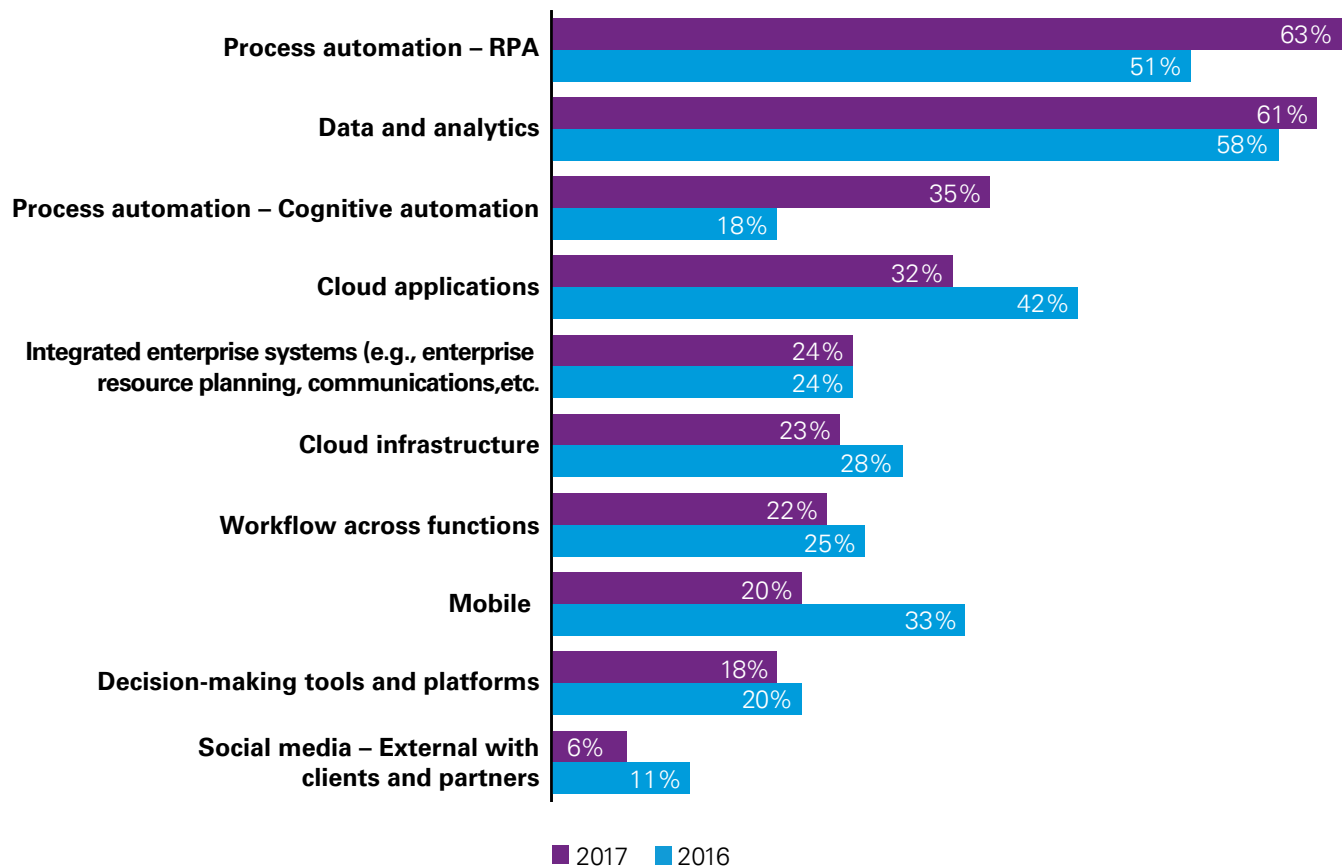
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> Organizations need to build upon RPA efforts that enable them to work more productively and evolve toward cognitive systems that help them work smarter. Organizations should also ask themselves what they actually mean by cognitive—it's a broad term—and what benefits they expect from it. The use of cognitive has great potential, but organizations need to determine where to start and where its usage is most applicable.
>
> — **Morris Treadway**
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Most important technologies to enable digitization

Technology	2017	2016
Process automation – RPA	63%	51%
Data and analytics	61%	58%
Process automation – Cognitive automation	35%	18%
Cloud applications	32%	42%
Integrated enterprise systems (e.g., enterprise resource planning, communications,etc.	24%	24%
Cloud infrastructure	23%	28%
Workflow across functions	22%	25%
Mobile	20%	33%
Decision-making tools and platforms	18%	20%
Social media – External with clients and partners	6%	11%

■ 2017   ■ 2016

Source: KPMG Global Insights Pulse survey, Q1 2017

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> When it comes to digitization, the train has already left the station. Organizations need to evolve beyond train spotting to predicting where rival trains are going and get there first to win the business with a more client-targeted and cost-effective solution. This must occur at both a strategic organizational level and across individual organizational processes and functions.
>
> **— David Brown**
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Actions to consider

Today's business leaders must be aggressive in their efforts to adopt, extend, and integrate digitization. Here are four things to consider in starting and supporting this process:

Develop a holistic understanding
You need a holistic vision that brings together every stage of the digitization journey, from strategy through execution. This includes identifying priority areas for technological transformation; developing a multi faceted strategy and road map for your workforce of the future; selecting the right providers and partners for your unique needs; and establishing a coordinated governance program to help your organization realize and maintain business value from your digital labor initiatives.

Fit digital into your existing sourcing operations model
Digitization and digital labor will have a strong impact on your organization's existing service delivery models, including shared services, outsourcing, and global business services. Your organization must assess how digitization will impact these models from an operational, staffing, and contractual perspective. For example, your organization will likely reduce its use of outsourcing and offshore resources, and automate more work. This implies a change in an organization's overall sourcing strategy but also a rethink of its change and talent management strategies relative to the use of internal and external labor. Your strategy must also need to determine the extent to which, if at all, third party providers should be leveraged to help expand digitization efforts within the organization's own operations.

Do it now
Successful organizations are already making digital change a priority and marking a clear path for the development and implementation of a company-wide strategy. Your organization should not just want to keep up; it should want to get ahead.

Build on what you have
If your organization already has RPA and other automation technology in place, it can gain maximum benefits from the effective governance of systems and resources, and coordination of efforts where it makes sense. Doing so can also help ensure that additional platforms, such as cognitive automation, can be integrated in close alignment with business goals.

With a properly planned and executed digitization strategy across functions, organizations will not only realize cost savings but also gain competitive advantage in an increasingly digitized business world.

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