Realign your business model for automation and talent challenges

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Introduction
Realign your business model for automation and talent challenges

KPMG Global Insights Pulse surveys are a quarterly review of global business services (GBS), intelligent automation (IA), and related service delivery market trends. Input and individual observations are gathered from KPMG's global network of professionals in our Sourcing Advisory, Financial Management, Technology, Human Resources, Customer & Operations, and other practice areas, backed by KPMG market research.

"Even five years ago, a lot of the focus of operating model redesign was how to utilize labor arbitrage through shared services. Today, the conversation is fundamentally shifting to how do I use new technologies not to drive just cost optimization but value, and how do I reorganize as I integrate these technologies into my business?"

— Anshul Varma, Managing Director, Advisory, KPMG in the U.S.

Third quarter summary insights

The desire to fully take advantage of **cloud and other emerging technologies** has led organizations to increasingly revisit their operating models and holds profound implications for the ways in which they should approach operating model redesign.

Enterprises often struggle with defining and implementing the **operating model end-state** they would like to achieve. Successful operating model redesign must holistically consider people, processes, technologies, data, and governance.

While cost savings remains a top priority for both operating model redesign and enterprises as a whole, **the advent of digital technologies** finally presents a host of opportunities to also implement an agile operating model, enabling value-added services in support of an organization's business model.

Despite its recognized importance, **operating model redesign efforts** must often contend with insufficient executive management support, insufficient funding, and a lack of resources.

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Operating model changes to address business challenges

While the survey reveals that organizations face a variety of business challenges in areas such as talent, security, and regulatory compliance, two challenges stand well above the rest: driving down operating costs and exploiting opportunities for digital transformation.

Cost savings has been a perennial focus in many organizations, and some may feel that years of cost cutting through outsourcing, offshoring, and the use of centralized service management has exhausted most opportunities to reduce process costs. This is not the case: driving down operating costs continues to be the most often cited top business challenge among survey respondents, indicating cost reduction opportunities remain. What has changed is the context in which these cost savings are viewed, and the path to achieving them. It is now technology, rather than labor arbitrage and economies of scale, that is the primary means for organizations seeking to increase efficiency. And these cost savings are increasingly viewed as "table stakes" rather than a primary value driver.

Top 10 biggest business challenges

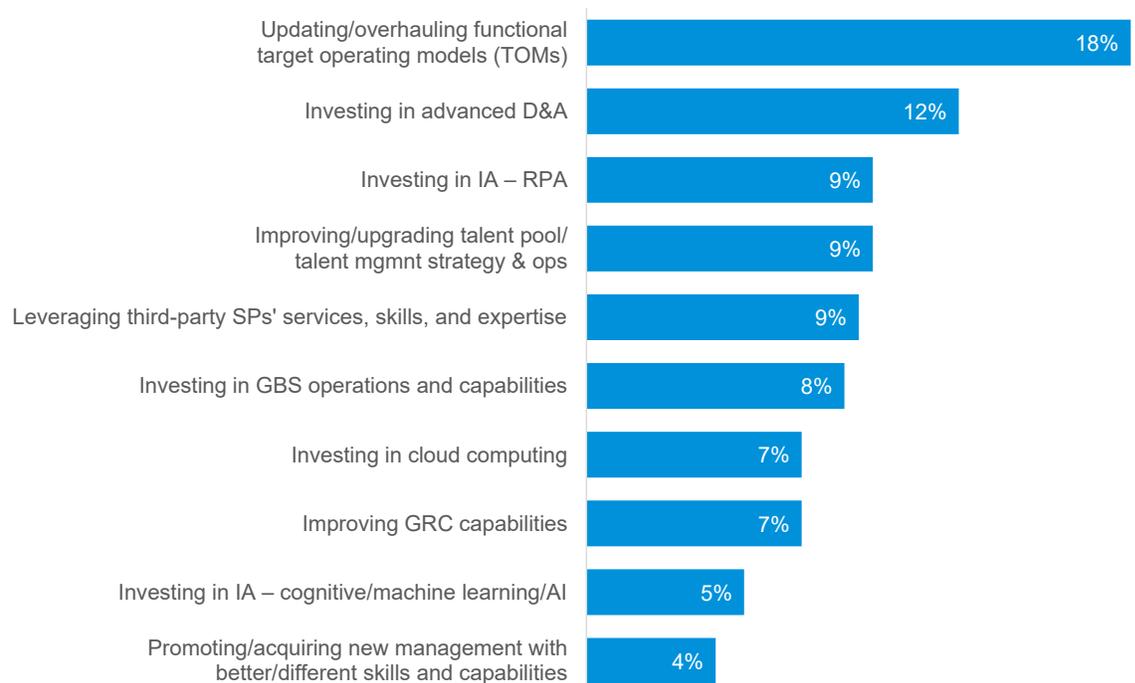|	Top challenge	2nd challenge	3rd challenge	4th challenge	5th challenge
Understanding, investing in, and exploiting new tech; enabling digital transformation	28%	23%	17%	15%	10%
Driving down operating costs	31%	21%	16%	10%	11%
Increasing revenues and/or profits	20%	19%	13%	14%	13%
Talent shortages/talent management challenges	12%	16%	22%	14%	19%
Dealing with regulatory, compliance, and tax burdens	14%	17%	15%	19%	14%
Competitive pressures	9%	12%	21%	23%	18%
Cybersecurity risks, corporate espionage, and IP theft	7%	8%	18%	19%	18%
Political/government gridlock	13%	7%	3%	8%	7%
Expanding into new geographic markets	1%	4%	3%	21%	21%
Weak(ening) consumer/customer demand	3%	8%	8%	5%	3%

Indeed, understanding, investing in, and exploiting new technologies to enable digital transformation is the other goal most cited by survey respondents. Organizations look to these technologies to make operations more efficient, improve quality, enable data and analytics, and enhance how they interact with their customers. To remain competitive and address disruption to business models, the use of these technologies has become all but mandatory.

By a significant margin, the survey points to redesigning target operating models (TOMs) as the most impactful way to address the business challenges of cost reduction and revenue enhancement requirements through the use of digital technologies.

If an organization's business model is defined by the markets in which it operates, the value proposition for its products and services it offers, and how it delivers those products and services, the operating model is about how it gets it done. It encompasses the processes, infrastructure, people, and governance structure that enterprises use to deliver on their business model. An organizations's TOM describes the end-state the organization would like to achieve and serves as a roadmap to how it should organize to best deliver its strategy across business processes.
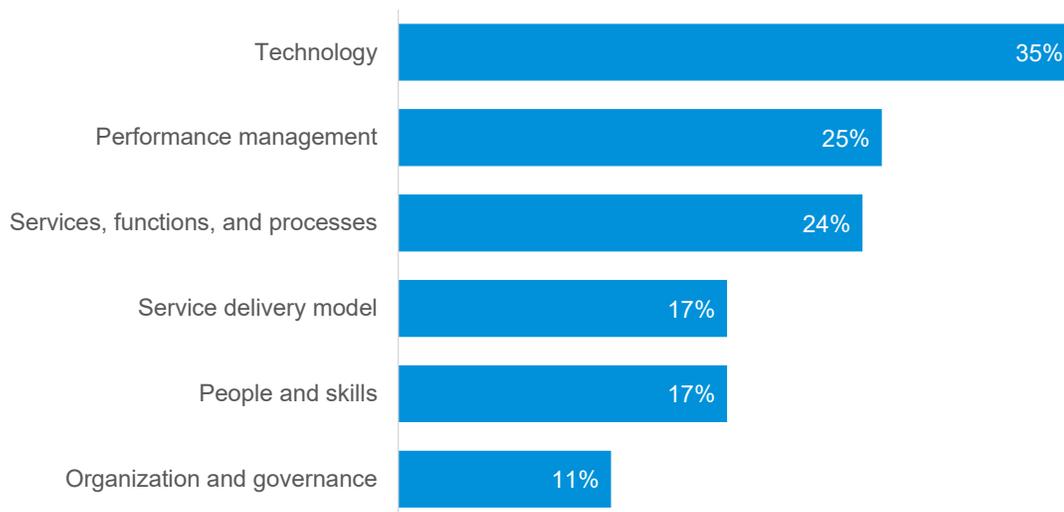
Top 10 initiatives, enablers, and means

Initiative	Percentage
Updating/overhauling functional target operating models (TOMs)	18%
Investing in advanced D&A	12%
Investing in IA – RPA	9%
Improving/upgrading talent pool/ talent mgmnt strategy & ops	9%
Leveraging third-party SPs' services, skills, and expertise	9%
Investing in GBS operations and capabilities	8%
Investing in cloud computing	7%
Improving GRC capabilities	7%
Investing in IA – cognitive/machine learning/AI	5%
Promoting/acquiring new management with better/different skills and capabilities	4%

The impact of technology on operating model redesign

The survey reveals that technology is at the forefront of most operating model redesigns. In one respect, this is as it should be: since the desire to take advantage of new technologies is a primary motivator for many operating model redesigns, it makes sense that technology is a top focus. However, this focus on technology must not come at the expense of executing on other operating model elements. A successful operating model redesign requires simultaneous focus on a host of considerations: how best to manage performance, how services will be provided and by whom, what skills will be required, and how to govern operations. Ignoring even one of these elements presents a significant hurdle to success.

Relative importance of operating model eements:
Percent significant attention/focus/resources

Element	Percent
Technology	35%
Performance management	25%
Services, functions, and processes	24%
Service delivery model	17%
People and skills	17%
Organization and governance	11%

"Smart organizations are taking a strategic and very deliberate approach to talent. While it's important to retain employees with organizational knowledge, it can be quite challenging to transition someone in a transaction-based role to take on more strategic, analytics-based responsibilities. A successful talent strategy must strike a balance between retooling existing employees and bringing on board new ones."

– Stephanie Terrill
Partner and Global Head, Financial Management, KPMG in Canada

While any operating redesign should consider each of these elements, those driven primarily by the desire to exploit new technologies merit special considerations:

Technology

- How do new technologies integrate with broader legacy technological suites such as ERP?

- How do technologies interact with one another, and where might there be multiplier effects from using more than one simultaneously?

**Organization and governance**

- Who should bear primary responsibility for managing operations?

- What is the role of the IT function and IT in general in enabling?

- What legal, regulatory, or security issues need to be considered?

People and skills

- What kind of talent is needed to support the rollout and ongoing operations related to these technologies?

- Where will this talent come from?

Performance management

- What metrics should be used to gauge success, and how do these metrics reflect and support the organization's key business objectives?

- What data is required to ensure these metrics are properly measured?
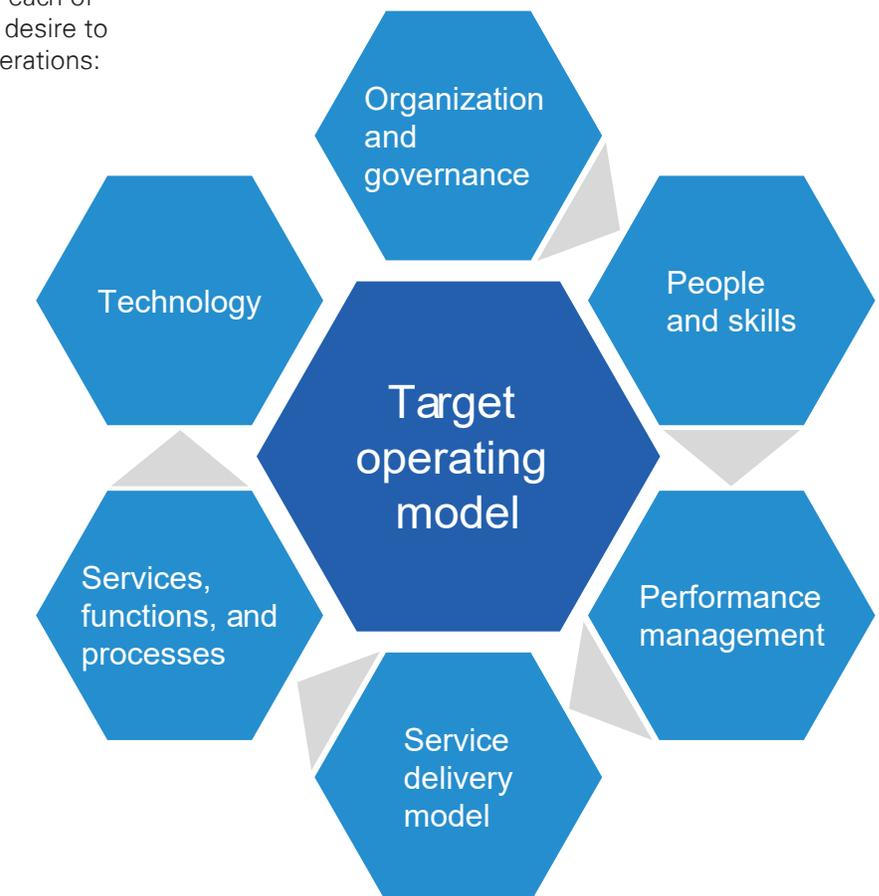
Service delivery models

- To what extent should processes and technologies be centralized in Centers of Excellence, shared service centers, or global business services organizations?

- What role, if any, should external service providers play?

Services, functions, processes

- How must processes be streamlined, standardized, or otherwise modified before applying technologies to automate them?

Organization and governance

Technology

Target operating model

People and skills

Performance management

Services, functions, and processes

Service delivery model

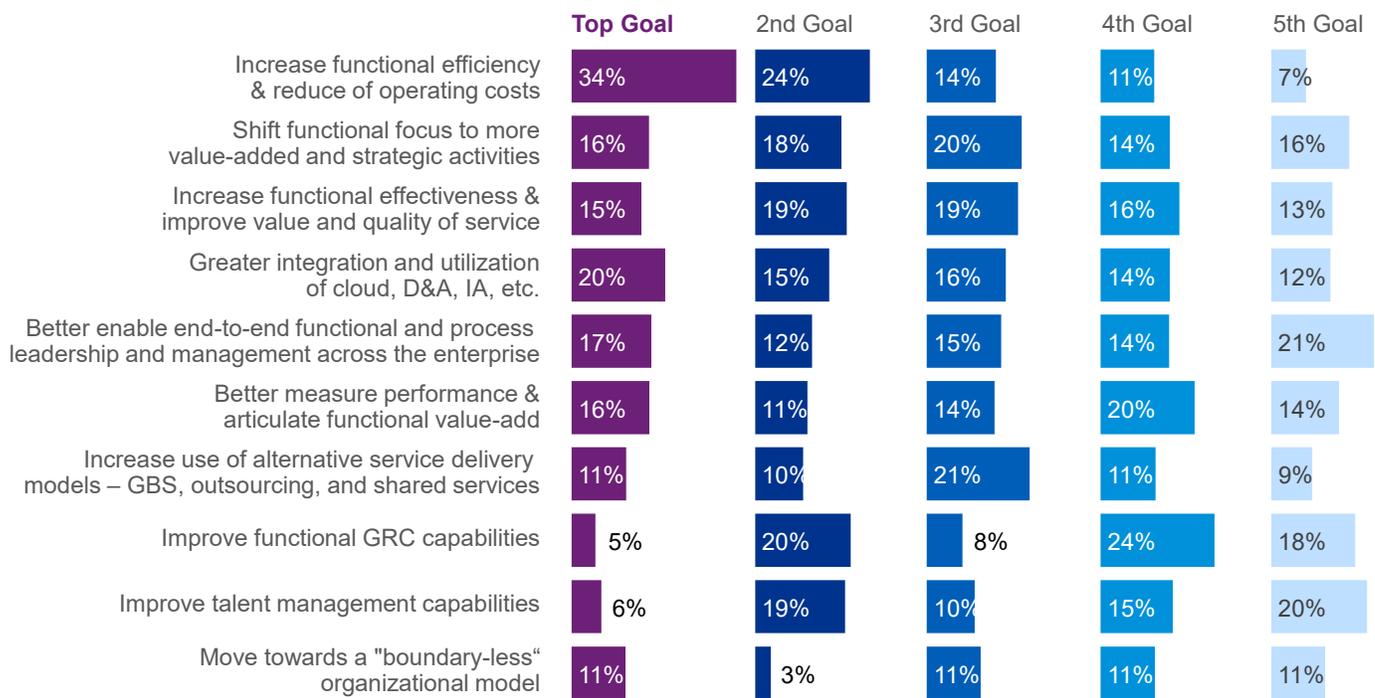# Operating model redesign goals and challenges

Organizations' revising their operating models has been an ongoing occurrence, especially in functions such as finance. But in the past, the primary goal of these efforts was to reduce process costs through methods such as offshoring, outsourcing, and shared services. While cost reduction is still a primary goal, operating model redesign has now taken on new significance as it is often a prerequisite to being able to fully take advantage of new technologies.

The second most often-cited goal of operating model redesigns is to better utilize data and analytics and advanced technologies such as IA and cloud. Fully exploiting these technologies may require enterprises to fundamentally revisit the way they do business.

Technology has not only driven organizations to increasingly look to redesign their operating models, but has also has given rise to a host of new considerations for enterprises undertaking these efforts:

- Impact of business model change: Digital disruption has profoundly impacted business models and the way enterprises interact with their customers and employees in many industries. Operating models must adapt to match.

- Increased pace of innovation: The pace of technological change requires organizational agility to exploit new opportunities. Operating models must similarly incorporate flexibility to accommodate change.

- End-to-end focus: New technologies increasingly target end-to-end processes that cut across traditionally defined business functions, often rendering functional-based operating models less effective.

- Different skill requirements: Technologies such as IA require targeted technical, business, and analytical skills often held by a limited number of staff members. Operating models must ensure the organization has access to these skills sets as needed, whether from internal or external sources.

- Heightened demand for data: IA and artificial intelligence (AI) technologies demand high-quality data, often residing in very large and unstructured data sets. Operating models must incorporate rules and processes to organize, access, and manage that data. Master data management skills and expertise become of paramount importance.

Top 10 desired goals and outcomes from TOM redesign and overhaul efforts

	Top Goal	2nd Goal	3rd Goal	4th Goal	5th Goal
Increase functional efficiency & reduce of operating costs	34%	24%	14%	11%	7%
Shift functional focus to more value-added and strategic activities	16%	18%	20%	14%	16%
Increase functional effectiveness & improve value and quality of service	15%	19%	19%	16%	13%
Greater integration and utilization of cloud, D&A, IA, etc.	20%	15%	16%	14%	12%
Better enable end-to-end functional and process leadership and management across the enterprise	17%	12%	15%	14%	21%
Better measure performance & articulate functional value-add	16%	11%	14%	20%	14%
Increase use of alternative service delivery models – GBS, outsourcing, and shared services	11%	10%	21%	11%	9%
Improve functional GRC capabilities	5%	20%	8%	24%	18%
Improve talent management capabilities	6%	19%	10%	15%	20%
Move towards a "boundary-less" organizational model	11%	3%	11%	11%	11%

"There is constant pressure to deliver services at the lowest cost, and while that may be the most tangible measure of operating model redesign, it's critical to define the overall value that overhauling an operating model will provide in areas such as agility, competitiveness, and the ability to measure performance."
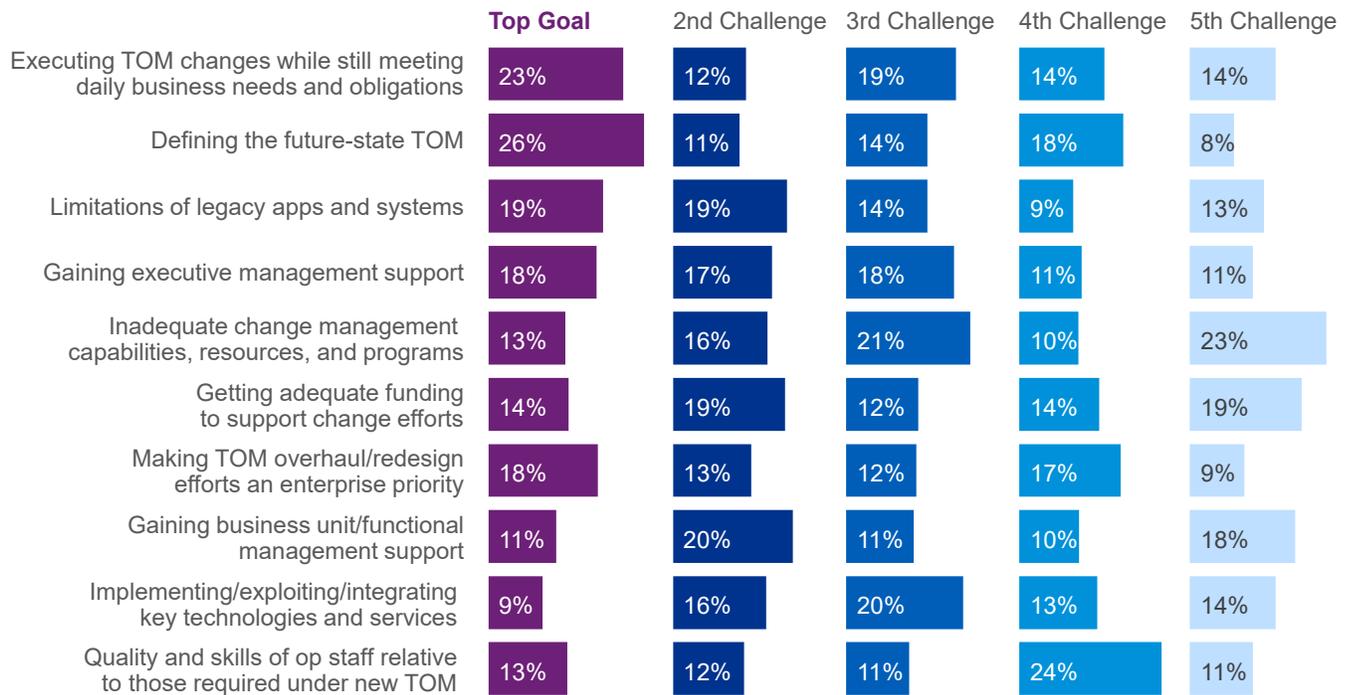
– Stephanie Terrill

The most often cited challenge to operating model redesign is defining the future-state TOM, indicating that many organizations struggle with determining the end state they would like to achieve and the path to achieving it.

A desire to stay on the cutting edge and take advantage of new technologies often leads organizations to first focus on the technology they would like implement, then look for the processes to which they would like to apply it. The promise of new technologies is no doubt enticing. But even the most successful technology implementation, applied to a poorly designed or low-impact process leads to lost opportunities.

Many of the top challenges revolve around ensuring that operating model redesign gets the attention and funding it needs to ensure success: executing an operating model redesign while still meeting daily business obligations, gaining executive management support, making operating model redesign an enterprise priority, and getting adequate funding to support change efforts all rank highly on the list. While these obstacles are no doubt significant, the good news is that a large-scale technology implementation attracts management attention and investment capital that allows organizations to address other elements of their operating model as part of an overall change program. To most effectively marshal the resources for a successful operating model redesign, those leading it should stress not just its potential for cost reduction, but also higher value-added, customer-facing benefits.

Top 10 challenges to TOM redesign and overhaul efforts

	Top Goal	2nd Challenge	3rd Challenge	4th Challenge	5th Challenge
Executing TOM changes while still meeting daily business needs and obligations	23%	12%	19%	14%	14%
Defining the future-state TOM	26%	11%	14%	18%	8%
Limitations of legacy apps and systems	19%	19%	14%	9%	13%
Gaining executive management support	18%	17%	18%	11%	11%
Inadequate change management capabilities, resources, and programs	13%	16%	21%	10%	23%
Getting adequate funding to support change efforts	14%	19%	12%	14%	19%
Making TOM overhaul/redesign efforts an enterprise priority	18%	13%	12%	17%	9%
Gaining business unit/functional management support	11%	20%	11%	10%	18%
Implementing/exploiting/integrating key technologies and services	9%	16%	20%	13%	14%
Quality and skills of op staff relative to those required under new TOM	13%	12%	11%	24%	11%

Actions to consider

Lead

Lead with the end state to be achieved, not the technology to be adopted. Applying a good technology to a bad business process is a recipe for failure. First define target outcomes, then look for technologies to achieve them.

Approach

Approach technologies holistically. View technologies not as point solutions to specific business subfunctions, but as a portfolio of solutions across end-to-end processes. Look for multiplier effects by combining technologies such as IA and data and analytics.

Take

Take a portfolio view of skills management and sourcing and target skills to anticipated business needs. Rather than targeting generic AI and other advanced technical skills, identify specific skills that support expected future business scenarios. It's often hard to find these skills—don't look for all of them in the same person. Instead, utilize a team approach incorporating individuals with specialized skill sets. Build, buy, and borrow talent as needed through a flexible sourcing model.

Build

Build agility into operating model design. Technology will continue to drive an unprecedented change in both business models and enterprise operating models. Incorporate enough flexibility into operating model design to be able to adjust as technologies and business models change.

KPMG can help

Market leaders understand that streamlined, integrated, well-run business support functions are a fundamental component of their competitive advantage. But to succeed in the 21st century, organizations must transform how they view and deliver business services in lockstep with the changing nature of work. This means embracing a business services delivery model that seamlessly integrates the front, middle, and back office for superior customer engagement. Establishing cross-functional Centers of Excellence that focus on creating information as an asset. Addressing "everything-as-a-service" through outcome-based end-to-end solutions. And empowering people as enablers of technology.

KPMG firms help clients transform their business services delivery to realize improved value, increased agility, and sustainable business performance. Our teams bring together experience in global business services, shared services, outsourcing, risk, transactions, finance function domain, tax, and compliance.

If your organization is seeking innovative ways to achieve genuine business services delivery transformation, there is no better place to start than by accessing our research and thought leadership on the KPMG Shared Services and Outsourcing Institute Website: www.kpmg.com/us/insights.

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