

Operating effectively in the face of ever-present change

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OVERVIEW

No company is safe from the future. Because the disruption that is changing the way people and companies do business is coming from all angles, most FORTUNE 500 companies will look far different in just a few short years than they do now. They need to evolve—or they will be replaced.

These disruptors range from emerging competitors and instantaneous data access to the rise of mobile-enabled consumers and employees, to exponential changes in technology and the lack of the right talent to operate it. Successful companies realize they need to evolve their operations, or they will be replaced.

Already, for example, online aggregators such as Amazon are reshaping the way consumers buy, turning big-box retailers into mere showrooms. Ride-sharing platforms such as Uber are changing the way people get from point A to B, threatening traditional modes of transportation. And grocery stores such as Kroger are using private labels to take significant share from established food brands, while appealing to new demographics of shoppers.

Meanwhile, with advancements in robotics and other disruptive automation, some economists are forecasting a wholesale replacement of labor as we know it. Indeed, as technology becomes smarter and more available while some employees become more expensive (due in part to changing regulation) and less qualified, companies may soon have the option to outsource their entire operations to a robotics platform. Such a shift could profoundly disrupt the worker economy and change the way the world's capital is distributed.

Despite the ever-present storm of disruption, today's CEOs remain focused on growth and market share as their top priorities. So how are they responding to disruptive factors while taking the right action in their operating model? Does the operating model have the right connection and focus on the needs of the customer? What differentiates leading organizations from their less-profitable peers? The answers are a lot more complicated now, due to the sheer volume and pace of change. But the companies that get it right—with operating models that are agile and purpose-built—will have a competitive advantage.

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Operating Effectively

Surviving and thriving in the new world

According to KPMG LLP's (KPMG) executive research, the most profitable companies look at disruptive forces not just as challenges, but also as opportunities to improve the business (see Figure 1). And as they respond to disruption, these companies are giving priority focus to technology and talent. That is, they are leveraging more emerging technology, and they are also acquiring the expertise to use it—both by developing talent internally and engaging outside resources.

While some companies are responding to change by reducing costs, the most successful organizations recognize that it is critical to also make smart investments in operating effectiveness, which could be the difference between the FORTUNE 500 of today and the FORTUNE 500 of tomorrow.

Going beyond cost reduction, the study shows that companies' top responses to disruption are investments in data and analytics, automation, and talent development. KPMG sees these investments taking shape in three key areas.

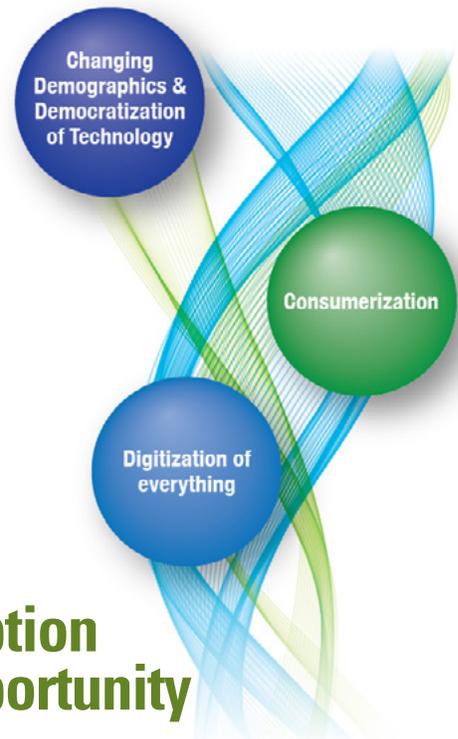
1. Consumerization

Amid the rise of the individual consumer as a "market of one," leading companies are pivoting their efforts to engage specific consumers—in addition to entire segments—through multiple channels. By automating processes and leveraging data insights, these companies are turning their back offices into centers of business intelligence, enabling them to make better decisions and respond more effectively to customers' individual needs. According to the KPMG study, the most profitable businesses are 10 percent more likely than their less profitable peers to use automation to improve core operations, and 6 percent more likely to leverage analytics.

The most profitable companies are also recognizing that their consumer bases are multigenerational and want to interact with brands in different ways. For example, at a time when smaller banks are struggling to compete, one regional bank is improving profits by creating a unique experience for several generations of customers. To drive community relationships with each local branch, the bank hosts activities such as food sampling, knitting, and yoga. And instead of traditional direct marketing, the organization leaves potted plants on doorsteps with invitations to visit the bank.

Just as the most profitable companies are using data, analytics, and automation to focus more on individual consumers, they are also focusing more on individual employees. To attract and retain qualified talent, for instance, some companies are treating employees like consumers by creating a great user experience such as creating app stores to meet employees' digital and mobile needs. To attract and retain qualified talent, for instance, some companies are treating employees like customers by creating a greater user experience with the use of app stores to meet employees' digital and mobile needs.

Figure 1:
Disruptive forces can improve operating performance



Disruption as opportunity

Profitable companies tend to see some disruptors as opportunities versus challenges. The top 10 include:

1. Engagement with mobile customers
2. The rise of the digitally-enabled consumer
3. The mobile-enabled workforce
4. The use of global, emerging markets to sell and source products and services
5. New options for delivery logistics
6. Accelerated growth of the digital enterprise
7. Industry-specific technology advancement
8. Instantaneous and ubiquitous data access
9. Rise of the individual consumer as a market of one
10. Corporate complexity

Executive Issue: Customer experience vs. expectation gap
Does the entire customer experience meet increasingly demanding expectations? KPMG experience suggests this is not often the case.

For example, the omni-channel experience offered by a large retail client was falling far short of expectations; it cited only a one in three possibility of merchandise ordered online by a customer actually being available in the store for pick-up. Can your business and technology support these complex customer experiences?

Surviving and thriving in the new world *(cont.)*

2. Changing demographics and the democratization of technology

Companies' struggles to find the right employees and meet customer needs are due in part to significant changes in demographics—in both supply of talent and demand of consumers. Indeed, new generations of digital natives continue to enter the workforce, and they are becoming very influential in business and highly sophisticated consumers.

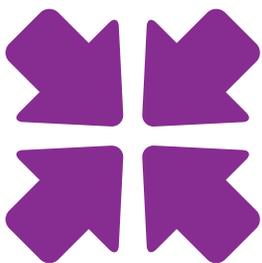
How big is a certain talent or customer market? Where is it growing most rapidly? Who are the competitors? These kinds of questions are often getting harder to answer based on social, cultural, and generational changes in residential populations, workforce characteristics, household budgets, ethnicities, and more.

Are you getting value from automation?

Consider the opportunities for automation in the back office, front office, manufacturing, and other parts of the business. Automated processes can create advantages from productivity and profitability to insights on customers and competitors.

Meanwhile, as demographics are changing, technology and data are becoming largely more accessible by companies and consumers, thanks to advances in cloud, social, mobile, and other technologies. For example, buyers are increasingly making purchase decisions with mobile phones in hand, considering user reviews, and even seeking real-time recommendations on social media. And at the corporate level, entire industries are springing up around new technologies and access to data. Apple's App Store, for example, launched an industry of mobile app design and development that previously did not exist.

These disruptive factors—the shifting talent supply, changing customer demand, and democratization of technology—are combining to create a new operating landscape, as business services shift from labor-centric to technology-centric output. In fact, with advances in robotics and other technologies, companies will increasingly have the option to rent their operations instead of own them.



According to the KPMG study, the most profitable businesses are 10 percent more likely than their less profitable peers to use automation to improve core operations.

Back Office

Robotic Process Automation (RPA)

Telecomm industry situation - employees need access to multiple systems, prone to errors, traditional IT teams cannot deliver solutions to match automation speed.

Opportunity - significant time and FTE savings expected with RPA; estimates are 'bots perform activities equivalent to 3 FTEs of potential headcount reduction.

Throughout the enterprise, demographic changes and democratized technology are creating opportunities to digitize labor. In finance and accounting, for example, many organizations employ armies of people for manual financial processing and access to multiple systems, which can lead to errors and inconsistency in processes. That is why one telecommunications company is using RPA to perform the tasks of, on average, three full time equivalents. The company is also exploring cognitive technologies to automate complex, judgment-based financial processes.

Despite the growing automation of transactional processes, companies are still investing in specialized skills to manage the technology and advance the business. According to the KPMG study, 31 percent of the most profitable companies are investing in emerging technology expertise, compared with 18 percent of the lower performers.

Disruption as opportunity

Transaction records. Online comments. Brand sentiment. Mobile behavior.

Financial Services industry situation - mortgage and car loan retention.

Solution - use of social media activity, correspondence, and notes from services points to proactively address people likely to buy or refinance a house. This predictive analytics solution increased retention from 30% to 58%.

Operating Effectively

Surviving and thriving in the new world *(cont.)*

What do consumerization, digitization, and changing demographics mean for your particular industry?

On 3D printing and additive manufacturing “It will happen faster than most people can even imagine.”

–CIO Global Energy Producer

“Specific care delivery decisions are increasingly being made by predictive protocols based on Big Data from a large population pool rather than on individual circumstances.”

– Health Insurance Executive

3. The digitization of everything

In addition to optimizing the back office, forward-looking companies are investing in new or emerging technologies to improve the front office and change the way they engage with customers. These companies recognize that everything—people, processes, data, and objects—are becoming connected, changing the way life and work get done, and they’re looking for opportunity in disruption.

For example, air conditioning company Trane saw an opportunity to leverage the increasingly mobile-enabled workforce to its advantage. To improve the effectiveness of its sales force, the company developed a mobile app that is engaging sales reps in a new process, creating a uniform sales message, expediting close times, and creating competitive advantage. With company-supplied tablets, sales reps are using the app to sit down with customers, take them on a guided journey through heating and air conditioning challenges, and propose Trane solutions that are tailored to the customer’s needs. Plus, the app is linked to the company’s inventory supplies and ordering system, so sales reps can close the deal on the spot. By putting power in the hands of a decentralized sales force, Trane has increased sales by 22 percent, and margin by 2 percent.

Fittingly, according to the KPMG study, the most profitable companies are 10 percent more likely to invest in technological advancements for their industry, while lower performers are more likely to focus on upgrading legacy technology. Lowe’s, for example, is changing the home improvement store experience by introducing autonomous service robots to help customers find the products they want. The robots use natural language processing to answer customers’ questions, direct them to different locations of the store, and even escort them if necessary. In addition to improving customer satisfaction and engagement, this automation has the potential to reduce employee training and other operating expenses.

In the pharmaceutical industry, meanwhile, Novartis is investing in wearable technology and a cloud-based platform to quickly collect and aggregate patient data during clinical trials, while improving the experience of trial participants.

According to the KPMG study Succeed in Constant Change, the most profitable firms are 10% more likely to invest in industry technology innovation. The study indicates the least profitable businesses are more likely to invest in legacy technology.

As multinational companies migrate their operations from low-cost-labor models to digitally driven models that are agnostic to location, they are continuing to use cloud and outsourcing—often with variable consumption models—as key enablers. Companies such as Dow Chemical and Nestle, for example, are digitizing virtually all their global business services, and they are using cloud to do it. According to the KPMG survey, in fact, growth firms are 10 percent more likely than average to use cloud, and 11 percent more likely to employ outsourcing, especially for back- and mid-office services.

Progressive Insurance - Digital transformation

Issue: Search for differentiation, monetization of digital

Service Response: Develop telematics capabilities (device blending telecommunications and infomatics).

In the personal insurance industry, carriers are spending nearly \$6 billion a year on brand advertising as they jockey for differentiation in what used to be a commodity offering. Looking for less expensive differentiators, Progressive was an early adopter of telematics technology, which enables customers to opt-in to monitoring of their driving habits in exchange for lower premiums. In addition to using telematics as a pricing and service differentiator, Progressive is generating new revenue—and offsetting advertising costs—by licensing the technology to competitors.

Operating Effectively

As outlined in this brief, the confluence of consumerization, changing demographics, the democratization of technology, and the digitization of everything are disruptors creating breakthrough results for businesses that leverage them properly. The examples included here are echoed throughout industry, often leaving executives with more questions than answers. For guidance on how to sort through these strategic issues, KPMG has included links to numerous resources on the following page.

Disruption is here to stay

Due to exponential changes in technology—along with massive shifts in consumerization and demographics—the pace of change is faster than ever. And leading companies are showing that embracing disruptive technologies is not just about doing something disruptive—it is about making smart investments, creating advantage, and driving growth.

These companies recognize the urgency of evolving their operating model to respond to a changing marketplace. They know their survival depends on it.

KEY CONSIDERATIONS FOR GETTING INTO ACTION

Are you getting value from process automation? How is it impacting your profitability, productivity, and insights throughout the business? Are there emerging capabilities in customer service and the back-office support functions that could benefit your business? How are cognitive technologies impacting process automation?

Are you in a position to deploy analytics, or are you chasing paper documents? Consider the need to digitize your data and take advantage of cognitive technologies. Have you evaluated the opportunity to improve customer experiences? What insights are your executives missing? Is your business mobile-ready - anytime, anywhere? Are your current processes leveraging access to customer, social, mobile, and sentiment?

In this age of consumerization, are you creating a customer-driven operating model? Examine the need to organize your operations around the customer experience, always learning who your customers are, how to serve them, and how to keep them. Are your predictive analytics driving the right customer retention? Do you know what your customers are thinking - before they do? Does your operating model create a frictionless customer experience? How has your operating model evolved to be more customer-centric? Are there opportunities missed?

What is the impact of changing demographics, digitization, and consumerization on your particular industry? Consider the need to develop industry-specific technology and talent. From regulation to robotics, from geopolitical risk to distributed manufacturing, disruptive forces have different flavors across

industries. What is the impact in yours? How is your company responding? What advances in your industry are under-leveraged? Are there advances in other industries that could springboard you ahead of your competition? Are you reaping the benefits from emerging technologies? What agility can be achieved with greater use of emerging technologies and improved access to data/knowledge?

Are you getting the right value from your change initiatives? As you reshape your operating model and invest in digital capabilities, contemplate the right road map for your organization. Should you take a step-by-step approach over a period of years, getting value along the way? Or is it better to prioritize the highest-value opportunities? The answer varies depending on your organization and digital maturity. From the back office to the front office, consider what is required to streamline operations, automate processes, change the way functions interact, and otherwise reshape your operating model.

Is your Customer Experience ready for today's complex business environment? Does the entire customer experience meet increasingly demanding expectations?

Operating Effectively

To learn more about KPMG's Succeed in Constant Change study on leading companies' response to market change, contact:

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View the other study briefs:

[Succeed in Constant Change Research Overview](#)

[Harnessing Disruption for Growth](#)

Additional resources – How KPMG can help

To support your organization's operating effectiveness initiatives:

Visit the [Operating Effectiveness in the Face of Ever Present Change](#) which includes related content on the operating effectiveness agenda

See [KPMG's Transforming your Business](#) for ideas on tackling change initiatives, from strategy development to sustainable value

Read [Cognitive Robotic Process Automation](#) Poised to Disrupt Knowledge Worker Market

Read [Enterprise Service Management](#) Unlocks Real Value from Your Global Business Services Organization

Read [Global Business Services Goes Digital](#) Cloud helps wireless innovation take off

Additional reading for executives:

[Finance](#)

[Information Technology](#)

[Sales and Marketing](#)

[Human Resources](#)

[Operations and Supply Chain](#)

Succeed in Constant Change: A KPMG study on leading companies' response to market change. The study polled 650-plus senior business executives of large multinational enterprises headquartered in the United States and United Kingdom, and conducted 20 in-depth executive interviews. The companies ranged in revenue from \$500 million to \$9.9 billion (34%) to \$100 billion (15%) or more.

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