KPMG

Will generative AI mean the death of service delivery centers?

Our research shows how this transformational technology could upend operating models.

Introduction

At KPMG, we anticipate that generative AI will dramatically disrupt resourcing and leverage models, talent profiles, and costs that demand attention and forward-planning now. We also anticipate that generative AI will be a net job creator and a highly productive co-worker, which can't be overlooked as companies plan for the future of their workforce and business support services in particular. We know this because across industries, business leaders are focused on how they can start using generative AI to make their organizations more productive, efficient, and competitive. In a June KPMG survey of 200 US executives, 74 percent said that generative AI will be the most impactful new technology in the next 12 to 18 months, and 93 percent believe that generative AI will provide value to their business.[1]

As leaders look to see where they can get the greatest impact quickly, we believe shared services, including finance, human resources (HR), information technology (IT), and procurement, present a real opportunity. In these functions—particularly in the service centers that these functions rely on—generative AI has the potential to reshape traditional operating models. Using KPMG GenAI for Advisory, the KPMG generative AI platform, we have tested the new technology on work such as generating a standard monthly financial report and found that that the tool could significantly reduce the labor needed.

In this paper, we look at how generative AI could upend traditional operating models and change how companies decide to staff and operate service centers. We look at the impact on service delivery models across HR, finance, procurement, and IT. We estimate that by using generative AI, companies may be able to reduce existing delivery center footprints by as much as 80 percent. The choice of outsourced services would come down to technical capabilities, rather than scale and labor arbitrage. Importantly, generative AI also makes it possible for companies to centralize and share services that have been seen as too specialized and too reliant on business knowledge to be offered as shared services in most organizations.

[1] KPMG Generative AI Survey, June 2023

How generative AI will change—and expand—shared services work

Shared services can benefit from three key capabilities of generative AI. First is generative AI's ability to serve in a "co-work" role with shared service workers, making them much more productive. Second is generative AI's ability to field certain tasks autonomously, including addressing user inquiries and reducing the volume of work that is assigned to shared service knowledge workers. Third is its ability to perform tasks such as contract authoring that have previously been difficult to move to a shared service model due to specialized skills or knowledge required. The fundamental power inherent in combining natural language processing with large language models means that the hours someone would spend researching or developing a report can now be reduced to the mere minutes required to prompt generative AI with the request and to review and approve the output. Perhaps most important, the technology is accessible to everyone, not just to those with programming knowledge.

Generative AI has already proved to be a powerful tool for the augmentation of knowledge workers' everyday activities, and it will drive significant changes in workforce roles, skill requirements, headcount, and organizational structures. Our adoption of generative AI, KPMG GenAI for Advisory, is a good example. KPMG GenAI for Advisory is already drafting status reports, compiling summaries of complex contracts and other documents, and developing structured outputs from group brainstorm sessions. KPMG professionals are finding new ways to apply it every day to enhance their productivity. Based on our use of generative AI and client use cases, we have seem a significant reduction in the hours required in tasks that generative AI supports. Generative AI ultimately frees up our people to be more innovative and creative, giving them time to tackle more strategic issues with clients, delivering more value more quickly.

The quality of generative AI-enabled shared services will support a much higher level of customer intimacy through natural language processing advancements that make generative AI-enabled customer service interactions more "human" than ever. Generative AI can also dynamically personalize interactions with users. Generative AI-enabled service management across the enterprise will substantially enhance the service experience. The extreme degree of personalization, generative AI guidance, and simplified interaction will make self service feel more like full service.

The payoff from generative AI

The ways that generative AI will fundamentally change service delivery centers will ultimately drive a wide array of benefits across an enterprise, all the way to the bottom line.

Increased efficiency and productivity, automating manual and repetitive tasks, thereby enabling employees to focus on more productive activities.

Cost savings, reducing costs by automating procedures and improving efficiency. This can free up resources that can be allocated to other areas for greater cost-efficacies.

Greater accuracy and quality, analyzing large amounts of data to identify patterns and insights, can lead to more accurate and effective services, especially in functions such as finance and accounting, delivering insights and strategy anywhere it is needed, at scale.

Enhanced customer experience, as these new systems will create highly personalized content and experiences for customers.

Faster innovation, generating ideas, content, and prototypes much faster, thereby enabling service delivery centers to innovate and develop new products or services more quickly and efficiently.

How generative AI will change shared service business models

The adoption of generative AI also means many more services may be shared. These will range from the automation of creative, yet repetitive, time consuming tasks to the enablement of customized, highly interactive digital service experiences. More services can be centrally or virtually delivered, enabling organizations to substantially lower costs and drive major productivity gains across all functional areas.

The full enablement of generative AI capabilities in shared services promises that services remain "always on" and available on-demand. The changes brought on by generative AI will also require businesses to radically rethink the way centers are organized, staffed, and located, and the benefits gained from doing so will add value to the overall operation.

Rebalancing the build-versus-buy equation

As service catalogs and delivery models shift, and generative AI capabilities are implemented, outsourcing providers will see reductions in the hours needed to deliver on their support contracts. Providers will need to aggressively adopt generative AI and substitute technology for labor. They will need to commensurately reduce headcount and pass the majority of those reductions to their customers or risk customers insourcing or shifting service contracts to generative AI-first providers. We expect that broader market productivity improvement projections will apply similarly to outsource providers and will result in dramatic reductions in cost of current and future contracts for existing services. Providers will make up some of the revenue by offering services in new areas made possible by the capabilities of generative AI.

In many cases, we expect organizations to fully or partly insource services that are currently outsourced. Many organizations outsourced largely to access the scale and advantaged labor costs that providers offered. As labor required to perform a service is reduced significantly, scale and labor rate arbitrage become far less important. Organizations will be able to use generative AI to either fully insource a service and perform the service using current internal headcount or may be able adopt a more granular and dynamic approach to outsourcing. For example, instead of outsourcing a set number of finance operations based on a multi-year contract, an organization might outsource specific activities or roles as a service during peak periods such as seasonal or monthly closings. In effect, outsourcing becomes digital labor that can scale up or down according to demand.

Many technology companies are developing generative AI solutions or are adding generative AI to their current solutions, thereby creating as-a-service capabilities that can complement or replace existing services. We expect that organizations will increasingly adopt a multi-vendor outsource model comprised of traditional business process outsourcing (BPO) providers, generative AI-first specialty service providers, and technology players that incorporate generative AI in their solutions.

How generative AI will revolutionize service delivery centers

Generative AI's capacity to significantly broaden the range of services that can be centrally delivered will enable organizations to unlock newfound levels of value, substantially lower costs, and drive major productivity gains across all functional areas.

We believe that businesses should focus on four areas when beginning to consider how and where to implement their generative AI strategy: HR, finance and accounting, procurement, and IT.

01   HR:

A wide majority (84 percent) of respondents in our June survey expect this technology will have a positive impact on their workforce. More than half (53 percent) feel generative AI is likely to expand their overall headcount, with generative AI specialists being prioritized for those who anticipate hiring.

Generative AI can enhance and streamline the HR support role by automating routine tasks, streamlining employee onboarding, and providing accurate responses to employee inquiries. Additionally, it can help improve the accuracy and consistency of employee data management, reduce calls to the HR center, identify and help retain star employees, monitor compliance, and provide guidance on retention and engagement strategies.

Generative AI can be of particular benefit in managing talent, especially for organizations with many knowledge workers. The technology can provide research and analysis, data and reporting, visualization, and presentation development, freeing people up to do high-level, more strategic tasks. Generatve AI also provides the ability to augment employee service interactions in a way that is on par with human interactions.

Generative AI can be of particular benefit in managing talent, especially for organizations with many knowledge workers.

02   Finance and accounting:

Generative AI has significant potential to supercharge finance in traditionally complex, judgement-based areas such as variance analysis, synthesis of financial statements, and real-time commentary on financial conditions. KPMG has seen this potential and put it into action in our finance and accounting shared service center, by deploying generative AI to analyze and provide commentary on the financial statements that are issued to our partners and the board of directors. In fact, 83 percent of surveyed companies in a KPMG study have already begun deploying generative AI for tasks such as forecasting and budgeting—resulting in increased insights provided to leadership and finance stakeholders. In parallel, we expect more than 90 percent of automation potential for shared services data collection and preparation-based tasks when fully enabled by generative AI.

Generative AI can revolutionize finance and accounting shared service centers by automating data-intensive tasks, enhancing the quality of financial analyses, and enabling seamless delivery of actionable insights to leadership, ultimately leading to increased efficiency and more informed decision making. Integrating generative AI into finance and accounting shared services will enhance the speed and quality of routine tasks such as reconciliations, report preparation, and calculations. It will also enable the centers to evolve to provide more value-added services, such as financial statement analysis, first-pass commentary generation, and development of management presentations that traditionally took a substantial amount of time. Generative AI will enable the finance and accounting shared service model to move beyond cost and unlock the potential to realize additional value in increased performance and a better overall customer experience.

Eighty-three percent of companies in a KPMG study have begun deploying generative AI for tasks like forecasting and budgeting.

03 Procurement:

Procurement leaders see generative AI as the technology trend with the biggest impact on their function over the next five years. Already, 96 percent of those leaders report some degree of progress in implementing generative AI.

Generative AI will improve transactional efficiency beyond what has been possible with traditional tools, for example, better guiding users in submitting requisitions that can be processed without additional human intervention. Applied to procurement's strategic activities, generative AI will infuse the insights and analytical rigor that is often missing. For example, generative AI can draft requests for supplier proposals, evaluate supplier proposals, support negotiation strategy development, and even conduct negotiations autonomously.

Procurement will also play a key role in helping the broader organization adopt generative AI. Many current relationships with suppliers and outsource providers will need to be reevaluated and restructured to ensure that the scope of services and the pricing consider the impact of generative AI. Procurement will also

address new considerations around contracting, service pricing, intellectual property protection, and risk as suppliers increasingly incorporate generative AI within their offerings.

KPMG has helped multiple clients adopt AI/machine learning solutions spanning virtually all elements of contract management, including ingestion of contracts, extraction of terms and clause details to enable compliant execution of transactions against those contracts. This solution greatly increases the throughput and accuracy of contract management activities, accelerating contracting and reducing cost. The addition of generative AI to this solution has added capabilities and has reduced training needed for the solution's machine learning algorithms.

Ninety-six percent of procurement leaders in our survey report some degree of progress in implementing generative AI.

04 IT/technology:

When business leaders were asked in our June survey about which functional areas will have the greatest transformational impact with generative AI, 53 percent said IT/technology.

Organizations seeking to scale and accelerate their delivery model while improving operational stability can leverage generative AI in their IT processes. For example, generative AI can assist developers and software testers in numerous ways throughout the development and testing phases. For developers, generative AI can generate code based on simple inputs and review existing code, freeing up their time to tackle more complex tasks. During the testing phase, generative AI can generate automation testing scripts, allowing testers to focus on more sophisticated testing activities. Depending on the level of adoption, simple generative AI tools can help generate and test code that can then be reviewed, while more sophisticated tools can be integrated with development consoles to expedite code development through prompt generation.

Generative AI can also be deployed during the operations and maintenance phase to help organizations provide quicker and more efficient support. With AI-driven phone calls, customer self-service, and ticket categorization, organizations can use generative AI for tasks like ticket triaging and knowledge retrieval.

This results in a reduction of response times and costs, leading to improved customer satisfaction. Additionally, AIOps platforms can further improve the capability by automating more complex tasks, such as root cause analysis, increasing organizations' resilience to outages and enabling chief information officers to keep their business competitive. Generative AI can also automate the highly manual tasks of generating incident reports and postmortems during IT incidents, feeding directly from corporate data sources.

As an example, KPMG worked with an alliance partner to integrate AI to help a major beverage retailer reduce its service ticket expenses. By implementing the AI platform, the system was able to learn from the service knowledge base, thus decreasing the number of service request tickets by customers and enabling self-sufficient options. Ultimately, this solution resulted in cost savings and increased customer satisfaction.

Generative AI can be deployed during the operations and maintenance phase to help organizations provide quicker and more efficient support.

Challenges to adoption

With the right data infrastruce and foundation in place, standing up generative AI capabilities can take less time, money, and effort than has been required to implement and adopt other digital disruptors. That said, a caveat that business leaders must understand is that generative AI is not limited to a few isolated "use cases" and it is not purely a technology play. Realizing the complete value of generative AI will require full enterprise transformation, scutinizing every layer of the target operating model around generative AI. Organizations that can rapidly adopt generative AI and fully integrate it into their target operating models will build a competitive advantage through greater efficiency, new capabilities, and accelerated growth.

We expect that the pace of generative AI adoption will be far faster for the "haves"—organizations that have fully integrated technology and data environments—than for the "have nots"—those whose technology and data environments remain fragmented and siloed. For some "have nots," the business case for generative AI adoption may be the decisive factor in making investments to better integrate their systems and data to provide a connection point for generative AI.

We believe that management of change will become a critical success factor for organizations. Organizations will require well-coordinated enterprise-wide change programs. In our March survey, more than two thirds (68 percent) of respondents said they had not yet appointed a leader or team to support generative AI initiatives—this is a key gap that many organizations will need to address quickly.

Another concern for business leaders is that the infrastructure required to impact the total enterprise at a large scale is still years away, driven by shortages in processing chips, computing power,

and other limitations. We expect that truly large-scale impacts are three to 5 years away before full adoption and integration will be possible. That said, ensuring a proper infrastructure is in place is crucial. A less than thorough foundation can result in a program that functions improperly, which can mean litigation, negative publlic relations, the loss of customers, a dip in profitability, and unwanted attention from regulators. Generative AI could be the single most important business advancement in history, which means that creating the right infrastructure to support it now and in the future should be your top priority.

Opportunity often comes with risk. In our surveys, respondents noted their concerns about the risks of implementing generative AI. In our June survey, the most significant barriers to implementing generative AI included concerns about uncertain regulatory landscape, lack of skilled talent to develop and implement, and an inability to pivot legacy applications and systems. Error, fraud, misuse, loss of intellectual property, and other risks will remain a major consideration for years to come. Generative AI can also raise ethical concerns, such as the possibility of unintentional bias or discriminatory outputs.

Businesses need dedicated digital literacy initiatives to empower and enable their employees to get the best out of generative AI. Education, experimentation, and a positive culture of responsible adoption will all be essential to support generative AI solutions. Specialized knowledge of prompt engineering and using the outputs of generative AI in a responsible manner is also critical for sustained success. In our June survey, business leaders responded that generative AI is very likely to support workforce initiatives like increased professional development, reduced overtime, and increased in-person connectivity.
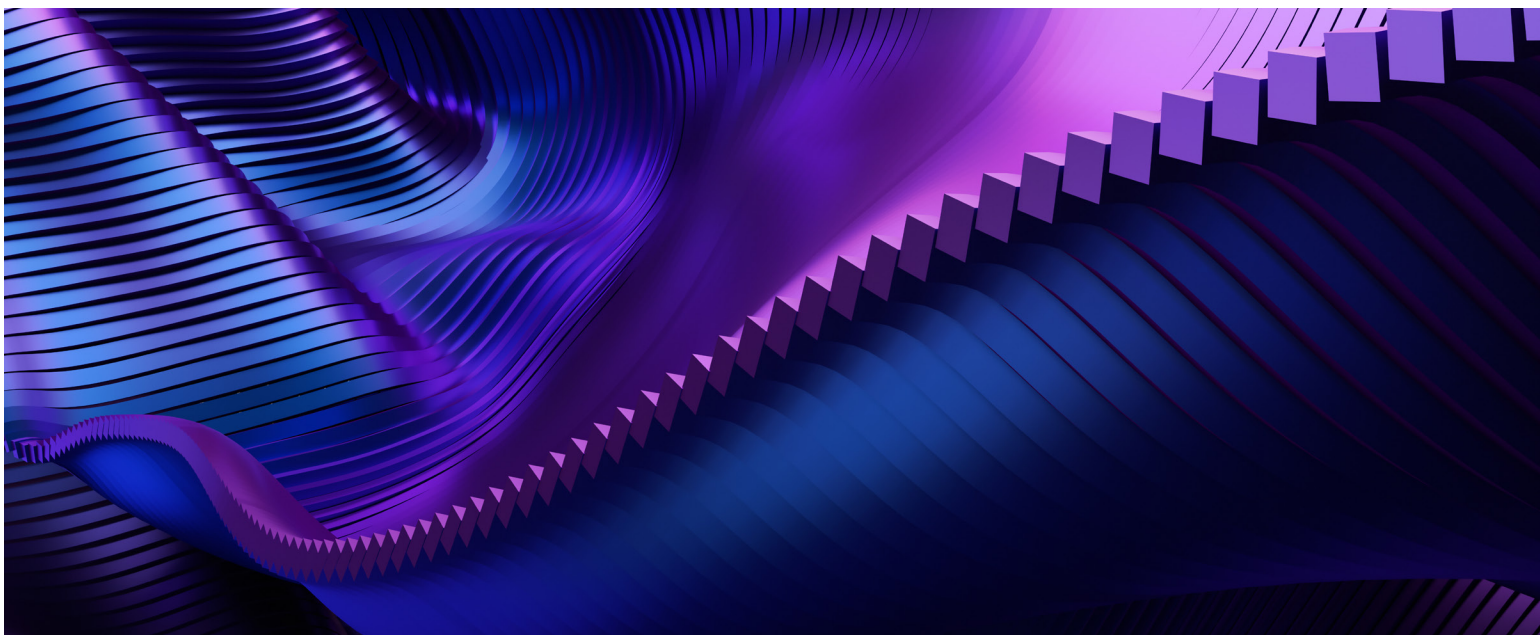
Steps to innovating your shared service model

01

Appoint leaders

For this program to be successful, high-level, empowered leaders will need to be involved and visibly engaged.

02

Assess the organization's risk appetite

Are you risk takers? Are your clients? Does your industry embrace rapid change, or follow others into the technology breach? Determining where your organization sits on the risk and maturity spectrum will dictate your level of comfort with diving into generative AI.

03

Align your approach and your experts

There are significant decisions the organization must make around security, privacy, and legal risk, not to mention practical considerations like whether to allow staff to use public generative AI models. Build a cross-functional team committed to identifying the issues and finding the right solutions for the organization.

04

Identify partners

Build an ecosystem of collaborators and vendors to support you. Then figure out how you'll create the capability. Generative AI is not so much a question of buy versus build. It is an opportunity to buy and build using leading-edge foundational models and platforms and your own tailored solutions and data.

05

Identify initial use cases

Real-world, value-adding use cases will help validate generative AI and justify investment. Pick the projects that can quickly deliver tangible business benefit. Choosing the best starting point includes an evaluation of the processes, people, risks, data, and effort level involved.

06

Develop a strategy for responsible AI

A successful generative AI implementation must proactively address risks and security implications including accuracy of outcomes, data protection and privacy, and loss of intellectual property. A governance strategy is needed to help ensure that generative AI solutions can be scaled across the organization in a trusted and secure manner while allowing for innovation and adoption.

07

Define success

To get real value from generative AI, have clear leadership commitment, establish a center of excellence with representation across functional areas and business units, get your data in order, and prepare the workforce.

08

Build a sandbox

The key to accelerating innovation in generative AI is creating an environment where people can innovate hassle-free. Provide the tools, environment, and support so enthusiastic adopters can start experimenting.

09

Build momentum

Start small. Once you've identified and scoped a few uses cases, start building them, then expand their scope as you prove out the value. There's no need to identify every use case across the enterprise before you launch proofs of concept. Scoring some quick wins can help build momentum.

How KPMG can help

An early and enthusiastic advocate for the power of AI, KPMG is well positioned to help your organization leverage generative AI. Drawing on our deep experience in machine learning and natural language processing, we can help guide your organization through strategy, use case development, vendor selection, and implementation—and then provide ongoing support to help you enhance your investment in this transformative technology. We understand both the promise of generative AI and the process and cultural changes that will be required to realize its full potential. Our experience enables businesses to see the benefits of this technology across a wide range of shared services and design a service delivery framework that leverages the most appropriate internal, external, or blended capabilities.

KPMG also recognizes that all users of generative AI have a responsibility to learn about the technology's risks and how to control those risks to prevent harm to customers, businesses, and society. Those risks will grow and evolve as AI technology advances and becomes more pervasive, and as public pressure from regulators increases. KPMG can help to develop processes and the right controls to identify and mitigate these risks.

Generative AI is here. Its impacts will soon be felt across markets, businesses, and the workforce. By choosing the right partners and getting started on the generative AI journey, organizations can ensure that they're driving this bold new transformation and realizing the full value—for themselves and for their industry—of the generative AI revolution.

Learn how KPMG can help make your generative AI implementation successful, and explore how we can help you adopt AI in a safe, trustworthy, and ethical manner.

Contact us

Ron Walker
Finance Transformation
US Leader
rwalker@kpmg.com

John M Doel
Principal, Human Capital
Advisory
jdoel@kpmg.com

Shehtaaz Zaman
Managing Director,
Finance Transformation
sszaman@kpmg.com

Len Prokopets
Managing Director,
Procurement and
Outsourcing Advisory
lprokopets@kpmg.com

David Muir
Director, CIO Advisory
drmuir@kpmg.com

Kelly Combs
Director, Responsible AI
kcombs@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

DASD-2023-13318

August 2023