KPMG

Seeking Visibility in Logistics and Distribution

Disruptions, solutions, and the state of the industry

April 2022

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Focus

This periodical logistics and distribution (L&D) industry report provides practitioners with a detailed look into geopolitical and market trends disrupting supply chains, the L&D implications of next-generation technology, and data-driven insights on freight markets.

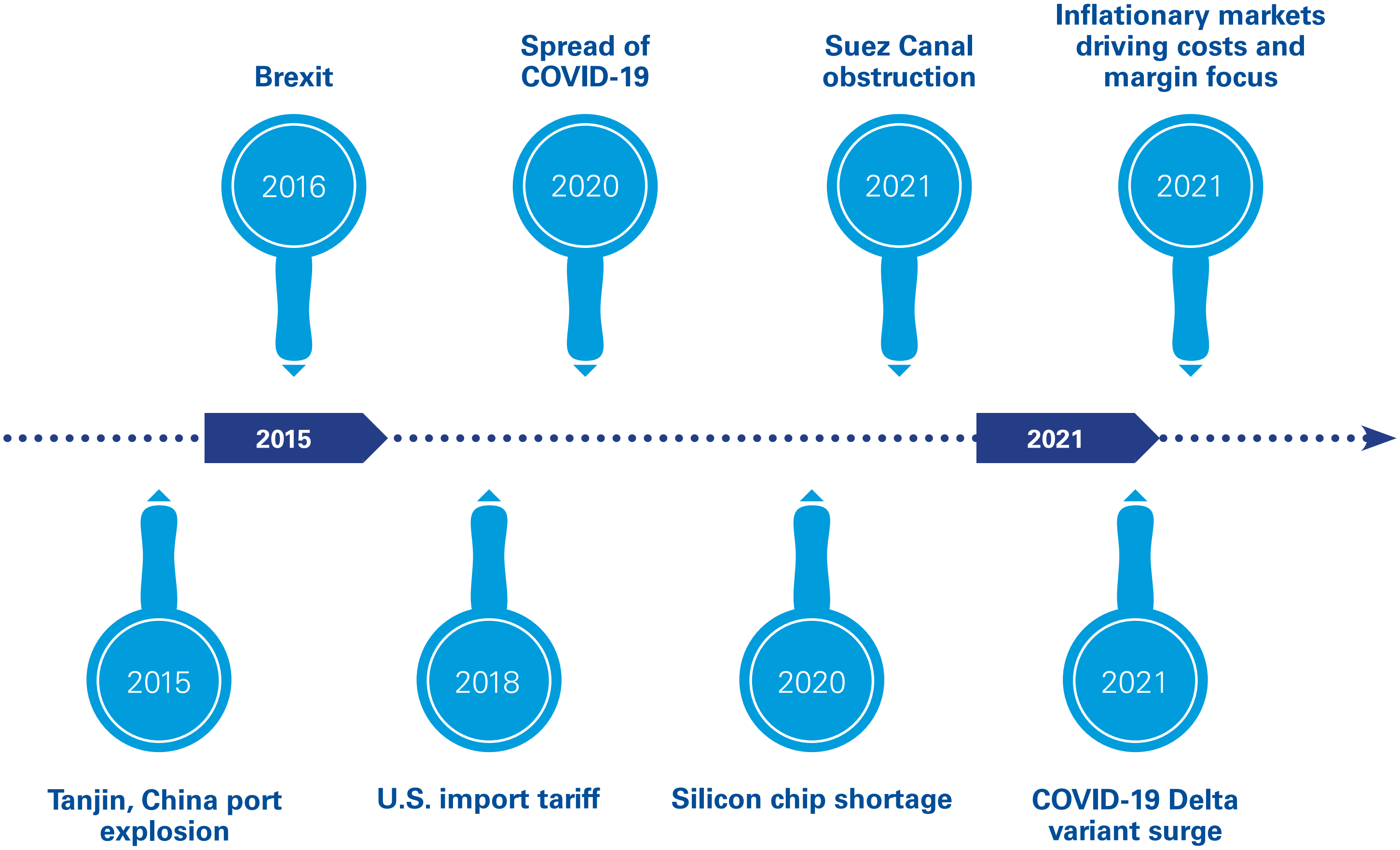
The challenges presented by impactful geopolitical and supply chain disruptions, in addition to shifting market dynamics, have resulted in **reactive operations**, as opposed to **proactive and resilient operations**. The results of this are tighter margins, lower order fulfillment, and a failure to meet customer expectations.

The cornerstone of operational success in this complex and uncertain environment is "visibility." Several levers and technologies are commonly leveraged to enable and enhance operational visibility, though possibly none are more top of mind than 5G technology. This report provides specialized focus on the rise of 5G technology, its applicability to challenges faced by L&D practitioners, and the opportunities for value generation if properly adopted.

In summary, this report will cement the requirement for visibility in supply chain operations, highlight benefits of 5G technology for solving enabling greater visibility, and also provide a periodical data-driven review of North American freight markets.

Geopolitical disruptions

Geopolitical disruptions in the past two years have destabilized the global supply chain landscape



A "perfect storm" of geopolitical, macroeconomic, and industry-based disruptions has caused uncertainty, complexity, and strife in supply chains. Companies with flexible, agile, and proactive supply chains have won market share, while companies with reactive and stagnant supply chains have faltered. We start our report by presenting these disruptions and assessing their impact on what truly makes or breaks winning operations – visibility.

Sources: Al Jazeera, Reuters, Nature, Richmond, Washington Post, Fortune, NY Times, CNN

Current-state disruptors that are log-jamming supply chains globally

"Desperation, disruption driving wider high-low container spot rate spread"

There is a growing spread between the highest and lowest spot rates as cargo owners fight for limited space on the transpacific and Asia-Europe trades.

Source: Journal of Commerce, Greg Knowler (Sep 24, 2021)

Vietnam factory closures delaying U.S. inventory replenishment

Delays in Vietnamese production amid sky-high consumer demand in North America could create a surge in volume when factories reopen, putting even more pressure on already overwhelmed transpacific supply chains.

Source: Journal of Commerce, Greg Knowler (Sep 24, 2021)

Port congestion driving transpacific vessel reliability to fresh lows

Pinched at both Asian load ports and U.S. receiving ports, transpacific carriers in August registered their fourth consecutive month of deteriorating on-time performance.

Source: Journal of Commerce, Bill Mongelluzzo (Sep 24, 2021)

Import "flood," port congestion send outbound LA truckload rates skyward

Jam-packed West Coast warehouses are pushing more freight inland earlier, raising spot prices and expedited trucking costs in lanes out of the Los Angeles region faster than expected.

Source: Journal of Commerce, William B. Cassidy (Sep 24, 2021)

Supply chain trends

As market dynamics shift at a breakneck pace, companies must prioritize supply chain strategies which promote end-to-end visibility

Changing customer preferences

- Increased customer service expectations
- Focus on environmental, social, and governance (ESG)
- Omnichannel experience
- Growing reliance on digital technologies

Heightened customer service expectations require *operational flow* enabled by **end-to-end visibility**

Fluid Market Dynamics

- Greater consolidation of markets through inorganic growth
- Near-shoring of formerly global supply chains
- Prioritization of low risk supply chain versus low cost supply chain
- Shift from "Just in Time" to "Just in Case" supply chains

Companies are restructuring supply chains in the face of shifting market dynamics—partially to **reduce risk** and **emphasize customer centricity**

Labor and Material shortages

- *"Bullwhip Effect"*– unexpected surge in demand for unprepared supply chains
- Upstream supply chain bottlenecks
- International labor shortage increasing labor competition and labor cost
- U.S. driver shortage increasing lead times and cost

Customer and Supplier Collaboration is needed to de-risk the supply chain in order to **improve visibility**

Geopolitical disruptors

- Barriers to trade (Brexit, U.S.-China) leading to increasing complexity and cost
- Compulsory climate reporting and more ambitious CO2 targets are imminent
- Consideration of adjusting driving time-based regulations to address driver shortage

Cross-functional, *integrated business planning* is required to help ensure **organizational alignment and visibility** in the face of uncertain geopolitical factors

Technology developments

- *"Bullwhip Effect"* – unexpected surge in demand for unprepared supply chains
- Upstream supply chain bottlenecks
- International labor shortage increasing labor competition and labor cost
- U.S. driver shortage increasing lead times and cost

Adoption of *next-generation digital technologies* will lead to greater operational **visibility and flow—improving** customer service and reducing operating expenses

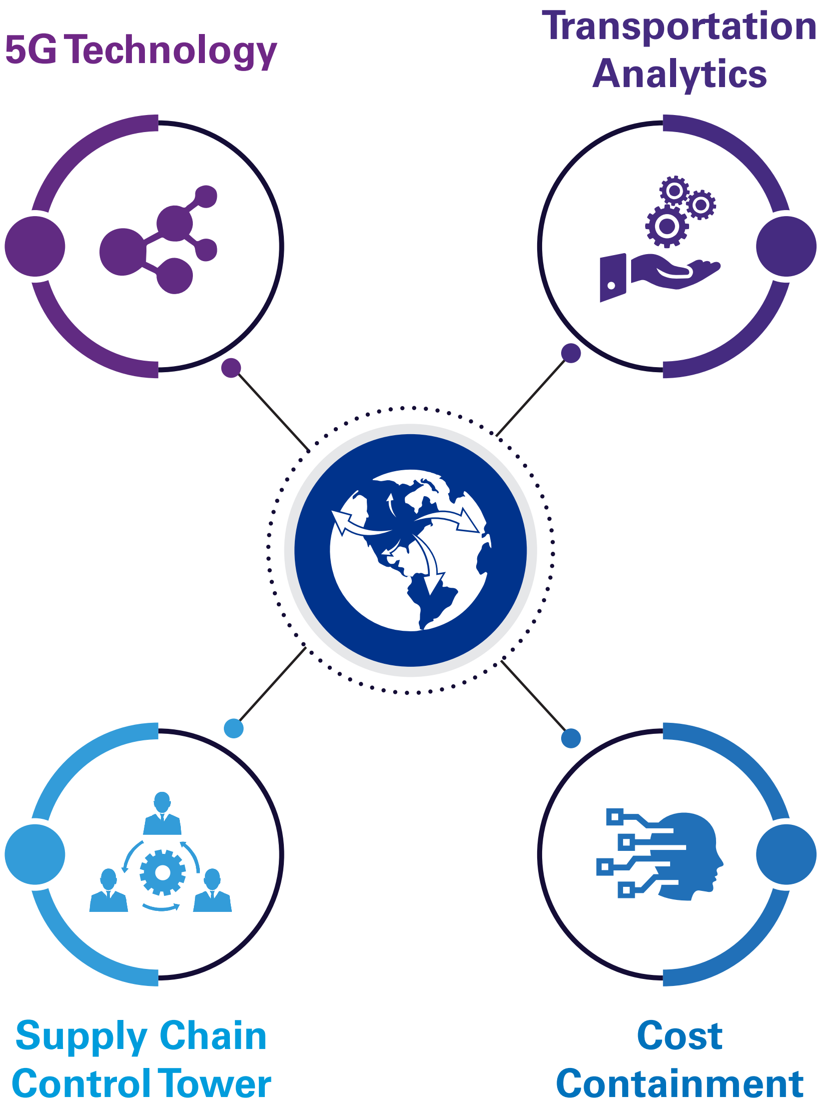
Is your supply chain ready?

Visibility

Key technology levers that improve supply chain visibility

Recent geopolitical, macroeconomic, and industry-specific trends have affected every part of the value chain, from raw material sourcing to order fulfilment. These challenges are testing the operational resilience of companies across the globe. Visibility is critical to ensuring that companies have the flexibility and agility to operate in the face of these challenges.

There are several key next-generation digital technologies that further enable visibility. In this periodical, we will focus on **advancing technologies** *and its* ***impact on enabling visibility*** for Logistics and Distribution operations



Supply chain control tower

A supply chain control tower provides end-to-end visibility across the supply chain, better aligns demand and supply, and improves the ability to make rapid, fact-based decisions with extended business partners

Types of control towers

Plan

Planning control tower

Drives central planning and harmonization across disparate systems and sites

Execute

Core ERP systems

Designed to manage execution inside the four walls of the enterprise

Collaboration control tower

Supports extending processes to trading partners across the end-to-end supply chain

Visibility control tower

Provides extended visibility to in-transits, inventory, capacity, and storage utilization

Inside the "four walls"

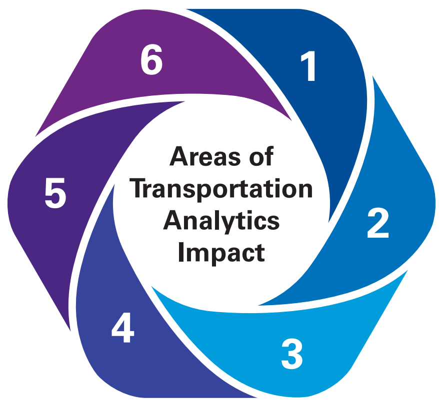
Outside the "four walls"

Value Levers

- Globally integrated planning process
- Real time, fact-based decision-making
- Align demand and supply
- Evaluate business scenarios
- Support global collaboration
- Harmonize global planning
- Track performance against critical KPIs

Transportation Analytics

Companies embarking on the transformation of transportation to a data-driven operating model should start by taking a look at the influencers of value.



1. Product Flow

The ability to leverage transportation as a lever for cost and service improvement begins by **mapping out the physical product flows between regions/countries,** and identify the implications for operations.

2. Distribution Network Footprint

Collaborating with warehousing and distribution on fulfillment models will likely be a more flexible lever than product flow.

Marrying network and inventory optimization with transportation modeling is critical.

3. Global Trade Strategy

The movement of materials is influenced as much by manufacturing strategies as it is by distribution ones. **Being able to model import and export decisions** is critical.

4. Quality and Regulatory

Quality and regulatory are the most permanent policies that should be addressed in any transportation model.

Transportation organizations will need to respond with **viable models to mange these requirements** as much as they do customer ones.

5. Sourcing Strategy

Possibly the most significant lever of cost and risk mitigation, data needs to be included to reflect the **impact of leveraging third parties to manage moves and augment existing capabilities.**

6. On Time and In Full

The OTIF KPI incentivizes companies to be **consistent in their performance. Real-time visibility platforms** have become invaluable tools in ensuring that consistency.

Value Levers

- Improved operational efficiency
- Improved service and customer partnerships
- Future-focused strategy
- Optimized network
- Cost savings

5G technology

5G technology allows for the faster communication of higher data volumes, connecting a greater number of devices

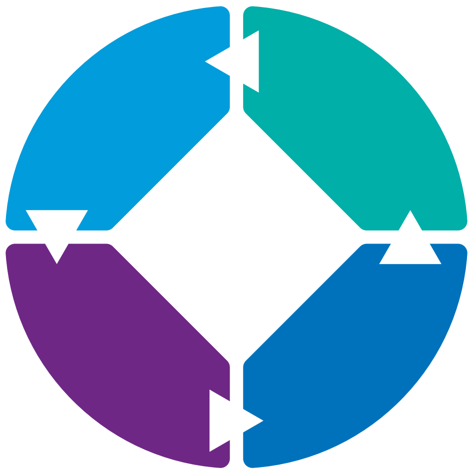
5G further powers digital technologies which enable end to end connectivity and visibility…

Increased device density

5G allows for 1000 more devices to connect to a network (per meter) than 4G. This helps connect several more devices, on a single fleet, to one network

High speed

5G operates at 10Gbit/s, which is 100x faster than 4G. This improves productivity by enabling near real-time tracking of assets throughout the supply chain



Low latency

5G delivers 200 times lower latency than 4G, helping with faster response times at ports, in distribution centers, etc.

IoT within Logistics

5G allows a network of sensors to monitor resources with minimum information lag

… and expands logistics and distribution capabilities, which has the opportunity to create new operational benefits.

Streamlined Logistics Operations	Smart Inventory and Warehouse Management	Seamless Fleet Management Operations

5G improves visibility and solves challenges in the logistics and distribution function across numerous industries:

Customer & Retail	Consumer Packaged Goods	Industrial Manufacturing
Healthcare & Life Sciences	Wholesale Distribution	Government & Public Sector

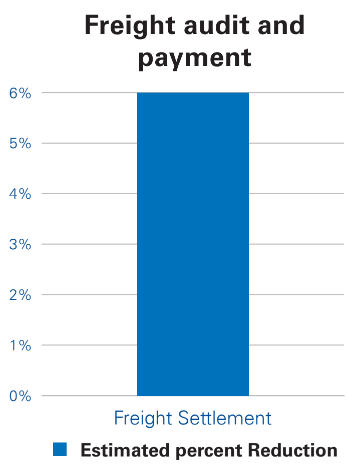
Value Levers

- Streamlined Logistics Operations
- Smart Inventory and Warehouse Management
- Seamless Fleet Management Operations
- Remote maintenance and control
- Autonomous Robots with low processing times
- Continuous vehicle-to-vehicle communication among robots and trucks

Cost Containment

Cost containment techniques such as FA&P and 3PL outsourcing can drive multilayered benefits to the operations of an organization

Freight Audit and Payment (FA&P)

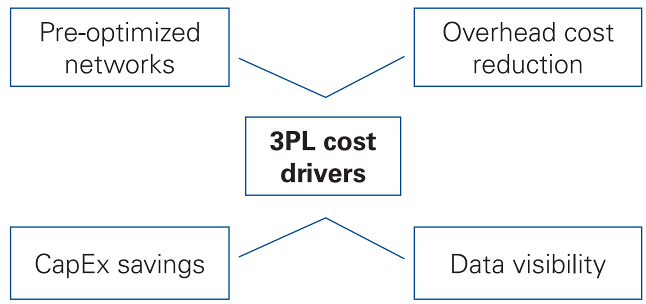


- An F&AP automation through TMS implementation **saves 6 percent time in freight settlement**
- Further, automation enhances **freight payment accuracy, contract compliance,** and **RPA predictive capabilities**
- FA&P automation is only the first step to a more **streamlined future**, with companies' **entire order to cash** processes expected to undergo automation

Value Levers

- Reduce administrative burdens
- Deliver data-driven insights
- Inform decision-making
- Proactive cash management
- Visibility to carriers

3PL Outsourcing



- **Technological capabilities and financial resources** create value in outsourcing 3PL
- **Access to expertise**, a gain in **flexibility/ scalability**, and the ability to **grow business** and **market reach**
- **Improved services, response times,** and **OTIF rates** also benefit brand reliability and customer satisfaction

Value Levers

- Leverage already existing carrier relationships
- Reduces the need for CapEx
- Enables scalability
- Exposure to latest tech in logistics

U.S. transportation snapshot

Transportation market at a glance

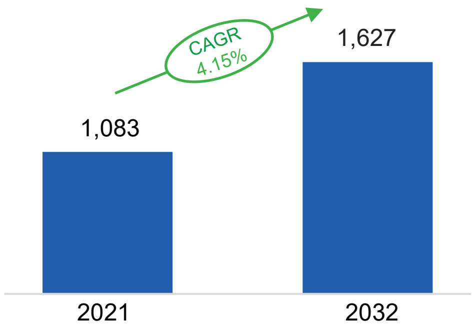
Freight Trends – KPMG Point of View

In the following pages we present data-driven freight trends in the North American transportation market. These trends and data points provide a current state of the market as well as future projections. Our research focuses on the freight market revenues, fuel prices, and economic indicators.

Quarterly report for transportation industry-U.S. trucking

Total truckload rate outlook is projected to increase 13 percent YoY for 2021 – with long term freight industry projections showing 4–5 percent CAGR over next 10 years; freight revenue in the U.S. is expected to reach to US$1.627 trillion in 2032

Overall Freight Revenue (in US$ billion)



Total revenue derived from primary freight shipments in the US is expected to increase from an estimated US$1.083 trillion in 2021 to US$1.627 trillion in 2032.

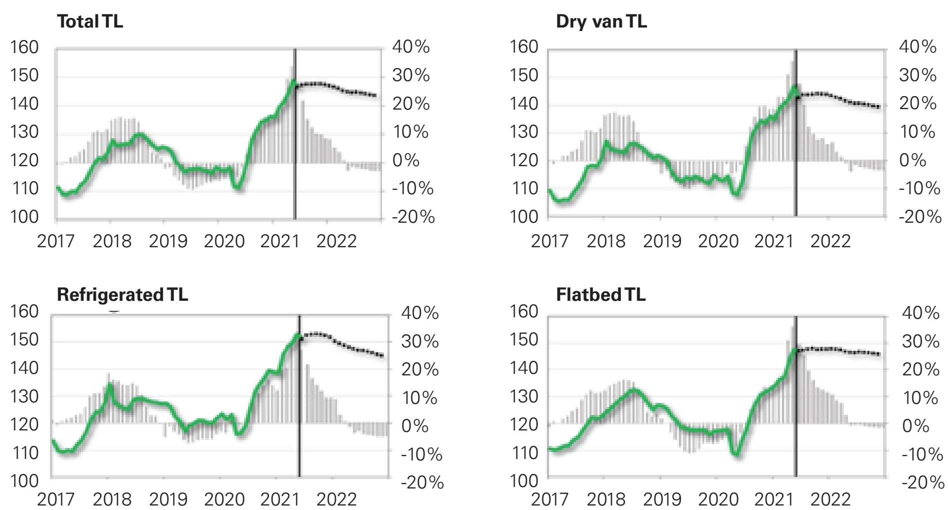
- Total freight tonnage is expected to grow from an estimated 15.1 billion tons in 2021 to 19.3 billion tons in 2032—a 28 percent increase.
- Trucking freight tonnage is projected to decline from 72.2 percent in 2021 to 71 percent in 2032, with volume growth across all segments of the industry—truckload, less-than-truckload and private carrier. Truck tonnage is expected to grow from 10.23 billion tons to 13.7 billion tons in 2023.

The total freight and trucking volumes in the U.S. depicts the impact of COVID-19 on demand and production.

- After falling 6.8 percent in 2020, freight volumes are expected to surge 7.4 percent in 2021, showing a strong rebound and continued growth for freight demand.

Total truckload rate outlook

Index: 100 = 2008Q1, excluding fuel surcharges; Y/Y change plotted in bars on right axis



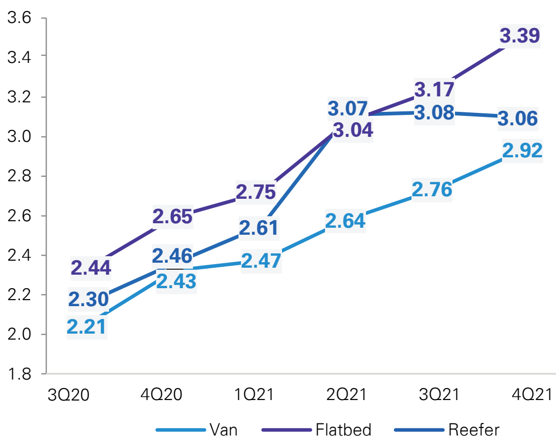
- FTR forecasts truckload contract rates to be up by approximately 13 percent YoY for 2021, with further growth projected in early 2022.
- Contract rates for 2022 is projected to be approximately 4 percent higher than this year. For less-than-truckload, rates are up about 15 percent in 2021, and projected to flatten or drop slightly negative for 2022.
- For 2022, FTR forecasts a 3–4 percent growth in total loadings compared to 2021. Falling diesel prices, greater freight volume and strong freight rates in December 2021 contributed to FTR's Trucking Conditions Index rising to nearly 14.5, the highest since May 2021.
- FTR officials expect conditions to remain positive for carriers through 2022 with gradual easing, but swings in fuel prices could maintain volatility.

Source(s): *ATA Freight Forecast Shows Freight Recovering from Pandemic-Induced Dip, PR Newswire, (December 20, 2021); FTR's Trucking Outlook: What the Numbers Say About Freight, Rates, and Drivers, HDT Truckinginfo, (September 6, 2021); FTR: Trucking Conditions Expected to Remain Positive, HDT Truckinginfo, (February 14, 2022)*

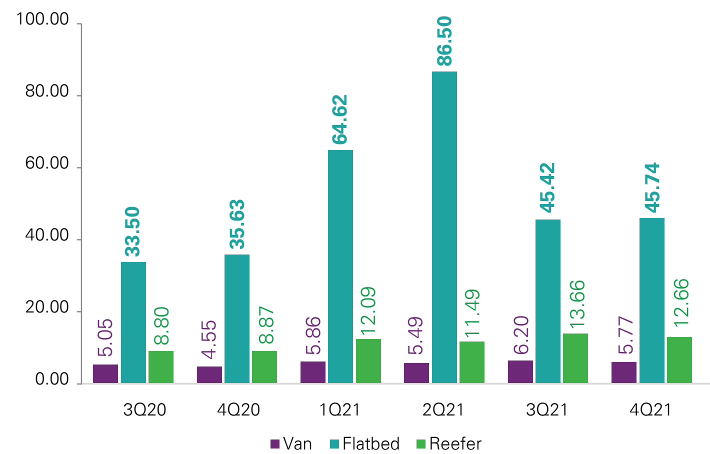
Quarterly Report for Transportation Industry-U.S. Trucking (continued)

Truckload charges and volume have realized strong growth in the recent quarter, over the previous year; however, the number of trucks in operation have not grown to coincide with the rising demand

U.S. average truckload freight rates/mile (US$)



National Average Load-to-Truck Ratio



— In 4Q21, quarterly average spot van rate increased 20.1 percent to US$2.92/mile YoY.

- In December 2021, average rate for van loads grew 7 cents compared to November to US$2.99/mile, including fuel surcharge.

— During 4Q21, average spot reefer and flatbed rate increased 28.1 percent and 24.7 percent, YoY, respectively.

- In December 2021, refrigerated and flatbed spot rates stood at US$3.47/mile and US$3.07/mile, respectively.

— In 4Q21, average load-to-truck-ratio has seen growth across various trucking options:

- Load through vans increased 26.8 percent YoY.
- Flatbed ratio grew 28.4 percent YoY.
- Reefer witnessed rise of 42.6 percent YoY.

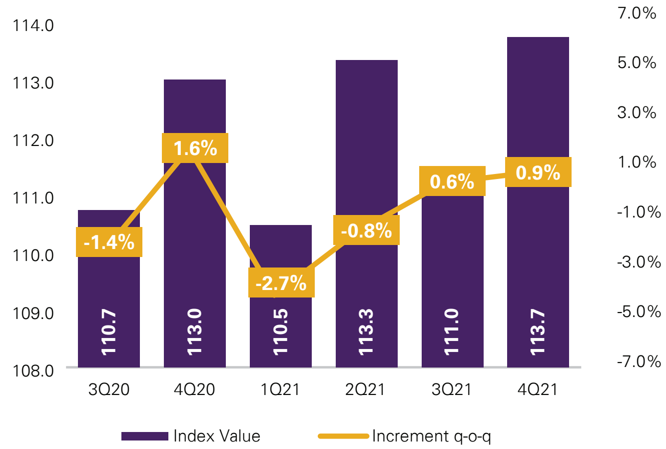
— In December 2021, national average load-to-truck ratio for van was 6.54, up from 5.19 in November 2021.

- For reefer it stood at 14.02, an increase from 11.92 in November 2021.
- Flatbed ratio was 51.17 up from November's 37.48, driven by unseasonably warm weather extending the construction season.

Source(s): DAT Solutions, LLC, DAT Trendlines,; Logistics Management, DAT Truckload Volume Index hits new records in December (January 21, 2022); American Trucking Association, ATA Truck Tonnage Index Increased 1 percent in December (January 18, 2022)

Quarterly Report for Transportation Industry-U.S. Trucking (continued)

Truck Tonnage Index and Q-o-Q Growth (Gross tonnage of freight and percent)



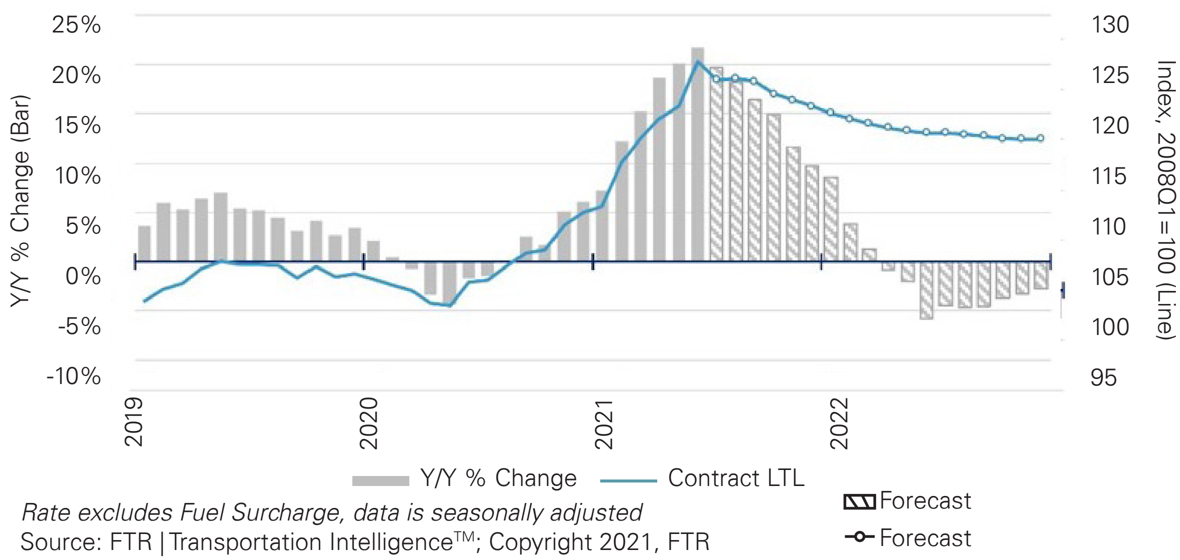
- Tonnage index value for 4Q21 increased 0.65 percent YoY.
  - Seasonally adjusted for-hire truck tonnage index grew 1.0 percent in December 2021 after growing 0.5 percent in November 2021.

As per the Chief Economist of American Trucking Associations—*"tonnage reached the highest level since March, but it was still 2.7 percent below the pre-pandemic high, likely due to the fact ATA's data is dominated by contract freight. Contractor truckload carriers operated fewer trucks in 2021 and it is difficult to haul significantly more tonnage with fewer trucks. But overall, we have seen a nice trend up that is reflective of a still growing goods-economy."*

Quarterly Report for Transportation Industry-U.S. Trucking (continued)

Economic indicators driving truckload market in 2021 are predicted to be consumption, industrial production, and inventory-to-sales

Rate Outlook: Contract LTL



Rate excludes Fuel Surcharge, data is seasonally adjusted

Source: FTR | Transportation Intelligence™; Copyright 2021, FTR

- By the end of 2021, truckload rates in the U.S. are expected to be up 18 percent YoY, while flattening at high levels next year.
- Truck loadings in dry van, reefer, and flatbed segments are expected to finish with a growth of nearly 6 percent in 2021, with another 3.3 percent gain in 2022.
- **LTL rates forecast to be up 15 percent in 2021; slightly negative in 2022.**
  - Blending spot market and contract rates projected to produce 18 percent increase in 2021, however, expected to witness marginal growth in 2022.

Rate increase is being driven by capacity utilization of 100 percent. The 10-year average for capacity utilization is 91 percent.

Note: **Report published in Q3 2021*

Source(s): *Truckload Market Forecast: Q3 2021 Spot & Contract Freight Rate Trends, Coyote; FTR Rate Outlook*

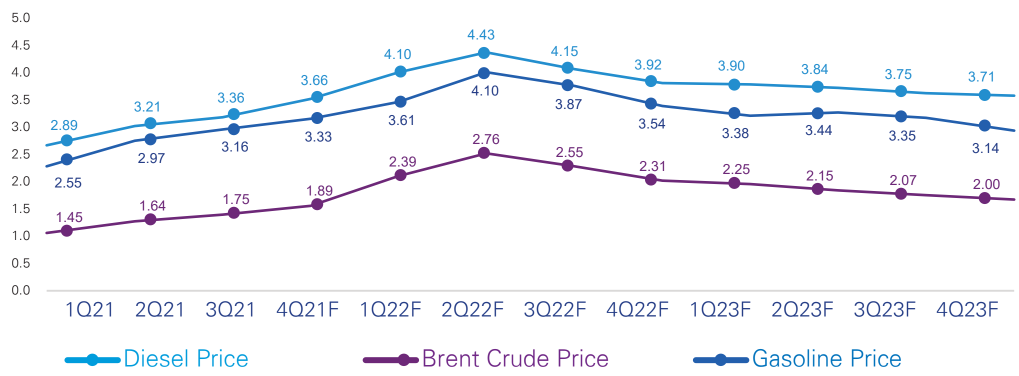
Quarterly report for transportation industry-U.S. fuel prices

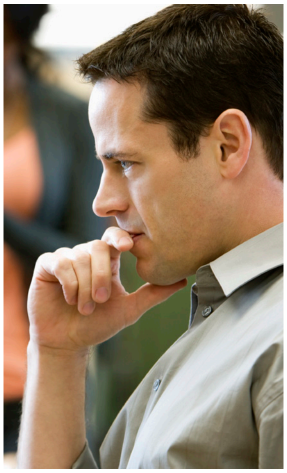
EIA expects gasoline, brent crude, and diesel prices to rise to their highest in 2Q22 with diesel prices increasing up to average of US $4.43 per gallon; gasoline prices rising to average of US$4.10 per gallon; and brent crude at an average of US$2.76 per gallon.

Oil prices are rising as result of the Ukraine-Russia conflict and new sanctions placed on Russia. Russia is a major exporter of crude oil. Since mid-January 2022, the geopolitical risk related to Russia's further invasion of Ukraine has contributed to higher and more volatile crude oil prices. Due to the easing of the COVID-19 situation there has been stronger petroleum demand. However, slower crude oil production growth has put upward pressure on global crude oil prices.

Oil prices rise as result of steady draws on global inventories

U.S. Gasoline, Brent Crude and Diesel Average of Monthly Price (US$ per gallon)





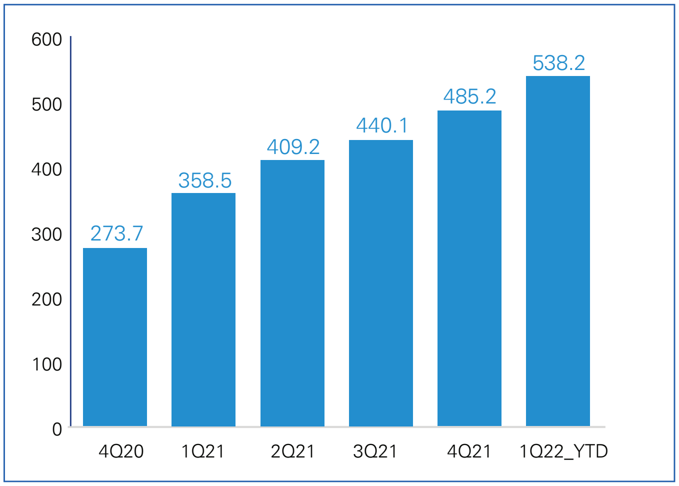
***Source(s)**: US EIA, Short-term Energy Outlook (February 8, 2022); Logistics Management*

- Energy Information Administration (EIA) lists average diesel retail **price per gallon at US$4.03 as of February 2022, the highest average price** (not adjusted for inflation) for any month since March 2013.
  - Product prices have risen compared with year-ago levels because of rising crude oil prices and high refining margins.
- EIA estimates gasoline retail prices in second half of 2022 at US$3.71 per gallon.
  - EIA expects **crude oil price increases will push the U.S. average gasoline price to US$4.10 per gallon on average in 2Q22**, which would be the first time that gasoline prices (not adjusted for inflation) have reached at least US$4 per gallon in any month since July 2008.
- U.S. crude oil production decreased 11.6 million barrels per day in December 2021 (the most recent monthly historical data point), a decline of 0.2 million barrels per day from November 2021.
  - Daily spot prices for Brent crude closed at ~US$124 per barrel in the first week of March 2022 due to Ukraine invasion by Russia and subsequent sanctions on Russia. Other actions also created significant market uncertainties about the potential for oil supply disruptions.
  - As per EIA forecast, crude oil production will rise to average 12.0 million barrels per day in 2022 and then to record-high production on an annual-average basis of **13.0 million barrels per day in 2023**.

Quarterly report for transportation industry-U.S. railroad

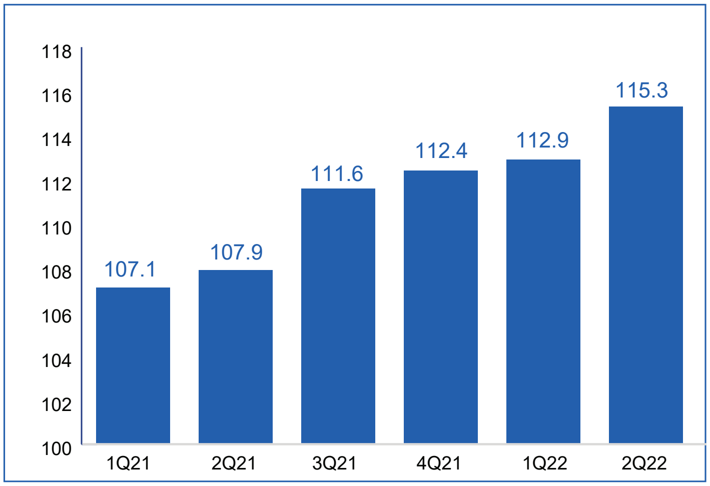
Rail fuel prices and other expenditures have seen significant rise in 1Q22, however, the volumes across both carload and intermodal have been difficult to maintain during the same timeframe

Average U.S. Railroad Fuel Prices (Index Value)



Latest quarter (1Q22_YTD) is for the month of January and February

All inclusive Freight Index Less Fuel (Index Value)



Average U.S. railroad fuel prices index measures changes in the price of locomotive diesel fuel purchased by freight railroads.

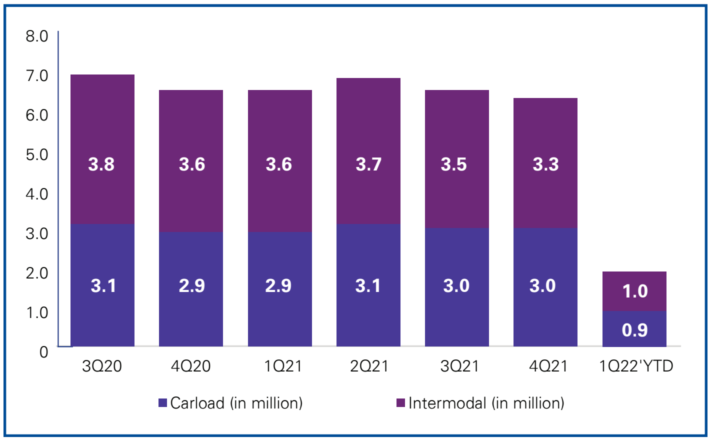
- In 1Q22_YTD, average U.S. railroad fuel price index increased 10.9 percent to 538.2 index points compared to previous quarter 4Q21.
- Average U.S. railroad fuel price index spiked in the month of January and February due to Ukraine-Russia conflict.

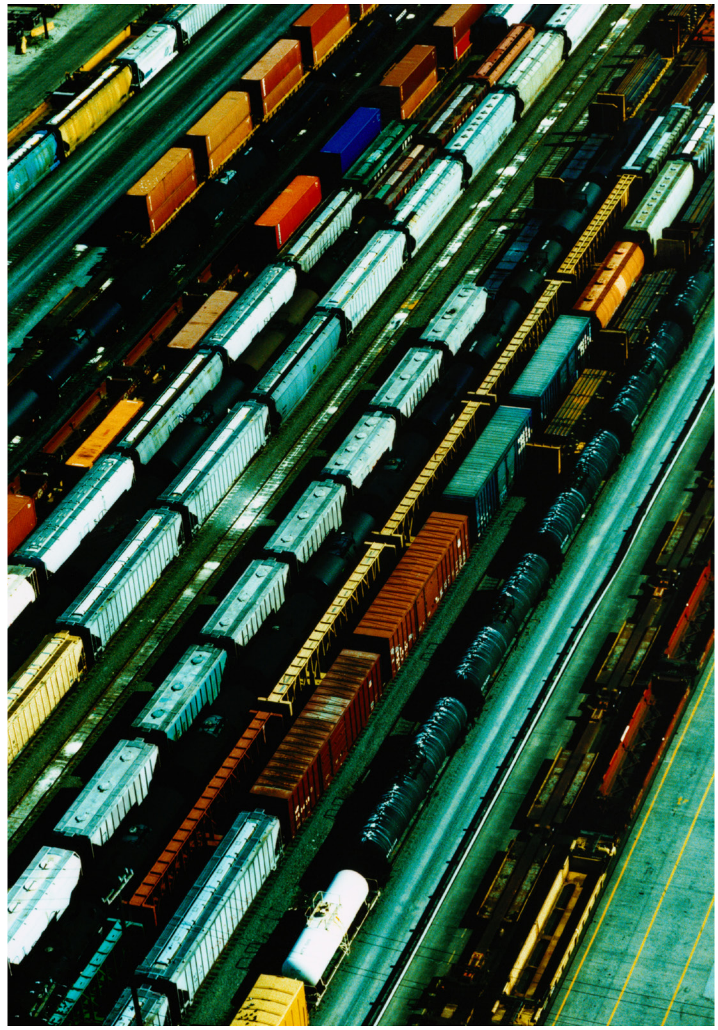
This index provides a measure of various components of freight movement, including labor; M&S; equipment rents; depreciation; and interest expense. This is adjusted for forecast error and excludes influence of fuel cost.

- All-inclusive index less fuel increased 6.9 percent YoY in 2Q22 to 115.3 index value. Further, it increased 7.7 percent q-o-q in 2Q22.

Quarterly report for transportation industry-U.S. railroad (continued)

U.S. Carload and Intermodal Rail Traffic
(#, in million)





For 4Q21, total rail carloads stood at ~3.0 million carloads, up 3.0 percent YoY and intermodal volume was ~3.3 million containers and trailers, down 8.5 percent YoY.

— During FY21, total U.S. carload traffic was ~12 million carloads, and ~14.1 million intermodal units.

"On the carload side, chemicals set a new annual record and grain had its best year since 2008...For intermodal, a record-setting first half gave way to a lower second half as supply chain challenges persisted. Still, 2021 was the second-best US intermodal year ever, behind only 2018." – ***Association of American Railroads Senior Vice President***

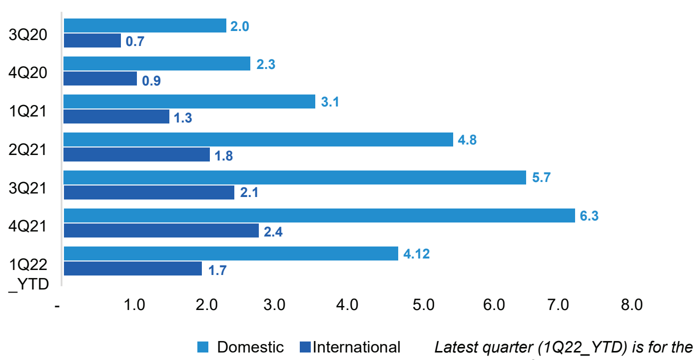
Source(s): *Association of American Railroads, Monthly Railroad Fuel Price Indexes (January 2022); All-inclusive Index Less Fuel With Forecast Error Adjustment, 4q/2017 = 100.0 (December 2021); YCharts, US Carloads Rail Traffic, US Intermodal Units Rail Traffic; Rail Traffic for the Week (January 1, 2022); American Association Report, AAR RCAF 2022Q1 Submission (December 3, 2021)*

Quarterly report for transportation industry-North America

Air freight rates expected to rise, along with an anticipation of imbalance in air traffic issues due to Russia-Ukraine conflict and lesser COVID-19 restrictions

December 2021 U.S. airlines scheduled fuel cost amounted to US$2.9 billion

U.S. Scheduled Outbound Air Cargo Fuel Cost (US$ billion)



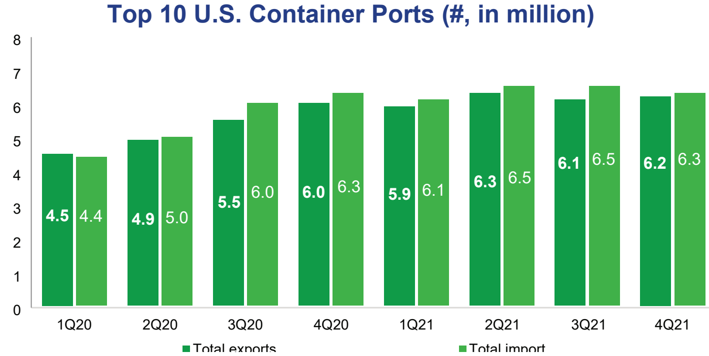
Latest quarter (1Q22_YTD) is for the month of January and February

— During February–January 2022, total U.S. airline fuel cost grew by 134.9 percent YoY to US$5.8 billion.

- Domestic fuel cost was up 138.9 percent to US$4.1 billion and international fuel cost grew 125.5 percent to US$1.7 billion.
- Total February 2022 fuel expenditure increased 4.5 percent to US$2.98 billion from January 2022.

NRF* forecasts January 2022 TEU at 2.24 million, up 9 percent from January 2021

20-Foot Equivalent Units (TEU) Handled by Top 10 U.S. Container Ports (#, in million)



— In 4Q21, total TEU handled by 10 U.S. container ports decreased 1.0 percent YoY to ~13.4 million TEUs.

- **Los Angeles is largest city/port witnessing imports and exports** — accounting for 18.6 percent of total TEU handled.

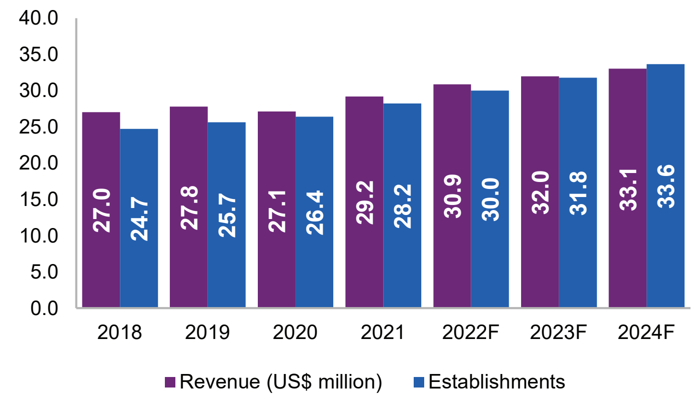
***Notes(s)**: *National Retail Federation*

***Source(s)**: Bureau of Transportation Statistics, Airline Fuel Cost and Consumption (US Carriers – Scheduled) (February 2022);*
Bureau of Transportation Statistics, US Airlines' February 2022 Fuel Consumption Down 11 percent from Pre-Pandemic 2019;
Aviation Fuel Cost per Gallon Hits 7-year High (April 6, 2022);
Bureau of Transportation Statistics, 20-Foot Equivalent Units (TEUs) Handled by the Top 10 US Container Ports: Jan-2019 to Dec-2021

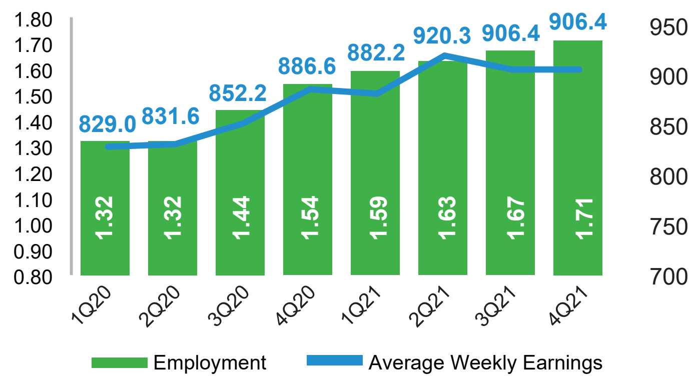
Quarterly report for transportation industry-Warehousing

Warehousing industry is realizing strong growth in 2021, primarily driven by rising demand from online commerce businesses; with industry employment accelerating since July 2021

Public Storage & Warehousing in the U.S.—Revenue (US$ billion) and Establishments (#, '000)



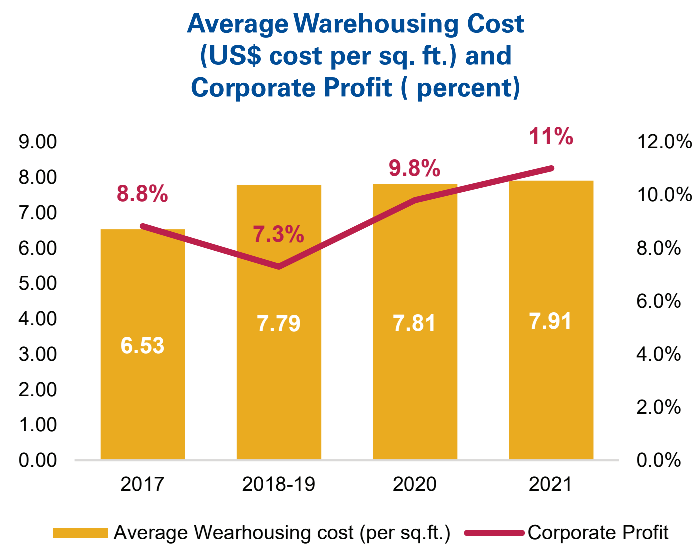
Average employee count (#, million) and Average Weekly Earnings (US$)

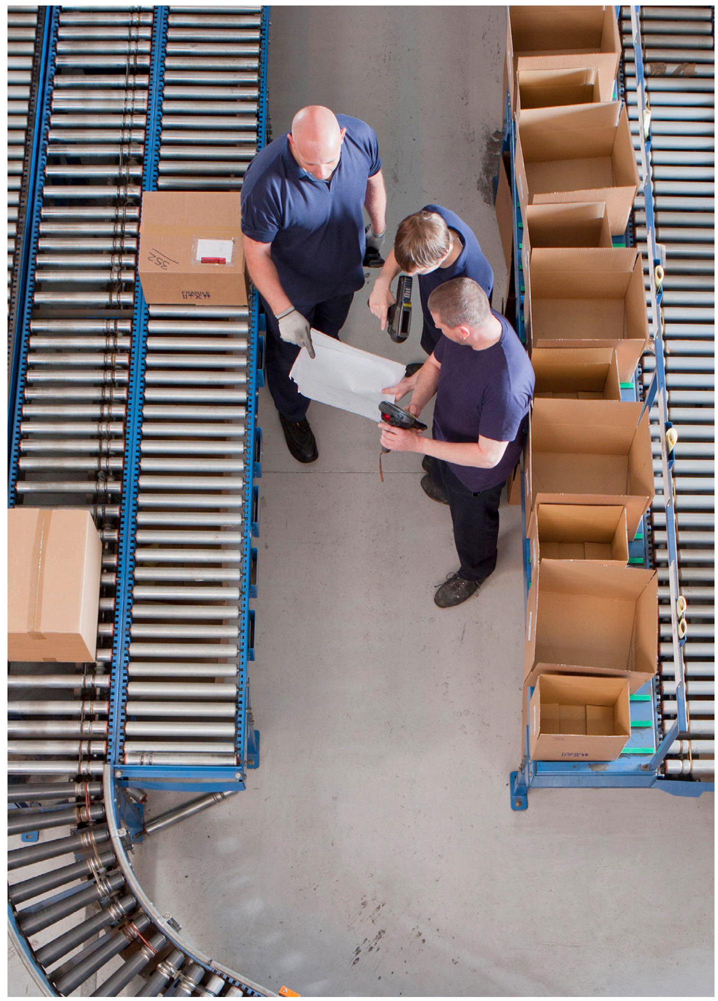


- Revenue for the public storage and warehousing industry estimated to grow with a CAGR of 6.8 percent during to US$33.6 billion in a period of 2020–2024, including 7.7 percent YoY growth in 2021.
  - Increase in consumer spending is forecasted to anchor industry growth.
- During 2020–2024, number of industry establishments are projected to grow at an annualized rate of 6.3 percent to 33,640 locations. The upward trend is driven by increased demand from e-commerce business for warehousing space.

- In December 2021, average employee count in the US warehouse and storage sector grew by 9.8 percent YoY.
  - During this month, the weekly average earnings stood at US$920.0.
- During 3Q21, job vacancies in the transport and storage sector grew ~76.3 percent q-o-q; however, has remained relatively constant from 3Q21 to 4Q21.
  - The growth was led by both an increased workload and decline in staff availability.

Quarterly report for transportation industry-Warehousing (continued)





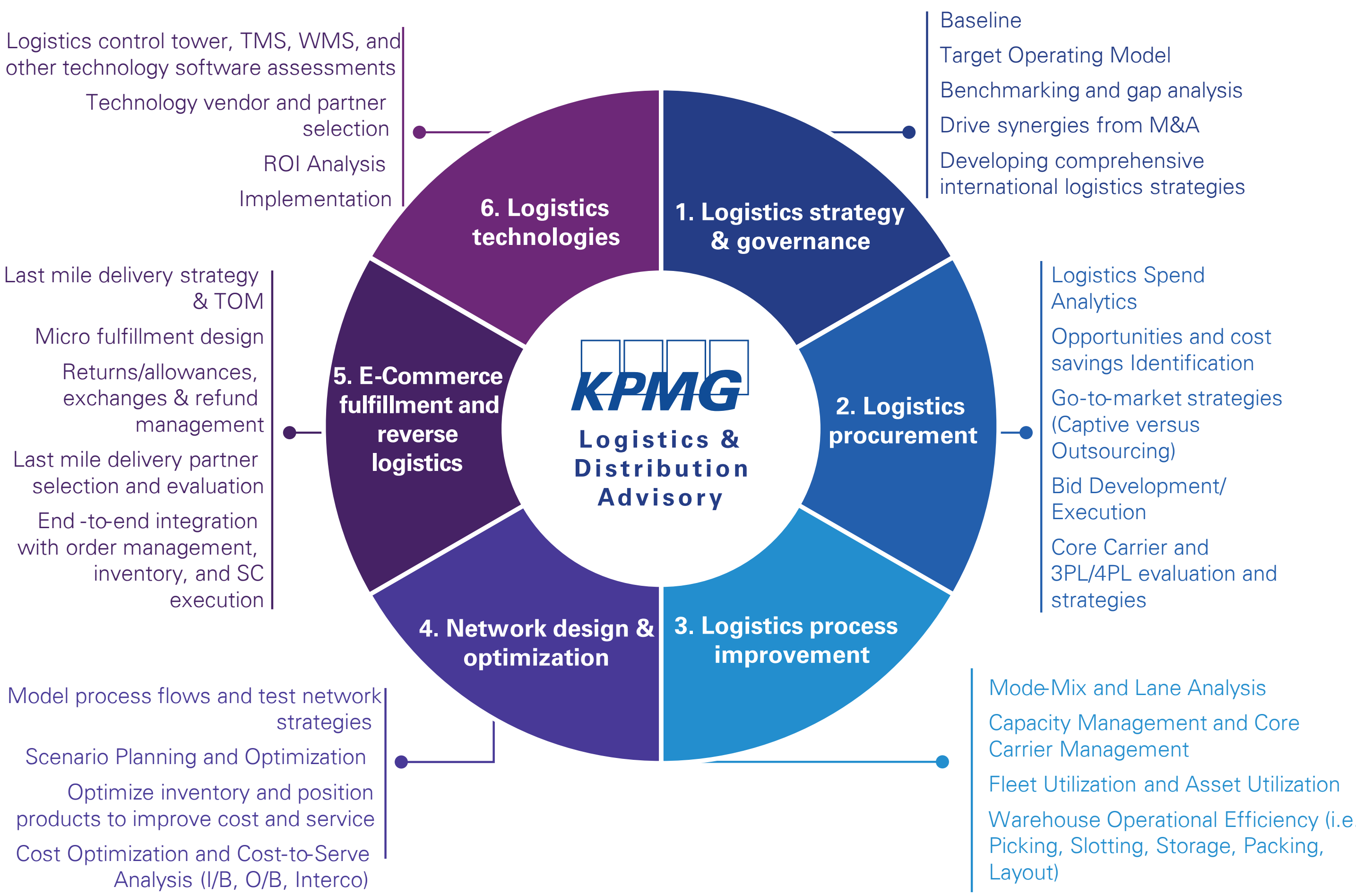
- Warehousing costs saw an uprise due to growing demand for space and labor.
- Corporate profits have started to increase at an accelerated pace since 2020, due to popularity of outsourced fulfillment services.
- Growth of warehousing is continuing to put pressure on warehouse operators' cost structures—particularly labor rates and warehouse leases.

Sourced from insightQuote survey of previous four years

Source(s): *IBISWorld, Public Storage & Warehousing in the US (July 2021); US Bureau of Labor Statistics, Warehousing and Storage (February 17, 2022); insightQuote, Inc., 2021 Warehousing Cost Survey Reveals Expected Increases as Pandemic Fuels Fulfillment Industry Growth (May 11, 2021); Blue Arrow, Changes to work environments for driving and warehouse jobs (October 15, 2021)*

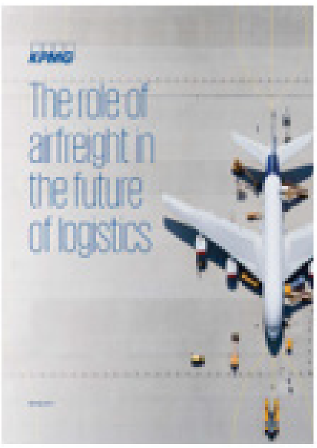
How KPMG can help

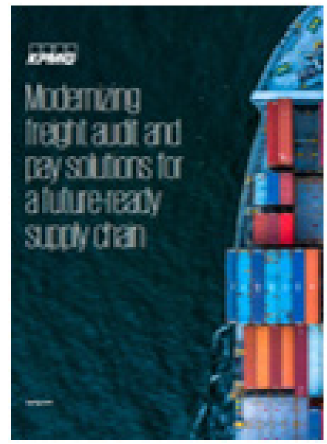
KPMG understands the critical role logistics plays within the end-to-end supply chain process and visibility. Within our Customer and Operations Commercial practice, we have a dedicated team of global transportation and logistics practitioners that help our clients navigate and better manage the complexities of their transportation and logistics operations.

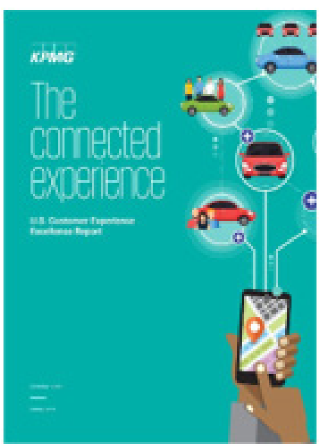


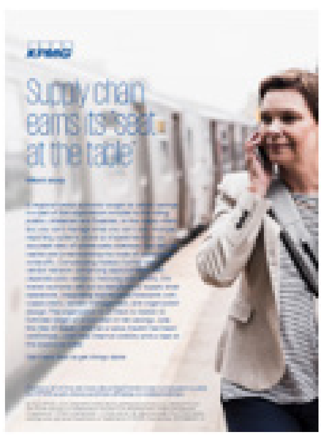
Logistics and distribution thought leadership

U.S. Marketing Link









By your side, all the way…

We look forward to serving you! Please let us know how we can assist you with your transportation and logistics needs.

To learn more:

Please contact us.

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