KPMG

KPMG Managed Services:

Industry-specific analysis of the 2025 HFS Market Impact report

Life sciences

Navigating trade disruption

How trade policies are impacting services delivery and outsourcing strategies in life sciences.

Executive summary

In 2025, KPMG and HFS Research collaborated on a study to understand the impacts of trade policies on services delivery and outsourcing. The research surveyed over 400 senior executives from US-based companies with more than $2 billion in revenue and included in-depth interviews with leaders from Global 2000 organizations. This report provides a specific analysis of the life sciences sector.

Key findings

The life sciences industry is uniquely affected by the volatile global trade environment due to its heavy reliance on outsourcing and significant regulatory complexity. Key findings from the survey include:

High dependency on outsourcing: The life sciences sector shows the highest dependency on outsourcing among all industries surveyed, with 62% of executives reporting heavy reliance. This strategy is used to convert fixed costs into flexible, variable costs.

Trade policies as a major threat: A significant majority (66%) of life sciences executives view US trade policies as a negative force, with 40% considering them an immediate threat to their sourcing and delivery strategies—well above the cross-industry average.

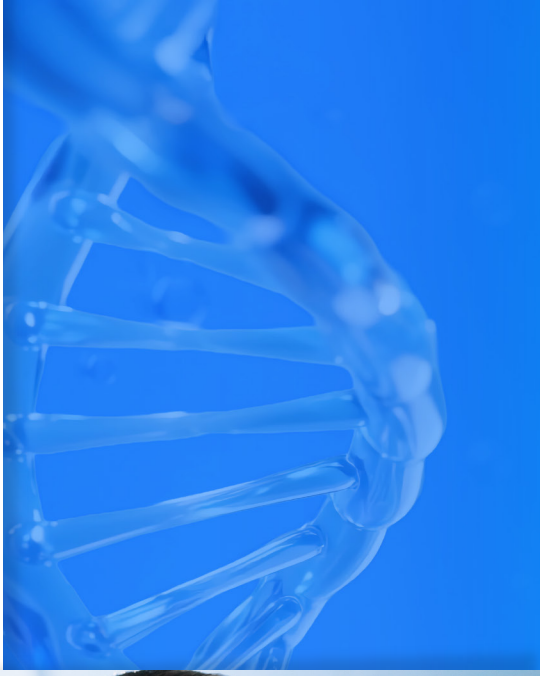
Emphasis on cost reduction and AI: Faced with pricing restrictions, life sciences companies are not able to pass on tariff-related costs to customers. Consequently, they are aggressively turning to cost reduction, with 68% evaluating AI and automation to replace labor-based services. A remarkable 88% expect to significantly increase their AI spending in the next 12 months.

Shifting sourcing strategies: While reshoring services to the US is not a priority, nearshoring to Canada and Latin America is an attractive option for 61% of executives. Data sovereignty has also become a major concern, with 72% worried about control over their data.

The current global trade environment represents a fundamental shift toward sustained volatility, not a temporary disruption. While life sciences companies are rightly investing in technologies like AI to manage costs, many are hesitating to modernize their broader operating models.

This presents an opportunity. The greatest value from new technologies comes not from the tools themselves, but from the organizational transformation they enable. By thoughtfully pairing technology investment with operating model evolution, life sciences firms can build the resilience and agility needed to thrive in this new, dynamic landscape.

Rethinking services delivery in a volatile trade environment



Life sciences companies today operate in an environment defined by volatility and extensive regulatory and contractual requirements that add complexity and constrain agility.

The industry is distinguished by its reliance on outsourced service delivery across a wide range of functions, including research and development, clinical trials, manufacturing, regulatory submissions, and post-market diligence.

In our survey, 62% of life sciences executives report being heavily dependent on outsourcing—the highest among all seven industries represented.

It's a strategy designed for flexibility, often used to convert fixed costs (labs, manufacturing plants, clinical staff) into variable costs that can scale up or down with product development lifecycles or consumer demand. But this labor-intensive service delivery model is also costly to operate.

In the face of rising protectionism and shifting trade policies that are threatening the economics of their global operations, life sciences executives are looking for ways to reduce costs and manage risks.

Because the industry is continually developing new products, a culture of innovation often permeates life sciences organizations. They're open to innovations in services delivery—provided there's a clear financial incentive.

Our survey sheds some light into their thinking and exposes opportunities that may offer significant advantages for those bold enough to seize them.

Leading concerns

It's become almost cliché to say that disruption exposes opportunity. Given the level of disruption reported by life sciences executives, there would appear to be plenty of opportunity available.

US trade policies are seen as an immediate threat

Sixty-six percent of life sciences executives viewed current US trade policies as a negative force creating operational and planning challenges and disrupting their strategy—higher than any other industry. Forty percent of life sciences executives see these polices as an immediate threat to their sourcing and delivery strategies. That's more than any other industry, and well above the 26% cross-industry average.

40%
see US trade policies as an **immediate** threat

Little effect on demand

Despite the threat, only 14% of life sciences executives expect a decrease in consumer spending or market demand, the lowest of any industry, perhaps reflecting an inelasticity in demand for its products.

But a significant impact to growth and innovation

They do, however, see a potential erosion of local competitiveness or growth and a disruption of their innovation engines. They were among only three of seven industries that listed "reduced attractiveness of the US for talent and investment" as one of their top three concerns.

Regulatory and compliance burdens outweigh supply chain concerns

Seventy-six percent of life sciences executives say that tariffs and trade policies will make it more difficult to manage tax compliance and financial reporting across regions—more than any other industry. They see increased regulatory and compliance burdens (14%) as a greater challenge than supply chain disruption (12%). Increased regulatory and compliance burdens didn't make the top three concerns of any other industry except retail and consumer products.

94%
are seeking advisory services to navigate increased regulatory and compliance burdens

It's not surprising, therefore, that life sciences exhibits the highest reliance on external expertise in this area due to the complexity inherent in trade compliance, with 94% indicating a need for advisory services.

Offshoring, nearshoring, and reshoring

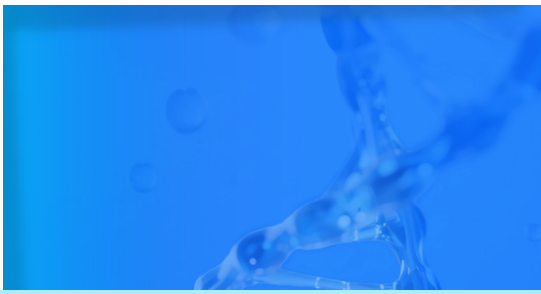
Selecting locations for service delivery may be more complex for life sciences firms than those in other sectors. Of particular focus in life sciences is where the intellectual property (IP) originates or resides.

In pharmaceuticals, for example, the cost to manufacture a drug is typically a small fraction of the cost to develop it—the formula behind it, including R&D costs, the costs of clinical trials and managing regulatory compliance, and so on. If tariffs are based on the percentage of each cost component's country of origin, the location of the services behind those IP components becomes more strategically important.

Reshoring is not in the cards

Current trade policies do not appear to be compelling life sciences executives to consider reshoring outsourced services. However, the tide may be changing as the administration continues to leverage tariff negotiations. They're tied with energy and utilities executives for last place (28%) for those who say that they are already or very likely to reshore services to the US—an indication that cost sensitivity is a leading driver.

Instead, it appears they are spreading the risk. When asked how their procurement function is responding to trade and tariff pressures, 62% of life sciences executives said with "mandated multi-region service redundancy." When asked about selection criteria for managed services providers, their number one answer was "flexibility of delivery location"—ranked higher by life sciences executives (62%) than by those in all other industries (56% on average).



Key drivers for life sciences

Cost sensitivity

Flexibility of delivery location

72% are concerned about data control

But nearshoring might be

Nearshoring appears to be a more attractive option than reshoring. Sixty-one percent said they were planning to nearshore operations to Latin America or Canada within the next 24 months, and 38% said within the next year, the highest of any industry (26% on average).

Data sovereignty is a growing concern

With the growing adoption of digital systems and rising scrutiny over where IP is created and stored, data sovereignty has emerged as a top concern. Seventy-two percent say they are very or extremely concerned about losing control over where their data is stored or processed due to global trade or regulatory changes, more than any other industry except insurance (78%). This is prompting a shift to private clouds and strict data localization to comply with regional 22 regulations and manage IP strategies, especially for clinical and patient data.

An emphasis on cost reduction

Unlike those in most other industries, life sciences executives face both contractual and regulatory restrictions—including moves by the White House to impose most-favored-nation pricing in the US—that limit their ability to raise prices to offset tariff- or trade-related costs. They must instead look to the other side of the equation for opportunities to lower operating expenses.

The industry's outsized reliance on outsourcing makes it the obvious target. Life sciences leads all other industries in its desire to reduce dependence on labor-intensive service delivery—68% said it was extremely important and central to their strategy, compared to the overall average of 56%.

They see AI as the answer.

Sixty-eight percent of life sciences executives say they are currently evaluating where AI and automation can replace traditional labor-based services to reduce exposure and increase efficiency. This percentage is higher than any other industry.

AI investment will significantly increase over the next 12 months

In response to the current US trade policies, life sciences leaders are accelerating their investments in AI and automation—86% say they are already or very likely to do so, and 88% say they expect to significantly increase spending on AI over the next 12 months. It's not just AI, but technology in general; they are the most likely of all industries to significantly increase spending on IT—32% versus 22% on average in other industries.

Playing the long game

Despite the urgency of these investments, life sciences executives appear to be showing some patience with service delivery transformation.

The majority of life sciences executives (52%) do not expect to increase their use of software-based service delivery in the next 24 months—placing them last among all other industries.

Just 28% of respondents believed their use of traditional third-party outsourcing—people-based, location-dependent delivery models—would change by more than 50% in the next 2 years. That's tied with retail and consumer products for last among the seven industries examined.

And only 12% saw a greater than 50% change in their use of outcome-based, automation-enabled services, with only energy and utilities expecting less change.

The priority for innovation appears to be digitally enabled services, not operating model modernization.

Life sciences executives were asked to identify the opportunities they are pursuing in light of rising protectionism and trade complexity.

Not surprisingly, 62% said reduce costs and mitigate risk—their number-one answer. But nearly as many (56%) said they saw current US trade policies as an opportunity to develop new digitally enabled services or revenue streams. That's the second highest of any industry, with only energy and utilities ahead, and well above the cross-industry average of 49%.

Top priorities

Reduce costs | Mitigate risks | Develop new digitally-enabled services or revenue streams

It may make sense, given the pressures on both their top and bottom lines, to prioritize the exploration of new sources of revenue. Based on our work with life sciences companies, we know they are looking for ways to monetize data, expand patient services linked to pharmaceuticals, and develop software-as-therapy solutions. However, none of these avenues has yet become a major revenue driver.

Hitting the brakes

What we find more significant is that only 38% said they saw the policies as an opportunity to accelerate operating model modernization.

If anything, they're hitting the brakes rather than the accelerator. Only 12% of life sciences executives say they have accelerated transformation initiatives in response to trade and tariff-related policy changes—the lowest of the seven industries in the survey.

Instead, more than half of respondents (52%) said they have paused or delayed initiatives, compared to just 38% overall. That same number (52%) said they were adopting a wait-and-see approach, again, well ahead of all other industries (37% overall). And only 16% of life sciences organizations are proactively scenario planning and restructuring operations in response.

Understandable patience, or missed opportunity?

Life sciences ranks first in our survey in its dependence on outsourced service delivery or managed services, and so it's not surprising that it also ranks first in its desire to reduce reliance on labor-intensive service delivery.

Yet only 28% of life sciences executives anticipate a greater than 50% change in their current, traditional third-party outsourcing over the next two years, and only 12% saw a greater than 50% change in their use of outcome-based, automation-enabled managed services.

Many life sciences executives may believe they have little choice but to play the long game. They may feel their agility is constrained by the extensive regulatory and contractual frameworks in which they operate.

We believe, however, this is shortsighted. CEOs can ill afford to halt strategic investments as they attempt to wait out trade and tariff disruptions. That's a dangerous misread of a moment that demands proactive moves, not hesitation. In our current complex global economy, success will belong to enterprises built to thrive amid volatility, not those waiting for the turbulence to pass.

The disconnect we see in life sciences between investing aggressively in AI while slow-walking operating model modernization is a red flag. This is a trap we have seen many organizations fall into, expecting value to come directly from technology, only to find that it never appears. Value doesn't come from installing technology, no matter how revolutionary or powerful it is. It comes from the organizational transformations enabled by that technology that advance business objectives more effectively or efficiently.

CEOs can ill afford to halt strategic investments

This is more than about tariffs.

While the survey report is ostensibly about the impact of tariffs, it reveals more about respondents' attitudes toward and preparedness for global disruption more broadly. The tariffs are merely accelerating a paradigm shift that was already inevitable. As you read this, tariffs may be a distant memory or an entrenched reality, but it's largely immaterial.

This disruption isn't something you can wait out, hoping for a return to "normal" in a few short months or years. Whether it's a trade war, an actual war, a pandemic, a new competitor, a new AI development, a talent shortage, rising offshore labor costs, rapidly shifting consumer demand, a new tax policy, increased compliance burdens, inflation, or turbulence in capital markets, global, borderless disruption is the new business reality. Volatility is the new normal.

Minds may go immediately to supply chains, but this isn't only about supply chain transformation—it's about operating model transformation. The mere shadow of trade disruption has laid bare many glaring vulnerabilities: stubbornly inflexible delivery models, dangerously concentrated vendor dependencies, and woefully inadequate scenario planning.

The outsourcing and offshoring strategies of the early 2000s based on labor arbitrage and predictable, frictionless globalization are now obsolete.

Today's operating models must be focused on improving agility and resilience in response to global volatility. Agility and resilience arbitrage have replaced labor arbitrage as the new strategy.

As our HFS collaborators say, it's better to "be the disruptor" than the one being disrupted. The life sciences firms that will emerge as the winners aren't those waiting for stability to return. They're the ones who will take advantage of this trade chaos to build automation capabilities, platform-based services, and adaptive sourcing strategies. They're the ones that have moved beyond treating volatility as an aberration and have started designing systems that assume constant change.

> **The real shift isn't just about trade policy. It's about recognizing that old delivery models were built for cost, not resilience. Now companies need both.**
>
> Ron Walker, Global Head of Managed Services at KPMG LLP

The glaring opportunity: outcome-based, automation-first services

Those that are slow-walking operating model modernization are missing out on a major transformation in managed services.

It's not about bringing all the work back onshore. It is something potentially more powerful: **virtual reshoring.** It's a shift from labor-based delivery to outcome-based, AI-powered, automation-first delivery. Control and compliance come closer to home, while the execution layer remains globally distributed and increasingly digital, with service delivery steadily shifting to AI-enabled software and automated platforms.

This represents a significant opportunity for those who are willing to seize the advantage.

A new generation of managed services

Historically, managed services have enabled organizations to offload routine, non-differentiating functions—less expensive bodies handling mundane, back-office tasks—freeing internal resources to focus on other strategic priorities. But today's managed services are something entirely different.

First, they go beyond the back office. This new generation of managed services is no longer limited to non-mission-critical functions. In addition to functions such as IT and cybersecurity, they now include finance, risk and regulatory management, know-your-customer compliance, front-office transformation, marketing, due diligence for mergers and acquisitions, and research and development.

Second, they go beyond the technology—they're tech-enabled, but strategy-led. While they leverage automation, AI, and other advanced technologies, they're backed by domain expertise, sector-specific experience, and proactive strategic collaboration—all packaged in a multi-year, "as-a-service" subscription with any-shore delivery and predictable costs, yet adaptable and scalable on demand to enable you to pivot with the market.

Finally, they go beyond cost savings. While they have the potential to reduce total cost of operations by as much as 15 to 45%, they can also be competitive differentiators. They can help to increase agility and resilience, enabling you to accelerate time-to-value and sustain operational excellence in much the same way that a software-as-a-service (SaaS) solution can give you access to leading software capabilities without prohibitive upfront capital investments.

Go beyond the back office

Go beyond technology

Go beyond cost savings

Indeed, the SaaS model foreshadowed this transformation in managed services. The key difference is that while SaaS delivers business software, these next-gen managed services deliver business outcomes. Instead of uptime, service level agreements (SLAs) are based on these outcomes—accelerated innovation, accurate forecasting, regulatory risk management, stakeholder trust, agile adaptation to market change, etc.—as measured by key performance indicators (KPIs).

To distinguish the old from the new, some call the new version "managed services 2.0", others "high-value managed services", "everything-as-a-service (XaaS)", or even "services-as-software" due to their heavy reliance on AI and automation rather than people.

At KPMG, we have been referring to them as "next-gen managed services", although perhaps a more appropriate name might be "outcome-based automation-enabled services" or simply "managed outcomes" given that the key distinction is the delivery of an advanced technology-enabled business outcome, not people-fueled services.

Business-led. Technology-enabled. Outcome-driven.

About KPMG

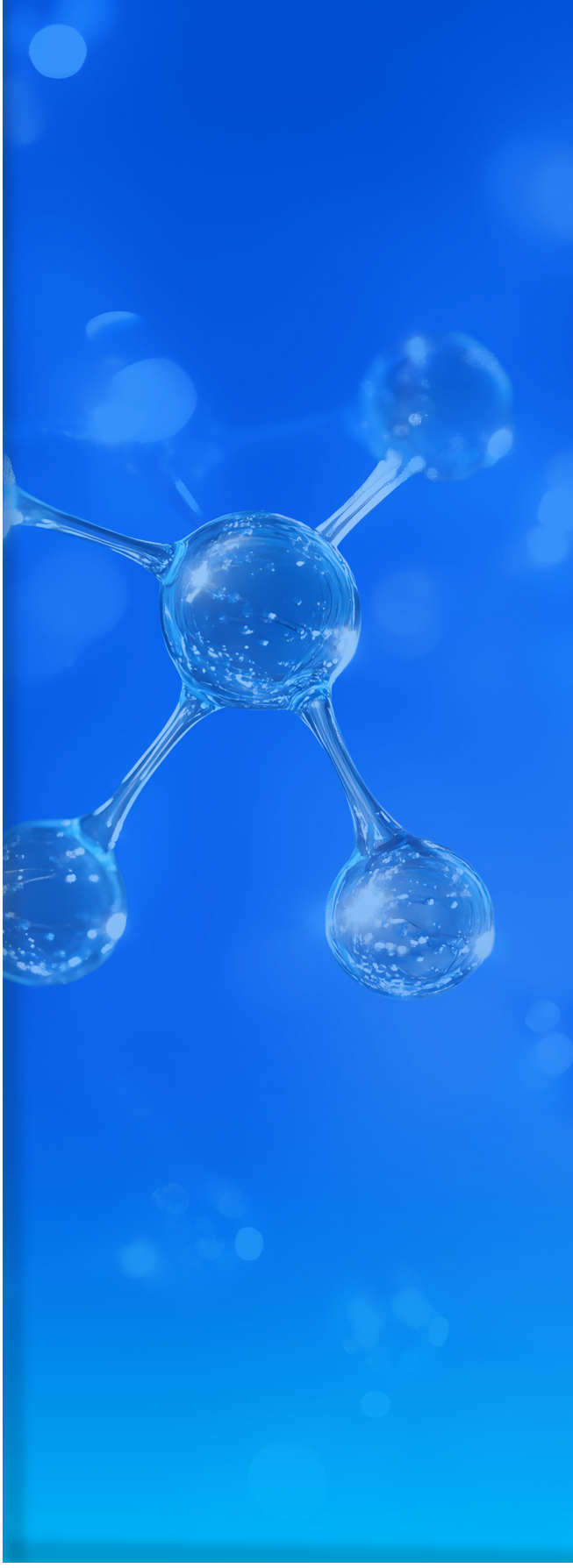
Whether you're modernizing a process or transforming an entire business function, the right operating model can take you from vision to long-term value. KPMG can help you create that model—at the start of your planning, not the tactical "run phase" at the end. Combining advanced technology with expertise in functions, processes, industries, and change management, KPMG professionals can help you operationalize your growth ambition. It's a strategic collaboration that goes beyond transactions to help you accelerate your journey, sustain it, and move ahead of competitors—while limiting disruption and risk.

KPMG next-gen managed services combine advanced technology with functional, process, and sector expertise—plus smart analytics, data governance, change management, and alliances with software providers—to operationalize your growth ambition. It's a strategic collaboration that goes beyond transactions to focus on continuous transformations that can deliver significant new competitive advantages.

KPMG. Make the Difference.

About HFS

HFS Research is a leading global research and advisory firm helping Fortune 500 companies through IT and business transformation with bold insights and actionable strategies. With an unmatched platform to reach, advise, and influence Global 2000 executives, we empower organizations to make decisive technology and service choices. Backed by fearless research and an impartial outside perspective, our insights give you the edge to stay ahead.



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