



KPMG Managed Services:

Industry-specific analysis of the 2025 HFS Market Impact report

Industrial manufacturing



Navigating trade disruption

How trade policies are impacting services delivery and outsourcing strategies in the manufacturing and industrial sector

Introduction

In 2025, KPMG LLP (KPMG) and HFS Research collaborated on research to better understand both the short and long-term impacts of trade policies on services delivery and outsourcing among major enterprises. More than 400 US-based senior executives from companies with greater than \$2 billion in revenue across seven major industries participated in the survey. In addition, in-depth interviews were conducted with senior executives from Global 2000 organizations.

In this companion report, we look specifically at the industrial manufacturing (IM)¹ sector.

¹In the survey, the sector was labeled 'manufacturing & industrials.' In this report, we refer to this sector as 'industrial manufacturing.'



Relative calm in the face of disruption

Despite operating in a sector deeply intertwined with global supply chains and exposed to shifting trade dynamics, IM executives tend to approach today's US trade and tariff environment with measured concern rather than alarm.

IM executives appear to view tariffs as disruptive but manageable. Unlike executives in other industries, they see tariffs less as strategic threats and more as operational challenges—things that can be managed with planning, compliance, and efficiency measures. Their extensive experience navigating globalization and trade volatility and their ability to adapt sourcing strategies and leverage technology appear to temper their reactions.

This measured approach extends to services delivery and outsourcing models, where planning, modernization, and innovation are favored over rapid or reactive moves. Trade policy disruption is seen as creating opportunities, among them accelerating operating model modernization.

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



Trade policy offers an opportunity for modernization

Everything in moderation

IM executives tend to be more moderate in their concern over current US trade policies than those in other industries.

A plurality (44 percent) views the policies as negative, causing operational and planning challenges, strategy disruption, and higher costs. Yet a majority (56 percent) say they are either “neutral and monitoring the situation without major concern” (36 percent) or see the policies as somewhat or very positive (20 percent).

While 44 percent say they are “extremely concerned” about the trade environment—well below the cross-industry average of 51 percent—more IM executives (46 percent) describe themselves as “moderately concerned,” far above the 34 percent cross-industry average.

Their leading concern in a high-tariff environment is “supply chain disruption,” followed by “rising delivery and compliance costs” and “service delays due to sourcing or location constraints.”

They are also the second most likely industry to be “very concerned” about losing control of data (52 percent), yet here too, moderation prevails: just 8 percent are “extremely concerned,” versus 24 percent on average across other industries.

Workforce model evolution

Like most other industries, IM appears to be heavily dependent on outsourcing and/or managed services, with 60 percent of IM execs characterizing their dependence this way, slightly above the cross-industry average of 56 percent.

When asked how they expect their workforce model to evolve in response to trade and tariff uncertainty, their top three answers were “outsource more non-core roles” (26 percent), “greater use of contract/project-based labor” (22 percent), and “hiring freezes” (also 22 percent). They are the leading industry looking to outsource more non-core roles (26 percent vs. 17 percent on average in other industries).



IM executives are less concerned than their peers in other industries



60%

are heavily dependant on outsourcing and/or managed services



Responding to geopolitical and trade uncertainty

Executives were asked how likely they were to take certain actions in response to current geopolitical or trade uncertainty, including reshoring services to the US, offshoring services to lower-cost regions, creating redundancy in critical services, and accelerating AI and automation efforts.

Just 32 percent of IM executives say they already are or are very likely to reshore services to the US compared to 35 percent on average across other industries. This makes them the second least likely of all industries to consider reshoring, after banking and financial services.

Nearshoring is a slightly more popular option, with 38 percent of IM executives saying they already are or are very likely to nearshore. However, this is below the cross-industry average of 41 percent, and second last on the list of industries considering this option (only fewer energy and utilities executives selected this option).

IM execs are almost twice as likely to offshore services to lower-cost regions than to reshore them. Sixty percent say they already are or are very likely to offshore.

It appears, however, that the primary strategy of IM execs is to hedge bets and spread the risk. Seventy percent say they already are or are very likely to create redundancy in critical services, tied for first with executives in the life sciences sector. The same number—70 percent—say they already are or are very likely to diversify services across multiple regions.

But even more appear to be hoping AI can help address the challenge, with 80 percent saying they already are or are very likely to accelerate AI and automation efforts. While that's a hefty percentage, it's worth noting that this places them second-to-last among all industries (only fewer retail and consumer products execs said the same).



IM is the industry least likely to reshore or nearshore services



IM execs are spreading the risk

70%

are very likely to create redundancy in, and diversify, critical services across multiple regions.



IM execs are planners

Twenty-eight percent of IM executives say they are proactively scenario planning in response to current trade and tariff policies—well above the 22 percent average across other industries. This stronger tendency to plan, paired with their more moderate overall concern about the policies, may explain why IM executives express strong intentions but are taking less immediate action than peers in other sectors.

For example, while IM executives rank first among those who say they are very likely to offshore services to lower-cost overseas locations—36 percent compared to 23 percent on average in other industries—they rank last among those who say they are already doing this—just 24 percent in IM vs. 37 percent on average in other industries.

Among those planning to reshore services to the US, 64 percent said they planned to do it within the next two years. That's second only to the telecom, media, and technology sector (79 percent) and well above the cross-industry average of 51 percent. But only 4 percent say they plan to do it this year compared to 12 percent on average in other industries.

They also rank first in those who say they are very likely to create redundancy in critical services—48 percent vs. 31 percent on average across other industries, but they rank last among those saying they are already doing this—just 22 percent vs. 31 percent across other industries.



**Proactive scenario planning
but no immediate execution**

Their measured sense of urgency extends to AI and automation

A full 96 percent of IM execs say they expect a significant increase in their spending on AI and automation in the next 12 months—that’s more than any other industry (89 percent on average across other industries). Eighty-two percent expect an increase in IT spending in general over the same timeframe, which is also above the cross-industry average of 74 percent.

While spending is ramping up quickly, their sense of urgency isn’t.

Eighty-two percent of IM execs say it’s either important or extremely important to reduce their dependence on labor-intensive service delivery via automation or platforms. That’s right on par with the cross-industry average of 83 percent. However, just 38 percent of IM execs say it’s extremely important, which places them last among industries and well below the 59 percent average of those in other industries who say the same.

More than all other industries, IM execs say they are very likely to accelerate AI and automation efforts in response to current trade policies—56 percent compared to just 47 percent on average in other industries. However, they are last among industry executives who say they are already doing this, with just 24 percent of IM execs saying they’re already accelerating AI efforts compared to 36 percent on average in other industries.

And among those who plan to increase use of AI and automation, IM execs again lead all other industries with their intent to implement within one-to-two years (41 percent vs. the cross-industry average of 32 percent). However, they are last among those who say they will implement this year (30 percent vs. 40 percent cross-industry average).



IM executives are most likely to invest heavily in AI and automation...
...but other industries all have a higher sense of urgency.

Offshoring and nearshoring are the exceptions

Among those who said they planned to offshore services, 41 percent say they plan to do so within the next 12 months. That puts them at the top of the list, well above the 23 percent average of other industries. And among those who said they planned to nearshore services, 29 percent say they plan to do so within the next 12 months, above the cross-industry average of 26 percent.

An opportunity to redesign operating models

IM executives appear to be quite forward-looking in their objectives, looking to use trade policy disruption as an opportunity.

When asked, “what is your organization trying to achieve in response to rising protectionism and trade complexity?”, more than half (52 percent) said “accelerate operating model modernization (e.g., automation, platformization).” That’s more than any other industry and well above the 38 percent average across the other industries.

Here, we’re seeing more immediate reactions. Seventy-eight percent say they agree or strongly agree that they are reviewing and redesigning their operating model in response to trade and tariff uncertainty.

We see many of our clients expanding their operating model reviews outside their own four walls and well beyond their direct suppliers to encompass their entire supplier network. For the last 30 years, globalization has made sourcing suppliers a relatively simple process. Now, however, many are questioning if they have the right buying entities to efficiently source suppliers in a high-tariff environment.

For example, trade and customs management, historically viewed chiefly as a compliance function, has suddenly become a strategic weapon and a critical part of IM operating models. If tariffs are levied based on country of origin, or in proportion to the value-added in a particular country, determination of substantial transformation can greatly affect cost of goods sold (COGS). Identifying and disaggregating intellectual property (IP) components from physical components—and locating that IP in a low-tax country—is also essential, especially for products that contain some element of electronics or software or that involved significant research and development.



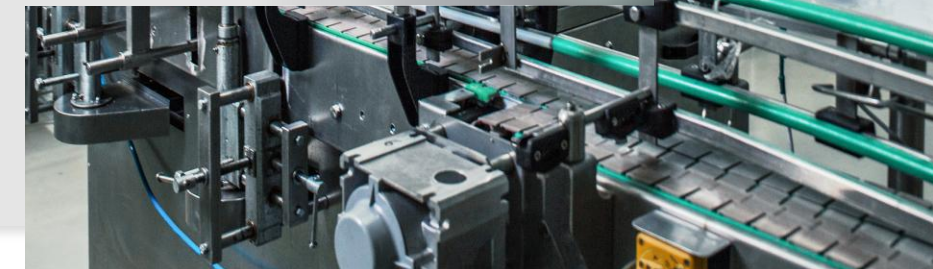
41%

plan to offshore services in the next 12 months compared to 23% in other industries



78%

are reviewing and redesigning their operating model



Focused on modernization and innovation instead of cost reduction

Given their focus on reducing COGS to offset tariffs, you might expect IM execs to be wielding the same cost-cutting knife with their outsourcing and services delivery models. Surprisingly, that does not appear to be the case. IM execs appear to view current trade policies as an opportunity to modernize and innovate.

In response to that same question—“what is your organization trying to achieve in response to rising protectionism and trade complexity?”—they were the least likely of all industries to cite “reduce delivery costs, mitigate risk, or streamline providers”—just 44 percent listed this as their goal compared to the 59 percent average across other industries.

Instead, tied for first with “accelerate operating model modernization” was “develop new digitally enabled services or revenue streams,” selected by 52 percent of IM execs. And 30 percent cited “drive innovation through internal teams or partnerships”—well above the 21 percent average across other industries.

Current trade policies are seen as an opportunity to modernize and innovate



Understandable patience, or missed opportunity?

Just 10 percent of IM execs say they have accelerated major transformation or modernization initiatives in response to current US trade policies—the lowest of any industry in our survey—while 40 percent have paused or delayed most planned initiatives.

We believe pausing or delaying modernization initiatives is shortsighted. CEOs can ill afford 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.

It’s encouraging that 78 percent are reviewing and redesigning their operating model in response to trade and tariff uncertainty. And as we’ve seen, IM execs lead all other industries with their intent to increase the use of AI and automation for services delivery within the next two years.

Our concern isn’t with their intent; it’s with their sense of urgency. IM leaders may already be pursuing modernization efforts, but the disruption caused by US trade policies doesn’t appear to be motivating them to accelerate those efforts.

While 82 percent of IM execs recognize the importance of reducing their dependence on labor-intensive service delivery via automation or platform, just 38 percent of IM execs say it’s extremely important, which places them last among industries. Less than a third of IM executives anticipate a 50 percent or greater change in their reliance on traditional third-party outsourcing (e.g., people-based, location-dependent delivery models) over the next 24 months.



CEOs can ill afford to halt strategic investments

This is about more than tariffs

While the survey report is ostensibly about the impact of tariffs on service delivery and outsourcing, 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.

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 businesses 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.



Volatility is the new normal



Disrupt or be disrupted

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 percent, 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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