



# The monetization engine: Why your IT strategy needs a Digital COE



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Everyone loves to talk about digital transformation. The keynote speeches write themselves: artificial intelligence, cloud-native architectures, and data-driven agility. But when the applause fades and the boardroom doors close, a much less glamorous question inevitably arises: *How are we going to pay for all of this?*

In my previous insights, I outlined the [blueprint for the self-funding digital model](#), designed to transform information technology (IT) from a traditional cost center into a self-sustaining engine of value.

That model rests on three non-negotiable pillars:

- 1 Enhancing talent and cost, usually through mechanisms like [global capabilities centers \(GCCs\)](#)
- 2 Striving to maximize government funding
- 3 Monetizing value creation.

Today, we focus on that crucial third pillar. The vehicle that actually monetizes your digital value creation is the Digital Center of Excellence (Digital COE).

A Digital COE is the mechanism that can unlock significant cash flow, creating the “pay-for” that funds future development. Even if your organization isn’t quite ready to embrace a holistic self-funding digital model, understanding and leveraging a Digital COE is a strategic imperative for any leadership team playing in the modern digital space.

Here is what a modern Digital COE looks like, how it pays for itself, and where the hidden land mines lie.



## Anatomy of a Digital COE: Substance over surface

There is a common misconception that a Digital COE is simply a rebranded IT hub or a loose collection of developers scattered across a region. It is not. A Digital COE is a highly formalized, strategic operating unit.

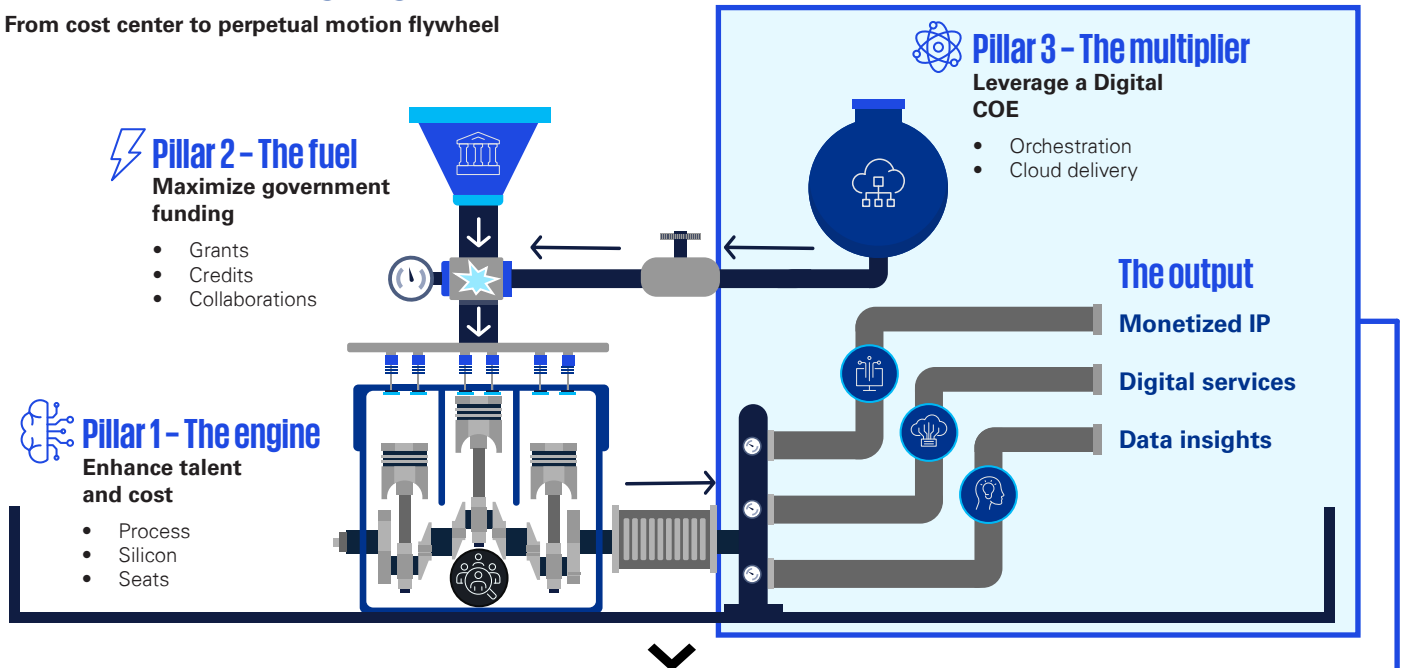
First and foremost, it is a distinct legal entity—usually a corporation, though it can be a partnership or limited liability company. Crucially, it owns the intellectual property (IP) created by its digital activities, whether those are customer-facing software or software-as-a-service (SaaS) offerings, internal data tools, Internet of Things networks, or software embedded in physical products.

Operationally, the Digital COE acts as your strategic digital nerve center or “orchestration layer.” It is responsible for approving capabilities-level budgets and overseeing global delivery teams (such as an Indian GCC). It is the entity responsible and accountable for delivering software, analytics, and digital capabilities to your global affiliates—even though the large cadre of “fingers on keys” might be located elsewhere.

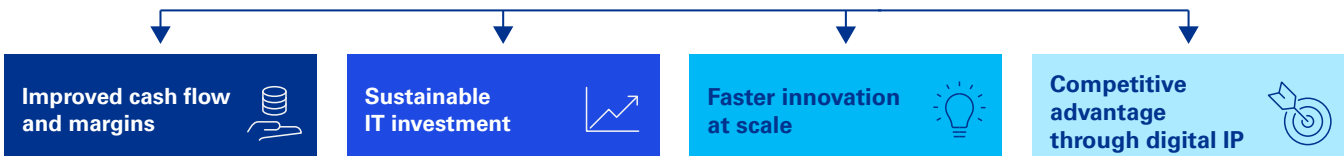
What does this look like on the ground? While some Digital COEs are massive hubs employing thousands, many highly effective modern Digital COEs are often surprisingly lean. They are highly specialized teams focused on high-value, cutting-edge functions and seamless, quality delivery. They are the architects; the broader GCCs are the builders.

# The self-funding digital model

From cost center to perpetual motion flywheel



It isn't just cost managed  
It's value engineered



The capstone of a self-funding digital model is the Digital COE, which fundamentally monetizes the value creation of all IT development—including development of purely internal-use technology and capabilities.

A proper Digital COE acts as a centralized hub that isolates digital IP. It essentially operates as an internal software vendor, managing the development and delivery (whether of software, cloud services, data insights, or other technology) to the rest of the organization globally.



## The global chessboard and the time zone multiplier

Where you put your Digital COE matters immensely. They thrive at the intersection of top-tier IT talent, investment-friendly governments, favorable tax regulations, and ironclad IP protection.

Historically, companies have gravitated toward a handful of proven locations: Ireland, Singapore, and the United States. However, as a result of several recent tax law changes both in the US and abroad, the chessboard has expanded. There is now a wider opportunity to leverage jurisdictions like Switzerland, Poland, or even Malta. Some of these newer models make it significantly easier for companies to lean heavily into a structure that aligns a European or US-based Digital COE with a large execution workforce in India.

This geographic positioning creates one of the most underdiscussed operational benefits of the Digital COE: The time zone multiplier.

Consider a US-based company with an existing development team in India. These teams do not share a single hour of their normal business day, significantly straining much-needed connectivity. By strategically locating a Digital COE in a jurisdiction like Ireland or Switzerland, you bridge the geographic and time zone gap. You suddenly have business-hour crossovers with both the US and India. This creates a true, continuous 24/7 release, delivery, and incident management model. It eliminates the overnight lag and significantly supercharges the real productivity of your offshore teams.



## The payoff: Beyond simple labor arbitrage

The financial and operational benefits of a Digital COE are profound, though it is important to note that the exact return on investment depends heavily on your company's current legal entity footprint, your software development lifecycle, and your broader talent strategy.

When structured correctly, the payoff falls into a few key categories:



### Talent acquisition and risk mitigation

A Digital COE allows you to tap into entirely new, highly educated talent pools globally. Furthermore, it de-risks your operations by preventing overconcentration of critical IT functions in a single geography.



### Subsidized operations

By locating in innovation-friendly jurisdictions, Digital COEs can heavily leverage local credits and incentives. From robust research and development tax credits to government-sponsored innovation grants and academic collaborations, these incentives can drastically reduce the true cost of your top-tier talent.



### The cash engine

Most Digital COEs are strategically located in jurisdictions that reward the value created by digital and data. By aligning your IP ownership and value creation in these locations, you generate recurring, annual tax savings. This creates a powerful cash flow benefit that can be reinvested into further IT development. For public companies, this drops straight to the bottom line, actively increasing earnings per share (EPS).



## The tax trap: Why the tail can't wag the dog

As a tax attorney, I spend my life navigating these structures, which is why I must give you the most important piece of advice in this entire article: You should never build a Digital COE just for tax savings.

When a company chases tax dollars by letting the tax tail wag the business dog, the strategy is imprudent, potentially not aligned with the business, and could create unnecessary risk. Tax authorities globally are highly sophisticated. To achieve the intended financial benefits, your Digital COE must possess real, meaningful substance aligned with the business.

This requires navigating several critical tax hurdles:



### Profit allocation and DEMPE

It is no longer enough to simply incorporate an entity in a low-tax jurisdiction and assign IP to it. Under Organisation for Economic Co-operation and Development rules, to earn the profits related to the software, the Digital COE must employ some of the actual personnel who control the development, enhancement, maintenance, protection, and exploitation (DEMPE) of that IP. You need boots on the ground making real strategic decisions and controlling key risks.



### Income characterization

How your Digital COE gets paid by your affiliates for the delivery of software or SaaS is the plumbing of the entire operation. This characterization dictates how other rules apply and ultimately which country or countries can tax the profits and at what rate. The process is highly complex, and the same item of income is often viewed differently across various taxes and borders.



### The indirect tax blindspot

Many companies meticulously plan their corporate income tax strategy only to have their margins annihilated by indirect taxes. If you fail to account for US sales and use tax or global value-added tax when structuring cross-border digital services, then your intended tax benefits can quickly erode to nothing.





## A valid business purpose is a necessity

Digital COEs work marvelously because what a company wants to accomplish for pure business reasons—such as accelerating the impact of GenAI or digital delivery maturity by tapping into top-tier site reliability engineering (SRE) talent in Dublin—perfectly aligns with the substance required for tax optimization. Business purpose and tax strategy must move in lockstep.



## Lead or be left behind

A Digital COE is not an accounting gimmick. It is a foundational business capability. It is the engine that allows you to monetize your internal innovation, attract global talent, and build a self-funding loop that accelerates your digital maturity.

As you look at your current digital roadmap, the challenge is clear. Are you content to keep treating IT as a massive, unavoidable expense? Or are you ready to structure your organization to actually monetize the digital value you are creating?

The companies that figure out the latter are the ones that will fund the future.



## About the author



**Paul Glunt**  
**Tax Principal,**  
**Value Chain Management**  
E: gpaulglunt@kpmg.com  
T: 949-381-8434

Paul Glunt is a principal who leads the KPMG LLP Value Chain Management practice, advising C-suite leaders on the financial and operational mechanics of digital transformation. He specializes in architecting self-funding digital models, Digital COEs, and global operating models that turn technology investments into sustainable cash flow. Paul bridges the critical gap between tax objectives and IT execution, helping to ensure that every digital journey is financially focused and firmly anchored to a company's Strategic North.

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