



Accelerating business transformation

The power of modern managed services

KPMG and HFS Research
Managed Services Outlook Survey

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Foreword

Many companies are perpetually transforming to stay competitive in today's fast-paced business environment. To navigate the complexity, fatigue, and risk that often accompany these efforts, organizations are increasingly turning to managed services.

In fact, according to the latest KPMG and HFS Research Managed Services Outlook, this operating model accounts for more than half of service delivery across most business functions, and usage is expected to increase on average by 10 percent in the next one to two years.

But what exactly is managed services? This type of outsourcing can often be seen as the Wild West, with a market that includes tech firms, management consultants, staffing agencies, specialty vendors, and legacy offshore players focusing on labor arbitrage for back-office work. Managed services goals, likewise, can range from tactical targets like error rates and response times to strategic outcomes like resilience, trust, and growth.

Going from processor to collaborator

With most companies using the terms outsourcing and managed services interchangeably, our joint market study shows that perceptions of managed services are changing. More than 80 percent — up from 62 percent last year — see modern managed services as the delivery of key processes or sub-processes on an outcome-based, as-a-service subscription, in contrast to more piecemeal outsourcing.

As companies navigate a crowded managed services market, they continue to seek a new kind of managed services provider; one that goes beyond the transactional activities that keep the lights on. They also want to shine a new light on the future — with proactive collaboration that enables ongoing, accelerated transformation.



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About the study

KPMG and HFS Research conducted a study to understand the market's approach to managed services for business transformation. This research builds on similar studies conducted in 2023 and 2022.

The enclosed findings are based on a survey of 1,248 business leaders globally — including functional heads, and C-level executives — who participate in managed services decisions. They represent companies with at least US\$100 million in revenue, about half with revenue of US\$2 billion to US\$10 billion. Respondents span multiple sectors, including banking and capital markets; healthcare; energy, utilities and natural resources; technology, media and telecommunications; industrial manufacturing; and others.

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In a crowded managed services market, buyers are seeking a new type of provider.

89% say managed services must be delivered by a new class of providers **without a transactional outsourcing heritage** to be effective.

73%+ are seeking transformational impact from providers, including:



Strategic outcomes



Business or operating model transformation



Tech innovation

Buyers expect this transformational impact to **more than double in importance** in the next 2 years.

Buyers' primary goals for managed services go beyond cost savings.

88% of buyers say enterprise-wide deployment of managed services will create a long-term **cost advantage**.

#1 goal of managed services, however, is **faster speed to market** for new products and services, and 70% of buyers say the model exceeds expectations in this area.

Executives say managed services are also **exceeding expectations** on other goals, including:

74% Improving stakeholder experience

72% Accessing new technology

70% Driving critical priorities such as operational resilience, growth, and compliance

69% Enabling business model or operating model transformation

Companies are deploying managed services throughout the front, middle, and back office.

81% of buyers say enterprise-wide deployment of managed services will drive long-term value.

71% have adopted managed services for a business function or at scale across the organization.

The **top 3 areas** of managed services adoption at scale:



Cybersecurity



Regulatory compliance



Tax



Going beyond basic improvements

Performance improvement is usually about increasing productivity in existing processes: doing them faster, better, and with less labor where possible. A transformation, by contrast, is a fundamental change in a process, operating model, or business model that delivers significant impact throughout an organization — from enabling new-market expansion to reimagining stakeholders’ experience.

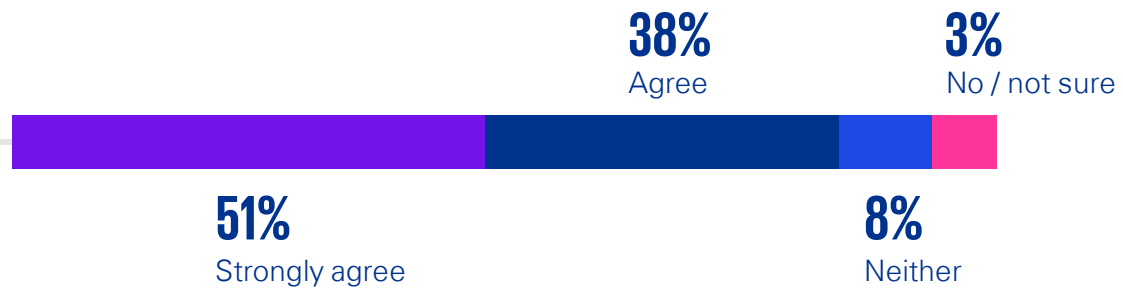
And in a world of constant flux, transformation is not a one-time event. Progressive companies strive to continually transform, with flexible operating models that keep evolving.

Many organizations are turning to managed services because the model offers a way to go beyond incremental improvements and take on ongoing responsibility for critical, knowledge-intensive processes. By combining advanced technology with domain expertise, data insights, and leading practices, managed services can help organizations achieve transformational results.



Seeking a new kind of value

Most companies agree that successful managed services programs are delivered by providers without a transactional outsourcing heritage.



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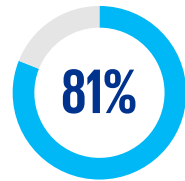


Going beyond basic improvements



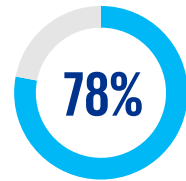
What does transformational impact look like?

In the next two years, those companies expect high impact from managed services in the following areas:



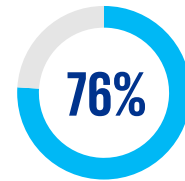
Strategic outcomes that drive competitive advantage.

These include factors like regulator trust, customer retention, organizational agility, margin improvement, debt reduction, or faster speed to market for new applications.



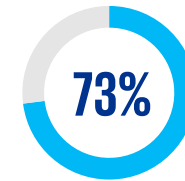
Business model transformation.

Digital disruption is prompting companies to reconsider how they do business, and managed services can be a springboard. For example, a company could use revamped, tech-enabled business processes to develop new revenue streams or tap new customers.



Technology innovation.

Due to the speed of digital advancement, tech is not a one-time cost but an ongoing investment. Through managed services, companies can access technology that could be challenging to build or evolve internally. Innovation might include generative AI for improved cyber threat detection, chatbots to diagnose IT issues and write new code, or compliance tech that can automate policies and keep up with fast-changing regulations.



Operating model transformation.

In a volatile business climate, companies seek nimble, scalable, and cost-effective operating models that can quickly pivot amid persistent change. Managed services are often part of the solution, as leading providers bring talent, technology, governance, data insights, and operational excellence to transform a process — and deliver it — as an ongoing service.

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How important are transformational managed services?

Today



In two years



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More than cost savings

Amid persistent inflation and an overall higher cost of doing business, most companies are striving to reduce expenses, so it is no wonder that lower, more predictable costs are among buyers' top goals for adopting managed services. A related goal is improving efficiency by using managed services for key processes and redeploying staff to other activities.

To be sure, managed services have the potential to significantly reduce the total cost of operations, without prohibitive upfront investments. However, respondents see these cost-focused goals as significantly more important today than last year, suggesting they may pertain more to the current economic climate than an evergreen priority.

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A situational focus on cost

Percentage of companies who ranked cost factors as their No.1 goal for managed services:



Going beyond basic improvements



This year's **No.1 cited goal** for managed services is **faster speed-to-market for new products and services**, and 70 percent of respondents say the model is surpassing expectations in that area. This finding underscores the role of managed services in helping companies quickly respond to disruption.

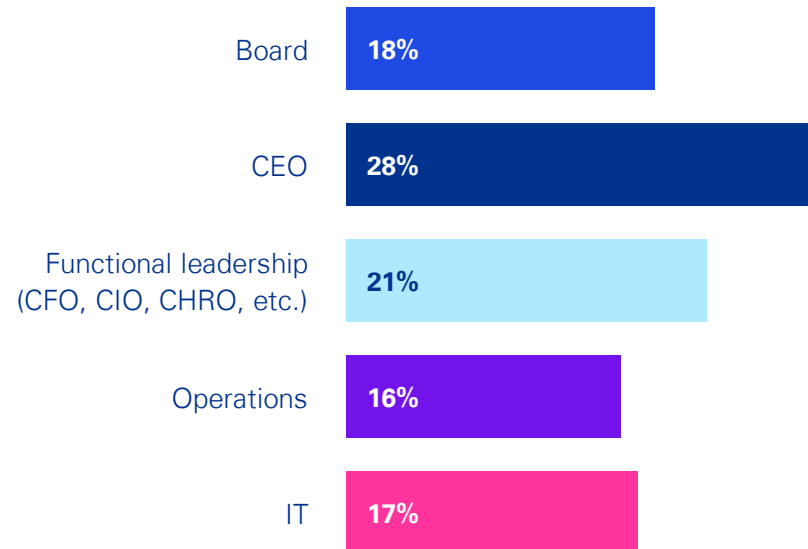
Primary goals for adopting managed services

- | | |
|--|---|
| 01 Faster speed to market for new products and services | 07 Access to scarce talent |
| 02 Redeploying internal staff to other activities | 08 Access to new technology |
| 03 Predictable costs | 09 Accelerated innovation |
| 04 Improved stakeholder experience | 10 Access to best practices |
| 05 Cost savings and efficiency | 11 Driving other strategic priorities |
| 06 Improved stakeholder trust | 12 Enabling operating model or business model transformation |

*Ranking is based on the number of respondents who cited each factor among their top three goals.

As managed services increase in strategic value, they continue to rise in the org chart. Similar to last year, 49 percent of respondents said the decision to deploy managed services is made by C-level leaders, while another 18 percent said it's made at the board level, underscoring its importance to service delivery and strategy.

Who makes the decision to use managed services?



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What makes a service a managed service?



Many organizations are redefining managed services by prioritizing factors beyond cost reduction and generic process capability, which have been the focus of traditional models.

Ninety-three percent of respondents agree that a modern managed service requires embedded process and tech proficiency to enable ongoing transformation. Because processes can change significantly from one sector to the next, a key component of domain expertise is deep industry experience — cited by 87 percent of respondents as a defining ingredient of managed services.

More than 80 percent of companies agree that a managed service must also include these components:



Embedded AI capabilities



Strategic collaboration toward enterprise outcomes



Consulting capabilities



A combination of advanced technology and human capabilities

Top 3 managed services must-haves

01

Embedded domain proficiency (process and tech)

02

Deep industry knowledge

03

Strategic collaboration toward enterprise outcomes

These highly ranked attributes demonstrate that while technology remains paramount when selecting a service provider, executives recognize the importance of access to functional and industry leading practices — alongside consulting capabilities — as key transformation enablers.

Importantly, managed services are not about plugging in a subject-matter expert when needed. Instead, leading providers integrate expertise into ongoing service delivery, bringing an understanding of each client's business, tech, and industry to support ongoing transformation.

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Determining the appropriate fit

When it comes to the selection of managed services providers, buyers point to the following as the most essential criteria:

01

Access to advanced technology

02

Access to global talent
Predictable costs

Tied

03

Multi-year contract

Interestingly, regarding access to talent, respondents plan to focus more on capability than cost in the next two years, as only 19 percent intend to utilize low-cost talent as part of their future managed services delivery, compared with 42 percent today.

This indicates that the market is shedding its 'your-mess-for-less' perceptions about managed services. Instead, companies are focusing their managed services talent profile in the next two years on these hard-to-find roles:



Technical experts



Data and analytics experts



Process/domain experts



Creative problem solvers

Redefining managed services to match the needs of the market

Modern managed services combine AI and other sophisticated technologies with embedded domain expertise, sector-specific knowledge, consulting capabilities, and proactive collaboration — all packaged in a multi-year, as-a-service subscription with predictable costs. These services are typically delivered remotely and take responsibility for knowledge-intensive processes in the front, middle, and back office. In addition to reducing costs, transformational managed services drive enterprise outcomes such as accelerated innovation, accurate forecasting, regulatory risk management, stakeholder trust, and agile adaption to market change.



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Based on the transformational potential of managed services, companies continue to implement them throughout the enterprise.

In fact, across most functional areas — including information technology, risk, supply chain, human resources, customer service, legal, and finance and accounting — about 70 percent of companies are using managed services for half or more of their activities. Moreover, close to one-third of these companies are adopting the managed services model for at least three-fourths of their activities.

Looking ahead, close to half of all respondents plan to increase their managed services usage in the next two years, while about 40 percent plan to maintain current levels.

Affinity for application management

For the third year in a row, companies are assigning high importance to managed services for application management. This area — also known as software as a service (SaaS) optimization — is one of the top three sources of managed services value today.



Looking ahead, SaaS optimization will be the No. 1 source of managed services value in the next three years and, accordingly, the top area of managed services investment.

As companies vie to get the most value from enterprise applications, they are often looking to managed services for support. Leading providers are experienced with testing and deploying SaaS updates, anticipating the cross-functional impact on business processes, integrating systems and data, and helping companies realize their business case for cloud transformation.

Already, 60 percent of companies are using managed services for application management, either in a business function or at scale across the organization. And 18 percent are using managed services for **100 percent** of their SaaS applications.



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Expanding the reach of managed services

About a third of companies have implemented managed services at scale, and one area of increasing importance is cybersecurity. Here, 38 percent of respondents have expanded their use of the model, while another 35 percent have adopted it for a business function. And given the rising volume and sophistication of cyber threats, a quarter of companies plan to up their managed cybersecurity spending in the next two years by 21 percent or more.

Managed services is also extending its footprint in core processes. For example, 37 percent of companies are using managed services at scale for research and development, compared with 27 percent in 2023.

Path of totality

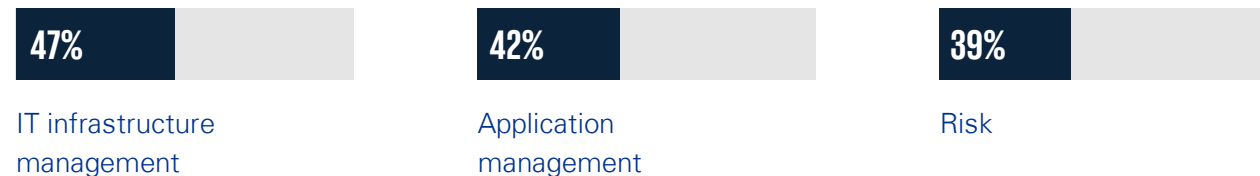
About two in five companies are using managed services for **100%** of their activities in functional areas, including:

- IT infrastructure management
- Application management
- Research and development
- Industry-specific operations
- Data management
- AI centers of excellence
- Supply chain/procurement
- Finance and accounting

Value today and tomorrow

Executives say managed services will deliver the most value in these top three functional areas:

Today



In the next three years



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The next chapter

In an era of compound volatility, progressive companies know the importance of ongoing transformation. To enable it, they are seeking flexible operating models with a focus on outcomes that can quickly pivot amid changing priorities.

Many are finding their answer in modern managed services. Today's next-generation model is a sharp departure from traditional outsourcing, as buyers place a high value on embedded proficiency, consultative collaboration, and services that are digitally enabled but strategy-led.

As a result, in the coming years, managed services are expected to play a starring role in business evolution — whether it is driving key objectives, reimagining the business or operating model, or embracing innovation. It is time for services that are transformational, not transactional.

How to use managed services for ongoing transformation

01

Assess your operating models for critical processes. Do you have a scalable combination of talent and technology that can evolve to meet new requirements? Can you quickly respond to disruption?

02

Consider managed services to support ongoing transformation. This model offers predictable costs, sustained outcomes, remote delivery, and the option to flex up or down to meet changing needs.

03

Look beyond cost savings. In addition to reducing operational costs, managed services can help to drive strategic outcomes such as growth, resilience, technology innovation, and speed to market.

04

Choose providers with advanced technology backed by multidisciplinary expertise. To better realize the transformational impact of managed services, seek a tech-enabled and strategy-led approach. That requires embedded domain expertise across processes, technologies, and industries — plus consulting capabilities and proactive collaboration toward your enterprise objectives.

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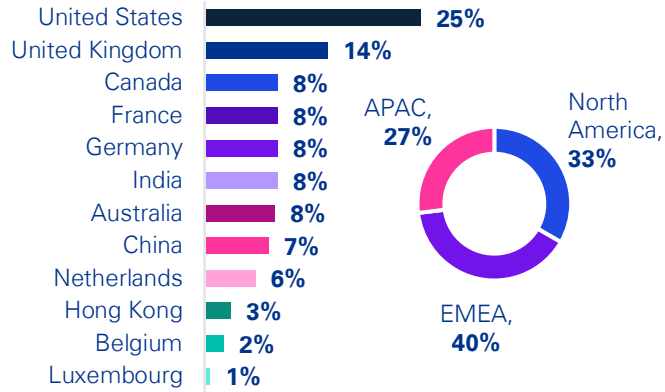
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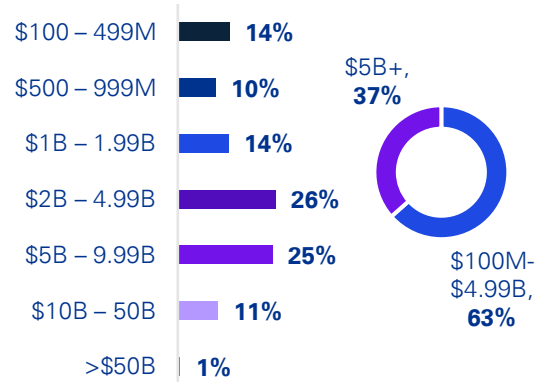
Survey demographics



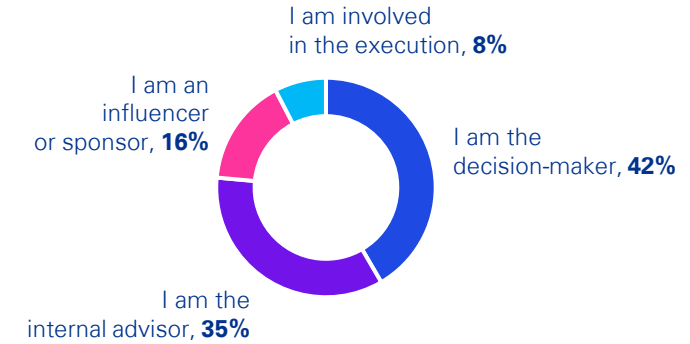
Country



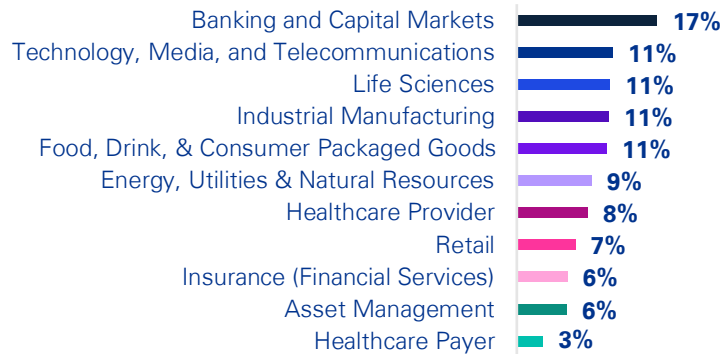
Revenue



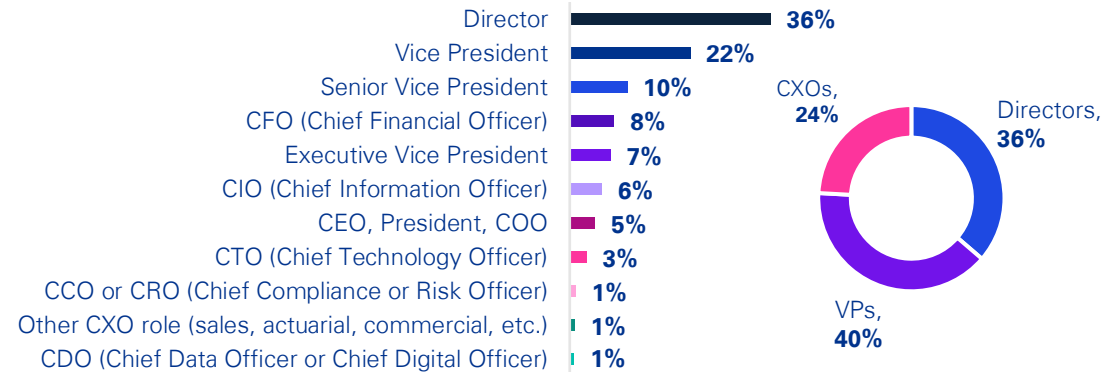
Investment role



Industry



Job title



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How KPMG can help

KPMG professionals believe that business transformation is now a necessity — and that successful transformation requires the right tech and best processes with people whose insights are as broad as they are deep.

KPMG firms have worked at the heart of global businesses for many decades, helping clients realize the full potential of their people and technology, and working together to achieve real-world outcomes. Because when people and technology are in harmony, great things happen.

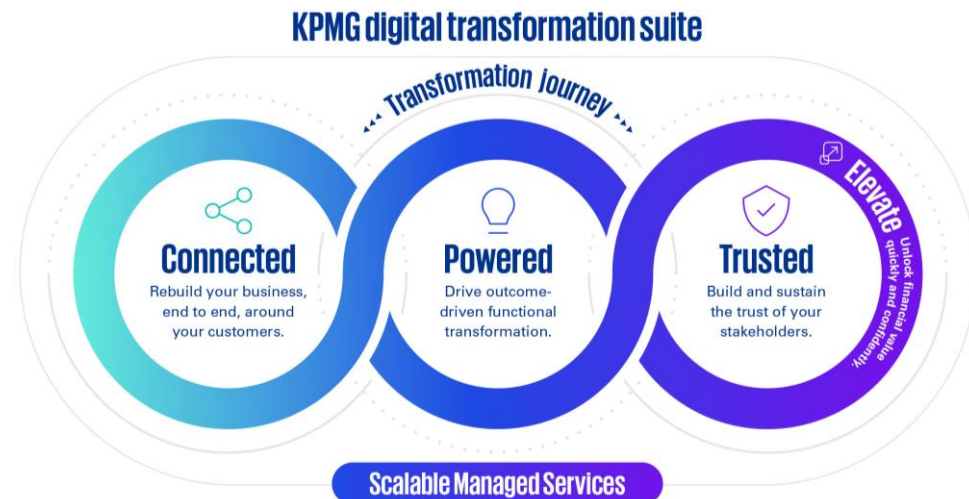
Making a world of difference

KPMG professionals can make all the difference on your transformation journey. Together we can help you orient your business around the customer, optimize functions for a new era, manage enterprise risk and regulation for a safer future, rise to a new level of value-creation, and create an environment for managing ongoing change.

Through the richness of their digital transformation, KPMG firms are helping clients build modern, intelligent, and resilient businesses that can deliver leading results for people and the planet.

Transforming for a future of value

The KPMG suite of business transformation products and services helps clients get to more productive and sustainable futures. Tailored to meet specific challenges across different business or operating models, our products and services drive continuous innovation and create lasting value beyond implementation. Each contains rich insights and is underpinned by the leading transformation methodology of KPMG.



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About KPMG Managed Services

Business transformation is a path to sustained advantage. But transformation should not be a fixed destination; it is an ongoing journey. How can you continually evolve your business functions to meet ever-changing targets? KPMG Managed Services can help — by handling knowledge-intensive processes across your enterprise on a subscription, as-a-service basis. This outcome-based approach can potentially reduce your total cost of operations by as much as 15 to 45 percent, in addition to driving priorities like resilience, customer and employee retention, and stakeholder trust.

Seeking to take you beyond traditional managed services, KPMG firms 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. This strategic collaboration is designed to make the difference between transactional and transformational services, helping you gain a competitive advantage, sustain it through ongoing transformation, and limit disruption and risk.

KPMG. Make the Difference.

[Learn more about KPMG Managed Services](#)

About HFS Research

HFS Research is a leading global research and analysis firm trusted at the highest levels of executive leadership. Our mission is to help our clients — major enterprises, tech firms, and service providers — tackle challenges, make bold moves, and bring big ideas to life by arming them with accurate, visionary, and thought-provoking insight into issues that impact their business.

Our analysts and strategists have deep, real-world experience in the subjects they cover. They're respected for their independent, no-nonsense perspectives based on thorough research, demand-side data, and personal engagements with industry leaders.

We have one goal above all others: to propel you to success.

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