By: Professor Mary Lacity and Professor Leslie Willcocks

Will your Next Relationship be with a Human or a Robot?  
A Look at How Service Automation May Impact Outsourcing

As reported in PULSE Magazine last year, our survey showed that the average client OWS attendee was not leading the automation charge and that clients remained more concerned about the cost and quality of the provider’s staff than with the provider’s automation capabilities. A year later, the entire outsourcing community – clients, providers, and advisors – want to know if anything has changed. How has service automation affected outsourcing so far? Based on a yearlong research project that included interviews with service automation adopters, providers, and advisors, we found different answers to the question depending on whom we asked.

The vast majority of clients had really ramped up their internal automation efforts, but on processes they themselves ran. Only two clients automated services delivered by BPO providers. In contrast, advisors who have access to a wider client base have reported automation significantly affecting outsourcing already and will continue to do so.

Client Insights: So Far, Little Effect on Outsourcing

We collected 13 client adoption stories. Seven of the client organizations are headquartered in the United Kingdom (UK): three are based in the United States (U.S.), and one client organization is based in each of Germany, France, and Russia. The client organizations represent 11 industries – service automation really is not restricted to certain industries. In our sample, 11 of the 13 adoptions took place within business operations; only two were led by people from Information Technology (IT) departments. The 13 client organizations adopted service automation tools/platforms from Blue Prism, Automation Anywhere, Automated Insights, and Celaton.

All interviewees representing the 13 client adopters reported positive business outcomes from service automation, included doing more work with fewer humans, improving service quality, executing services quicker and extending service coverage to 24 hours without shiftwork. Also, increasing work team flexibility because software was configured to execute multiple processes and was deployed where needed, increasing compliance because software was configured to follow regulations, and most surprisingly, increased employee job satisfaction. Employees were more satisfied because their jobs became more focused on higher-level tasks – the software took over the drearier, repetitive tasks. Clients did not use automation to layoff any internal employees, thus removing the fear that automation can cause among workers.

From the client adoption stories, we have very little evidence that service automation significantly affected outsourcing services or relationships. Early days, perhaps? Eleven of the 13 clients in our study led the service automation implementation themselves and only automated services that were provided by their in-house operations teams. Only two client companies used service automation to automate services delivered by a BPO provider. These two clients reduced FTE headcounts in the outsourcing provider firms by a few hundred people as a consequence of automation. In these two cases, offshore processes were reshored, but few new jobs were created onshore – work was performed by the service automation software and managed by a handful of onshore humans.

One of these two companies continued to have a good relationship with its Indian-based BPO provider despite the headcount shrinkage. The client was sensitive to the provider’s needs and did not want to damage relationships with a provider they still very much relied upon. The client gave the BPO provider new work, including nearly all of the client’s email and web chat services to make up for some of the lost headcount through automation. In total, the BPO provider had about 900 FTEs supporting the client in first quarter of 2016.

Xchanging provides a third interesting case as it relates to offshore sourcing. It was the only client adoption story that took place within a BPO provider firm. Xchanging automated processes in its offshore delivery center and kept the processes offshore. While there was a big debate around whether automation would see the repatriation of work from offshore sites, Xchanging argued in its internal messaging that in its case there was no strong rationale for this. Xchanging had no quality problem with its many offshore sites that spanned work in Business Processing Services, Technology and Procurement. Moreover repatriation would not produce a significant cost differential. Offshore processing was already highly efficient. Rather, in practice, automation could be applied in those offshore sites to further improve performance where needed, for example in speed, and may well mean new job opportunities.

We note that our client sample is very small and may not represent the larger population of client firms. Certainly, the advisors in our study reported significant effects of service automation on outsourcing.

Interest in service automation has certainly escalated with the proliferation of Robotic Process Automation (RPA) and Cognitive Intelligence (CI) tools.

At The 2015 Outsourcing World Summit last year in Phoenix, we surveyed client attendees about the state of service automation and its effects on outsourcing.

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Of all the sources of data, advisors provided the most insights on the effects of service automation on outsourcing.

Advisors Insights: Big Changes to Outsourcing

All advisors agreed that automation changes outsourcing. So, what will change? According to all the advisors, service automation is affecting pricing models, value propositions, and location advantages.

Pricing Model Effects. Historically, the main cost of an outsourced service has been the providers’ labor. A provider’s labor arbitrage advantage was a major source of value and justified FTE-based pricing. Because service automation replaces some or even much of that labor, it merits pricing mechanisms based more on outcomes and transactions. Indeed, Sarah Burnett from the Everest Group already sees these shifts in her clients’ outsourcing contracts: “It is already changing the commercial of contracts. As delivery teams shrink we will see more outcome and transactional pricing blended with other models for service delivery.”

Another emerging pricing model is separate rate cards for humans and robots, with the robot being much less costly than the human.

Value Proposition Effects. As far as shifting value propositions, the advisors all note that providers have either (a) already leveraged automation or (b) are planning to leverage automation as soon as possible. Charles Sutherland from HIS explained that service providers are building automation capabilities and figuring out how to incorporate automation into their bids and pricing models. He has found every contract up for renewal subject to a provider automation applicability review. This is to guard against other providers ‘out-automating’ them in any rebid. Rob Brindley of ISG predicts that there will be a shakeout among providers “until leaders emerge and providers rationalize and consolidate into a mature industry.”

Location Effects. According to the advisors, automation will increasingly affect location decisions as service delivery embraces new combinations of machine and human labor. As the relative size of a delivery team shrinks, the value of low-cost locations diminishes. Burnett thinks the mix of offshore/nearshore/reshore locations will change: “Over time, we might also see a shift from offshoring to near-shoring or re-shoring, as automation replaces some aspects of labor arbitrage. It will not replace all FTEs and there will still be an advantage to arbitrage, for example, cheaper overheads for automation. It is the mix of locations that is more likely to change.”

“I have called service automation the ‘death of outsourcing’ as we know it”.

– Cliff Justice of KPMG

Derek Toone of Alsbridge sees that as labor becomes a smaller part of service delivery, onshore service delivery becomes more attractive. He said, “If adopted, RPA/service automation, will materially affect location decisions for services which have previously relied heavily on availability and cost of labor for a given skill-set. For outsourced services, RPA service automation will not entirely eliminate the need for labor and if a given skillset is readily available in a lower cost location, that will continue to be a business driver for using that location. However, as labor becomes a smaller component of overall service delivery, then the weight of the counterbalancing factors (e.g., language, time zone, culture, IP security, etc.) will begin to more often tip the scale in favor of using onshore service delivery.” Justice believes automation makes location less relevant, particularly as automation moves to the cloud. (See KPMG’s white paper on the topic, How robots can improve legacy sourcing agreements).

Our Insights

We see automation as a means to ends. Clients fundamentally want business services that are world-class performers in terms of costs, service levels, business strategy enablement, compliance, scalability, and flexibility.

Service automation is one transformation lever to improve performance along with other transformation levers like centralization, standardization, optimization, and relocation to low-cost destinations. Clients can and do deploy transformation levers through a variety of sourcing options ranging from insourcing via shared services and captive centers to full scale, full service outsourcing. We think service automation will be deployed likewise, with some clients automating services themselves, some clients asking advisors and providers for help, and some clients selecting providers because of their service automation capabilities.

Robotic process automation is quick and easy to deploy and has already produced multiple business benefits in adopting organizations. Thus, we do not find it difficult to predict the rapid proliferation of service automation over the next 18 months within client organizations and throughout outsourcing relationships. The interesting developments thereafter are (a) how quickly cognitive intelligence automation and business analytics technologies can be deployed synergistically with RPA, and (b) the likely impacts on work, skills sets and business performance.

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Please Note: This article is based on our book, Service Automation: Robots and the Future of Work.

1 http://www.kpmg-institutes.com/content/dam/kpmg/sharedservicesoutsourcinginstitute/pulse/insight/2016/05/123953-outsourcing-insights-digital.pdf