Here Come the Robots: The Emergence of Robotic Process Automation and the Beginning of the End of Outsourcing As We Know It

By Frank Casale, Founder & CEO, Institute for Robotic Process Automation (IRPA) and the Outsourcing Institute (OI)

When I first became familiar with outsourcing, I had the immediate sense that it would change everything, both in information technology and in wider business strategy. I believed that outsourcing would have a dramatic impact on hiring trends and on the global economy. Its ability to have such a dramatic impact on cost reduction would make implementation a no-brainer for most organizations. Extrapolating beyond the organization, it was apparent that as outsourcing grew, it would impact labor pools locally and globally. The macro and micro economic effect would be historical–yes, controversial–yes, political–yes, stoppable–NO.

In the early 1990s, I predicted that outsourcing was going to be more than a passing trend and despite its potential to create controversy, I knew it would become a pivotal strategy for companies seeking access to world-class capabilities and much needed cost reductions. It was in this context that I founded The Outsourcing Institute. Stakeholders in this emerging marketplace needed a trusted source to educate themselves, a global community to enable sharing and connecting, and a neutral network to create business channels.

It is ironic that as we celebrate the 20th year of the Outsourcing Institute, another significant game changer appears on the horizon that will in essence obliterate the traditional outsourcing model as we know it. Labor arbitrage and FTEs will become mostly irrelevant. Also known as labor automation or autonomics, robotic process automation (RPA) is the application of software and algorithms to perform routine tasks and operations that have

been previously performed by humans. The technology can capture and interpret existing applications for processing transactions, manipulating data, triggering responses and communicating with other digital systems.

Robotic automation has made a deep mark on manufacturing and supply chain industries around the world by freeing human workers from repetitive, labor-intensive tasks, thus enabling agility in response to new markets and regulatory demands. Recent advances in technology in the form of robotic automation software can now be applied to back office administrative processes, information technology (IT) and customer contact functions. These advances will transform the way organizations look at workflow and business processes. It will force IT and business executives to rethink the way they plan, source and budget some of their most critical projects. While RPA will certainly impact all members of the outsourcing ecosystem, it clearly goes beyond outsourcing. In a 2013 report, Disruptive Technologies: Advances that will Transform Life, Business and the Global Economy, the McKinsey Global Institute claimed that automation knowledge work will have an economic impact of $5-7 trillion by the year 2025 and will touch more than 230 million knowledge workers, nine percent of the global workforce.

Enterprises that leverage process automation software in their service delivery model will expand the capabilities of many types of workers, help create

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innovation and use analytics to drive operational improvement. Service providers who are striving for differentiation in a crowded marketplace will be able to offer vast improvements in their service offerings and cycle time. The most stunning benefit of RPA is its potential to deliver an immediate savings of 25-40% of labor costs.

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Robotic process automation encompasses a variety of technologies:

• voice recognition and digital dictation software, chatterbots, and interactive voice response systems incorporating intelligent interaction with callers

• presentation layer automation software to reduce human labor in busines processes for straight-through processing without manual intervention

• specialized remote infrastructure management software featuring automated investigation and resolution of problems

• Information technology operational service delivery portals that automatically monitor and manage client environments

"When we use the term robot, people immediately think of Robby the Robot or machines on the floor of the auto manufacturing plant," said Tom Young, Alumni Partner, Information Services Group, formerly TPI, and IRPA Advisory Board Member. "They think in terms of the physical realm. What we're really talking about here is logical robots. When the physical morphs into logical, the ability to scale and drive rapid deployments in terms of adoption curves change tremendously."

Robotic process automation will dramatically affect the outsourcing industry, as well as long-term business and IT strategic planning within organizations. In the next five years, we will see a marked increase in adoption rates as organizations realize the potential strategic benefits of RPA in gaining competitive advantage. In addition to cost savings for these companies, RPA will foster leaner, more productive operations. Organizations will uncover significant increases in value as these advances in software deliver dramatically improved discipline, quality and speed.

Game Changer

The decision to outsource has always been driven by the business need to lower costs and improve performance. Initially, outsourcing was the practice of hiring service providers to come on site and take over client functions, such as help desk operations. Later, outsourcing evolved into a service delivery model whereby providers delivered services to multiple clients from centralized centers located onshore. Companies then turned to outsources with an offshore delivery model that help drive down costs by leveraging labor arbitrage. Robotics represents the latest phase of outsourcing, a way to further save labor costs and improve work efficiency.

Over the past two decades, one of the fastest growing sectors of outsourcing has been business process outsourcing (BPO). Now a multi-billion dollar industry, BPO is the practice of contracting with a service provider to take on the operations and responsibilities of internal business functions and customer related services. Offshore BPO, however, can involve real challenges, such as unreliable service quality levels, cultural and language barriers, time zone differences, shifting exchange rates and uncertain labor environments.

While BPO has offered companies significant savings by way of labor arbitrage and the offshoring of "your mess for less," or custom complex legacy operations, the cost advantage of pro-

cess automation will be even greater. By handing off repetitive, lower-end functions to robotic software, enterprises such as insurance companies, banks and utility companies, will be able to eliminate the need to outsource projects to offshore providers.

Companies that contract with service providers for information technology outsourcing (ITO), another large sector of outsourcing, will be able to use sophisticated robotic automation to better align their IT with their business outcomes. RPA can monitor and manage client technology environments and apply an automation framework that "learns" from an existing environment to automatically gather information and remediate problems.

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A convergence between IT and back-office business processes will create opportunities for process automation robots to emerge at various levels of scale, from supporting an individual process to fully automating key business functions. These solutions will address a range of needs for enterprises; from cutting labor costs, to increasing productivity, to strengthening processes and driving competitive advantage. Enterprises that are looking for the next "big thing"- both those that are outsourcing and those that are not – will find significant potential in rbotic process automation.

For CIOs, IT and business leaders, the move to process automation means that resources, budgets and time frames currently in place will change for the better. For enterprises that repatriate services to a "virtual back office" staffed by software robots, many of the challenges associated with offshoring will disappear. The burden of outsourcing governance will lift and pricing for services will drop. Enterprises that decide to contract with service providers leveraging robotic process automation will be able to radically drive costs down and increase efficiency and throughput. RPA will affect all new and existing contracts and will create a power shift in the service provider arena.

The emergence of RPA is an opportunity for CIOs to increase their impact on their organizations. Advances in software will create a dramatically different type and scale of change than the typical generational change that technology has presented over the past twenty years and will require CIOs to work with other business executives to fully capitalize on the operational business advantages of this technology.

Most operational plans are based on three variables: human capital, cost and time. RPA can deliver value in all these areas, driving costs down, improving service delivery and enhancing performance and quality. If RPA technologies are not a part of a CIO's current plans, those plans should be thrown out.

The Future Is Now

If the last wave of cost savings and innovation for enterprises was built on outsourcing, this next wave will be fueled by RPA. It is not a "gee-whiz" technology of the distant future; it is here today. Companies across a range of industries are already benefiting from the technology. Here are a few success stories:

• A European hospitality company used software to automate the manual process of updating management information for audits. The company now has much more control and flexibility for adjusting the audit schedule and adding new hotels to the system. It has saved time and money while delivering information that enables its hotels to optimize their business operations.

• An online retailer needed to make its back-office and customer-facing functions more efficient and effective to improve the overall agility of the business. It deployed self-service software that automates back-office processes via a virtual workforce. The result is reduced costs, improved accuracy, increased timeliness and enhanced simplicity of operations.

• A large financial services business relied on IT consulting firms to manage an off-shored, labor intensive processing function, which led to inefficient operations. The company deployed

automated technologies in its trading platforms to provide checks and ensure that trades and transactions are correctly completed. The use of automated systems resulted in significantly reduced manual intervention and improved service delivery.

• A provider of networking infrastructure needed to optimize the expertise, processes and tools supporting its remote management customers while also focusing more on core business initiatives. It deployed an automation tool that performs routine management tasks such as monitoring systems performance and

health, managing technology assets and tracking workflow. The provider saw faster trouble resolution and higher levels of network performance and availability.

Because these software solutions can work tirelessly 24 hours a day, seven days a week, they offer unprecedented gains in operational agility, accuracy and consistency. Companies with strict reporting regulations will benefit from automated monitoring and recording. The accompanying capability for advanced analytics drives a feedback loop for process improvement and

system optimization.

Because RPA software is a predictable expenditure, and at a fraction of the cost of an FTE with marginal cost for maintenance, companies can improve their agility and scalability without the need for recruiting and training. With a record number of contracts set to expire or renew in the next few years, robotic process automation presents the opportunity for companies to finally achieve their goal of decoupling revenue and headcount.

Impact on the Marketplace: The Good, The Bad and The Ugly

There is only one thing better than a low cost person performing a business function, and that is having no person at all. The new breed of RPA infused outsourcing solutions will be less about people and more about advanced automation technology. Is this good news or bad news? Depends on who you are.

The Good	It will be good for all enterprises whose existing outsourcing relationships have run out of steam when it comes to new and incremental cost save and innovation, and are seeking a silver bullet. Why struggle to gain another 5-10% labor cost reduction when you can easily enjoy labor cost saves of 25-40% or more? For regulated businesses, the analytics and reporting will be like nothing that you could have envisioned in a traditional outsourcing engagement. In environments where speed and scalability are key, RPA will deliver in spades.
The Bad	It will be bad for most IT, ITO and BPO providers as the new math will have market prices plummeting. Traditional labor based pricing will not stand a chance. What will you do when your lowest 'buy the business' pricing isn't even in the ball park?
The Ugly	It will get ugly for Indian offshore players who heretofore have made history and surpassed even the most optimistic growth predictions over past two decades based on a labor arbitrage model that is about the become extinct.

Buyers	Take the initiative to educate yourself and your peers as to what RPA is, who's doing it, who the experts are and who the providers are. You should insist that your current providers embrace RPA and transform their model so that you may gain the benefits sooner versus later.
Onshore Providers	It's all about the pivot. Bad news is that this will be painful for some and impossible for others. The good news for those who make it is that you will very soon have the opportunity to win back all that business that you lost to off shore competitors.
Offshore Indian Providers	Many have been predicting the end of Indian IT for years. Could this finally be it? Your strength is now your weakness, the bigger and more vested you are in a low cost labor arbitrage model, the tougher it will be for you to make the transformation. You will have in essence a choice. Layoff many thousands and rapidly change what and how you sell, or stick with the current plan and see how it plays out as you watch the market change direction, hurting your market share and market cap, only to then have to make all those layoffs anyhow, and then attempt to rebound from a much weaker position.

Advice and Recommendations

What I learned from being among a handful of people at the forefront of the outsourcing mega-trend 20 years ago, is that disruption is exciting and does tend to benefit many, but it is also painful and damaging to others. There are always winners and losers and there certainly will be many of both in this emerging and powerful wave of robotic process

Success, in my humble opinion, is not always about what you know but also who you know. Proactively seek to learn and educate yourself and always, and I mean always, build and nurture your network of relationships. The primary objective of IRPA is to help business leaders understand how this trend will help them to cut costs, increase efficiency and improve business processes.

Here come the robots…..Get Ready!

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About the Institute for Robotic Process Automation (IRPA)

Created by Frank Casale, founder of the Outsourcing Institute, IRPA is a professional association that helps enterprises and solutions providers navigate and benefit from process automation. IRPA members get free access to the latest trends, best practices, case studies and events. For more information e-mail helpdesk@irpanetwork.com or visit www.irpanetwork.com.

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