FROM HUMAN TO DIGITAL: THE FUTURE OF GLOBAL BUSINESS SERVICES

2015

Findings from a Survey of 482 Stakeholders in The Global Services Industry

Authors:

Phil Fersht, CEO, HfS Research | **Cliff Justice,** U.S. Leader, KPMG LLP Shared Services and Outsourcing Advisory
Rick Bertheaud, Principal, KPMG LLP Shared Services and Outsourcing Advisory

KPMG
cutting through complexity

HfS

Critical success factors for operations leaders in the digital age

The global business services (GBS) world is facing a dramatic shift from labor to digital. Buckle up, because it *is* going to happen. This report summarizes the findings of a major new study of 482 global services practitioners, presented on a global Webinar hosted by the authors of this report and presented by KPMG LLP (KPMG) and HfS Research.

Here are 10 critical success factors you should consider.

1. **Cutting cost remains the number 1 priority of operations leaders—and labor is their biggest cost.** They have reaped the gains labor arbitrage can provide. Now they are turning to technology to cut labor. Specifically, they are looking to robotic process automation (RPA).
2. **Moving to a digital services model is not a nine-month exercise.** Plan on five to seven years to make it happen.
3. **The companies that will succeed are going to be the ones that can navigate change,** or are new and don't have a lot of change to navigate.
4. **Companies that have invested significant capital in big iron ERP systems have their work cut out for them.** The best way for them to move into a digital services platform is to start with one component in one process from one ERP module. In other words, digitize one component at a time.
5. **The benefits of a digital services environment can pay out quickly and then for years to come.** Organizations that have taken modules out of their big iron, and then interfaced them with a digital service, have enjoyed savings of as much as 90 percent in just six months.
6. **It is impossible to automate 100 percent of anyone's job.** To achieve the cost savings required, understand the process end-to-end to determine exactly what you *can* automate. You will have to test the boundaries of exactly how much a robot can do.
7. **Moving to a digital services environment requires total commitment from the C-suite, even the board.** If you don't have it, forget about it!
8. **Digital services require a leader who can master multiple processes in a consolidated fashion.** This talent is hard to find. But he or she might already be on the payroll! Look in the front office for someone with P/L experience.
9. **Outsourcing service providers need to change (which means cannibalizing their current revenue models) or become dinosaurs.** The survivors will probably partner with the new, cloud-based providers.
10. **Companies must recognize that some (or many) of their current service providers will not remain the best option for digital services.** They must vet their providers' short- and long-term strategies and plans to support digital while simultaneously identifying and assessing new digital providers coming to market.

Global Business Services defined

KPMG defines GBS as the collective set of resources, capabilities, and systems to deliver integrated support services such as IT, finance and accounting, human resources, procurement, and other business services across an organization. Implied in GBS is greater consolidation and leveraging of common applications and business processes, models, and leading practices to deliver these services more efficiently and effectively than in the past. As the name implies, this is often done on a global scale, using multiple service delivery models including elements of shared services, outsourcing and, increasingly, cloud solutions.

TABLE OF CONTENTS

LIST OF EXHIBITS

From human to digital? The emergence of robotic process automation—and new models in global business services

Gone are the days of mere labor arbitrage, functional consolidation, and lean process models to deliver business processes at scale. Today, leading companies are shifting away from processes based on low-cost labor—and instead, virtualizing that labor through RPA.

So, it may be time to bid farewell to global business services as we know them—and say hello to a new breed of *digital* business services.

How are those services starting to take shape? What challenges are buyers and providers facing? Inside, we explore some of the results from a recent study of 482 global services buyers, providers, and advisors in multiple industries. *From Global Business Services to Digital Business Services* was conducted by KPMG and HfS Research during November and December of 2014.

Reducing reliance on labor

The C-Suite remains squarely focused on reducing operating costs, and the largest single component is labor, which typically makes up 10 to 30 percent of revenue. However, many enterprise leaders are running out of traditional options to continue cutting costs. That is, there are only so many times a company can lift and shift the same old processes to lower-wage locations before the benefits become very challenging to sustain. What's next?

The answer lies in new technology, as the confluence of cloud, analytics, and other innovation is changing the way companies do business—and is paving the way for advancements in RPA. Thanks to these advancements, companies are starting to focus less on a model of cheap employees—and more on a model of digital processes.

Indeed, more than half the respondents in our study said they want to drive down operating costs (*see Exhibit 1*), and many—across industries—are exploring RPA as a viable option (*see Exhibit 2*).

Defining RPA

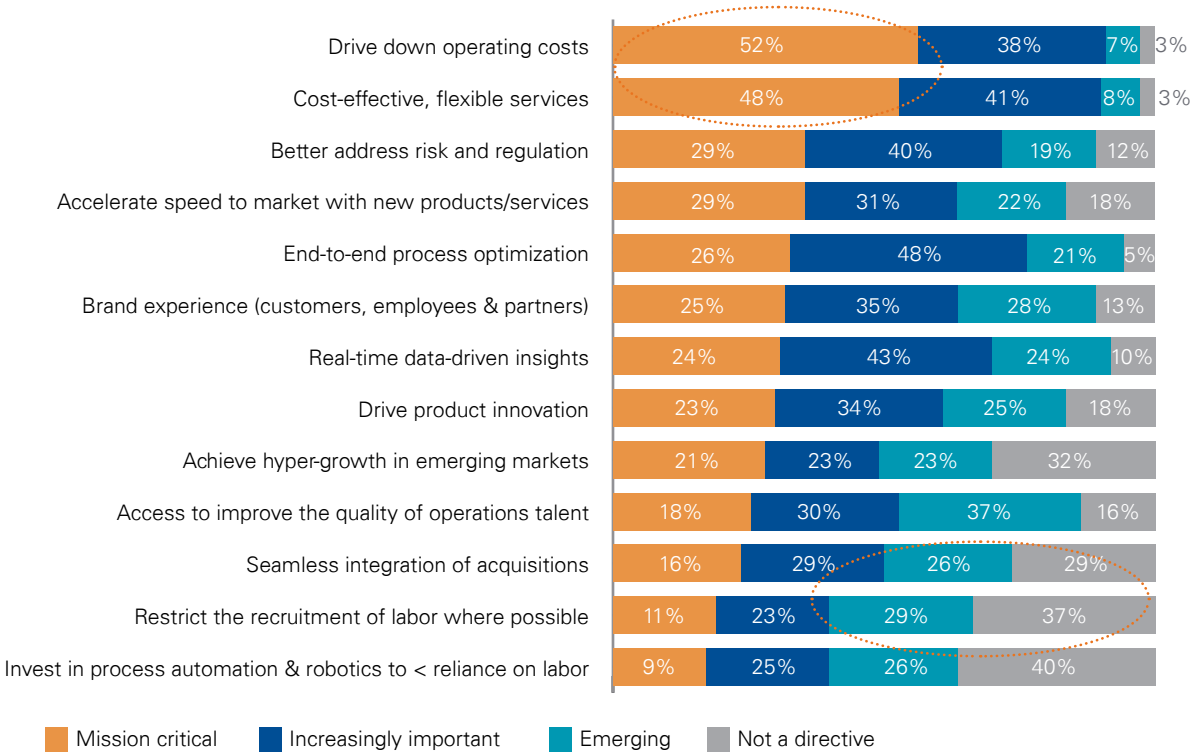
Robotic process automation is the use of machine intelligence and software robots to perform human tasks. RPA is not one thing, but rather a confluence of many technologies including as-a-service offerings, cognitive technology, social and mobile innovation, big data analytics, and the Internet of Things (IoT)—which are combining to accelerate new opportunities for automation.

The capabilities of RPA

RPA ranges from basic software robots that automate rules-based tasks to cognitive, predictive supercomputers that can analyze data and make hypotheses. RPA capabilities in cognitive technology are accelerating, particularly in industries with a codified body of knowledge, such as medical, legal, regulatory, and finance and accounting.

Indeed, the University of Oxford estimates that 47 percent of jobs are at risk of being automated over the next two decades, and it's not just manual labor[1]. Thanks to sophisticated algorithms and pattern-recognition software, RPA can replace cognitive tasks—such as patient monitoring, fraud detection, and pretrial research—that formerly required human judgment. As such, RPA not only has the potential to automate processes, but also to automate decisions.

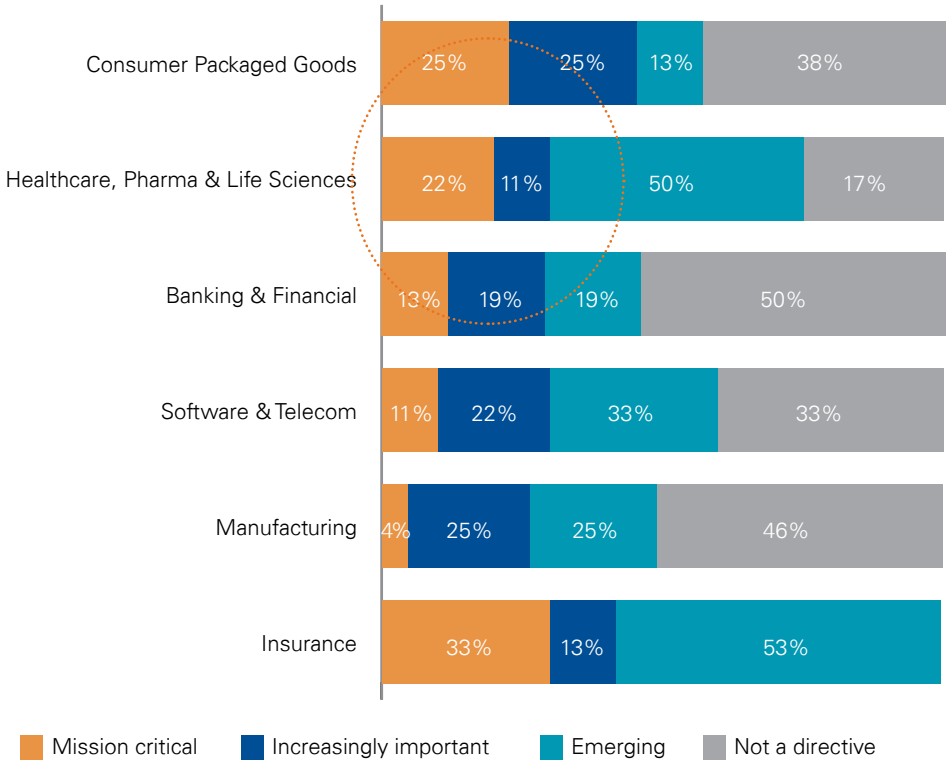
Exhibit 1: How critical are the following C-Suite priorities?



(Numbers may not total 100 percent due to rounding)

[1] The Future of Employment: How Susceptible are Jobs to Computerisation?, Oxford University, September 17, 2013.

Exhibit 2: Emerging interest in RPA to reduce labor costs



Sample: 168 global enterprise services buyers

(Numbers may not total 100 percent due to rounding)

For example, cognitive and machine-learning technologies are already starting to:

- Act like virtual, multilingual employees who speak, read, write, and learn on the job
- Go beyond mere word recognition to understand what people say, the questions they ask, and even how they feel
- Speak in natural language
- Apply knowledge to solve problems.

Robots are coming, but employees aren't disappearing

Thanks to advancements in cognitive technology, RPA will ultimately digitize the roles of some employees, but that doesn't mean the end of labor.

To be sure, some jobs will become obsolete, but RPA is also opening the door to new kinds of jobs—especially the digital talent that is required to manage automation and interpret data.

This capability may take a few years to move out of the pilot phase, but it is starting in process areas such as customer support, where human decisions require judgment based on facts or established rules. Beyond that, automation may reach into more complex decisions, such as claims processing or the prioritization of invoice collection. These evolving capabilities are in addition to transactional processing and repetitive tasks that can be addressed by today's basic process automation, such as:

- Periodic reporting and data analysis
- Data entry and replication on forms
- Cross-system, or "swivel chair," data processing between systems
- Mass email generation, follow-ups, archiving, and tracking
- Database creations, edits, and retrievals.

In the United Kingdom, for example, telecommunications firm O2 has replaced 150 workers with a single piece of software that can perform SIM-card swaps, migrate accounts from prepaid to contract, unlock mobile phones, and port mobile phone numbers. Humans used to manually perform these tasks by, for instance, copying a phone number from one database to another. But now, while users still call the company and talk to a human, it's a software robot that does the actual work—and it learned to do so by "watching" humans do repetitive database tasks.

In Canada meanwhile, start-up company ROSS is using IBM's Watson supercomputer to automate legal research that is normally performed by paralegals. Billed as a "super intelligent attorney," the ROSS digital solution reportedly scans and analyzes 10,000 pages of text every second to return precise answers—ranked by confidence—to specific legal questions posed in natural language. ROSS also continually monitors legal developments to notify attorneys of any new court developments that could affect their cases.

In the United States medical industry, Massachusetts company Nuance Communications is developing artificial intelligence that reads doctors' typed case notes, discerns the services provided, and matches those services with the appropriate billing codes for insurance. In addition to replacing the workers who would do this manually, the technology is reducing the risk of manual error and expediting the time to bill.

ERP vs. RPA in shared services

In a shared services setting, labor elimination is by far the biggest lever for cost reduction. However, enterprises will need significant enhancements to their enterprise resource planning (ERP) systems if they are going to take work out of human hands.

Such enhancements will involve substantial investment, complex negotiations with IT, and a multiyear waiting period for benefits to manifest, as standard ERP systems have struggled for the last two decades to keep up with the pace of business change.

RPA, on the other hand, is more flexible and can be an attractive alternative to expensive ERP enhancements. In particular, software robots are ideally suited to integrate processes among existing ERP applications and other systems of record, while removing the need for human agents to access applications and then share and integrate base data.

For example, if leaders need information that is not readily available in the existing ERP system, they historically have pursued costly systems integrations or hired staff to pull the information from the ERP system and combine it with other information from different applications. In RPA, software robots can enable ERP and legacy systems by automating this data capture, data entry, and reporting, and creating a substantial savings in a short amount of time.

In other words, RPA alone won't replace the processing foundation provided by ERP systems. But RPA can definitely enhance it—and reduce the cost of implementing or updating an ERP system.

A game-changer in global business services

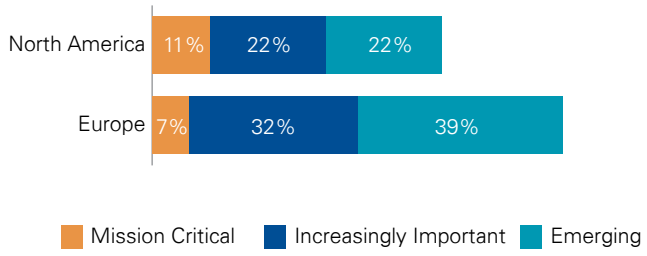
Based on these kinds of successes, RPA could well deliver a whole new alternative to labor arbitrage—and faster than we think, as all industries are fundamentally shifting from a focus on labor productivity to a focus on machine replacement of labor (*see Exhibit 2*). RPA advancements are making inroads across various delivery models for GBS—including information technology (IT), business process outsourcing (BPO), and shared services operations—and they are even changing the way processes are defined, in functions from customer service to supply chain.

Importantly, we do not see RPA as a continuation of the large-scale automation of legacy manufacturing processes. Rather, it is a watershed, as there is no parallel that has the potential to reduce labor costs across every service delivery role. Automation in the past has driven savings of 25 to 50 percent, but the RPA potential starts at 50 percent and can climb as high as 75 percent—with a similarly dramatic decrease in capital cost to implement.

Based on this potential, it is no wonder organizations are showing an interest in RPA, and that is especially true in Continental Europe, which for years has faced rigid labor laws and a pervasive "job for life" mentality. As a result, many European organizations have found it very challenging to find qualified talent to replace legacy staff. Fittingly, our study shows that nearly 80 percent of European firms are interested in RPA, compared with just over half of enterprises in North America (*see Exhibit 3*).

RPA is the new frontier. Of course, organizations have been trying to reduce labor costs for decades, and many thought Web technologies would be the big game-changer on the utilization of labor. However, these technologies actually increased the reliance on humans, as companies needed to train employees on new Web-enabled business processes. While these applications helped globalize the workforce through efficient communication and 24/7 access, they often didn't automate the process; rather they helped people do it better.

Exhibit 3: Enterprises' interest in RPA to reduce reliance on labor



Sample: 168 global enterprise services buyers

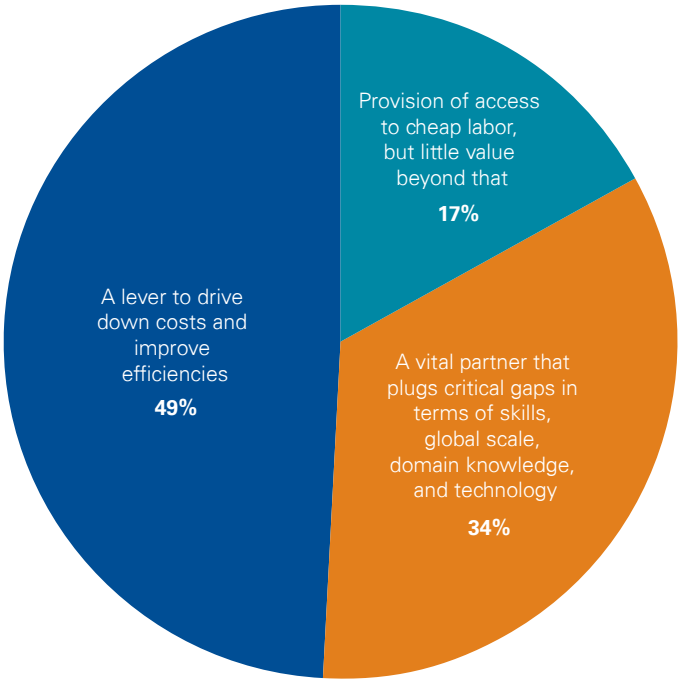
The need for a new model in BPO

As organizations explore RPA to reduce their reliance on labor, the GBS market is changing. In particular, BPO service providers—important players in the delivery of global business services—are developing their RPA capabilities, as shown in the recent 2015 HfS Robotic Premier League of 20 BPO service providers.

Europe, in particular, is proving a hotbed for RPA start-ups such as Genfour, Symphony Ventures, Thoughtonomy, and Virtual Operations. These providers can tap into a growing community of leading independent RPA software vendors in BPO and IT—including the likes of Arago, Automation Anywhere, Blue Prism, IPsoft, NICE, Redwood, and UIpath—along with proprietary RPA tools from providers such as Cognizant, IBM, Infosys, and TCS. Notably, many of the independent RPA software vendors are based in Europe, forming an RPA ecosystem that responds to the needs of European buyers.

However, while companies are looking to their service providers for RPA solutions, many question providers' ability to provide value beyond cost reduction. According to our study, only about a third of companies see their providers as vibrant partners who can plug critical gaps in skills, scale, domain knowledge, and technology (*see Exhibit 4*). In response, the traditional labor-arbitrage providers will have to step up their game in digital services, or they will be replaced by newer providers who have provided digital business services out of the gate.

Exhibit 4: What do you think of your service provider today?

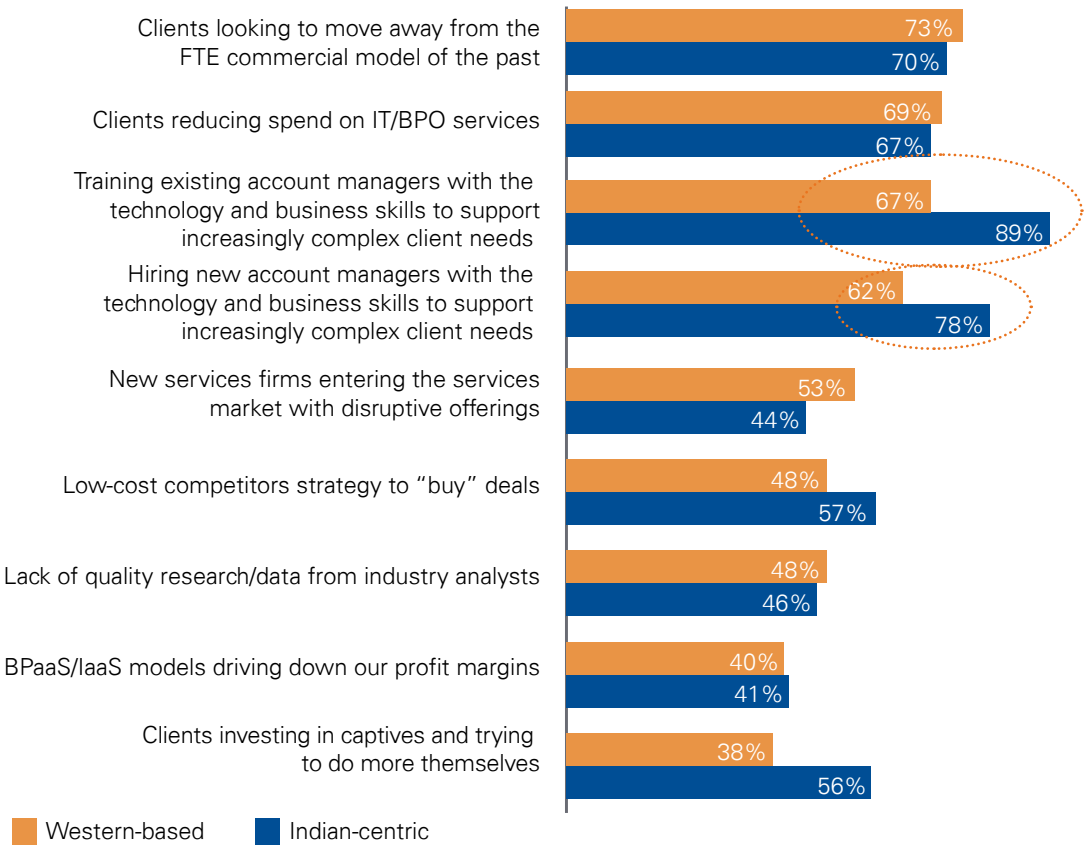


Sample: 164 global enterprise services buyers

The top service providers do have a sense of urgency in developing a delivery model that focuses more on technology than labor; however, many are bogged down in their legacy offerings. In particular, the study shows that many of the Indian-heritage firms (*see Exhibit 5*) are struggling to hire new talent or train existing account managers to support clients' evolving needs. Meanwhile, some other traditional providers aren't willing to make the required investments in digital capabilities—and then educate clients on the new model—for fear of cannibalizing their revenue.

How can legacy providers maintain their margins in tomorrow's world? Due to the shifting landscape, the leading providers of today probably will not be the same as in the next five years, and some of the larger legacy providers may align with new providers born in the cloud.

Exhibit 5: Challenges faced by Indian-heritage service providers



Sample: 168 global enterprise services buyers

The road to RPA

Clearly, advances in technology are creating a new wave of possibilities for companies to optimize their business processes. Companies can potentially reduce their reliance on labor by exploring new GBS models beyond the lift-and-shift of old processes to new locations.

In addition to opportunities, however, RPA also creates challenges on all sides of the market, as buyers need to revisit their strategy and providers need to up their game.

So what is the best way to get started? How can you take advantage of RPA? For more insights on digital business services—and how to get in on the action—visit KPMG's site for Cognitive Automation.

Additional reading on RPA:

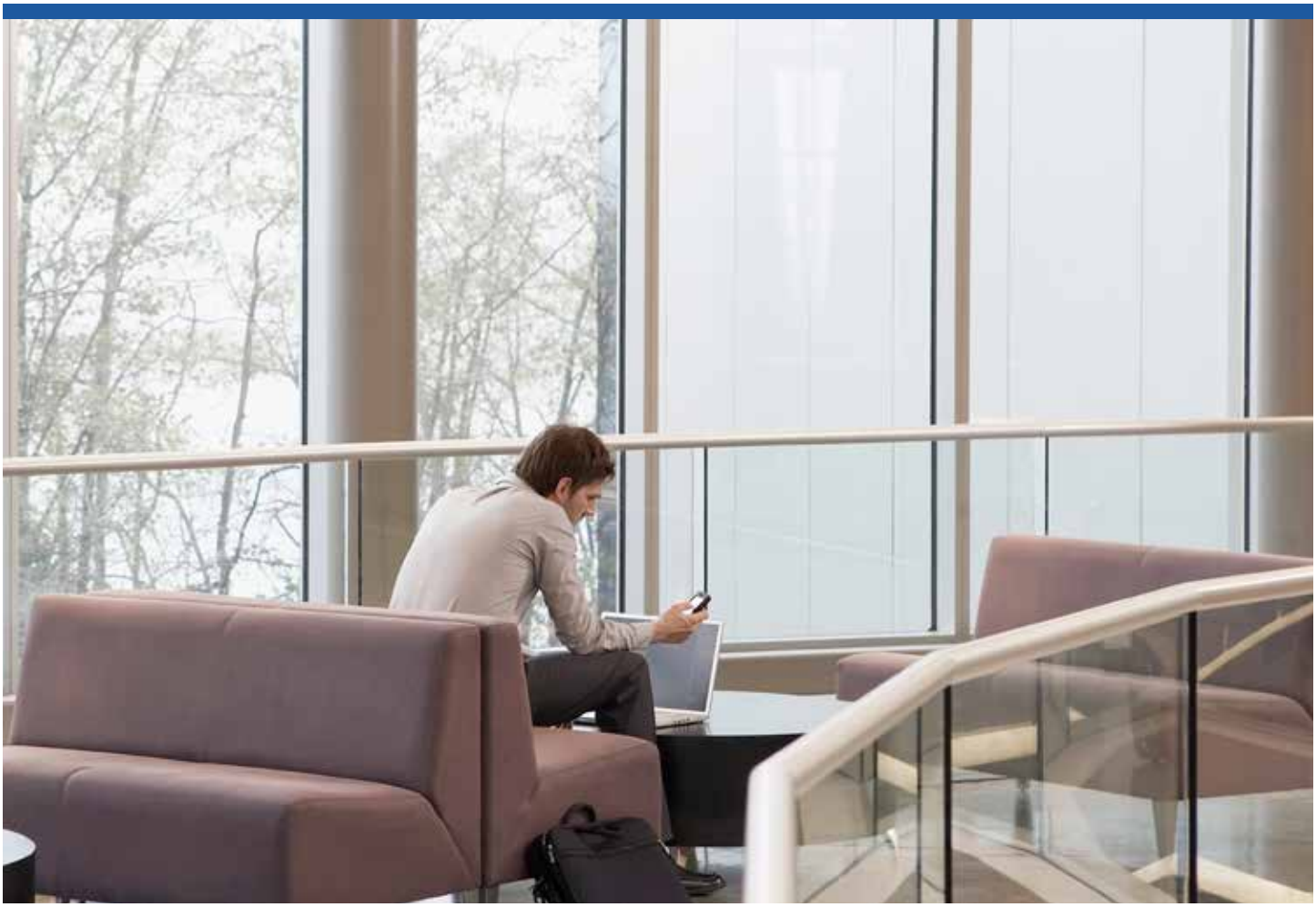
- The Evolving Maturity of Robotic Process Automation
- Framing A Constitution For Robotistan
- The Third Way of Robotics
- Insights From Early BPO Adapters Of Robotic Process Automation
- RPA On The Cusp of Disruption
- Evolving from RPA to AI: The HFS Intelligent Automation Continuum

About KPMG

KPMG is the world's largest independent third-party sourcing advisor with 30,000 professionals across the Americas, Europe, the Middle East, and Asia Pacific. We bring a specialized global team of more than 1000 professionals who blend insight and operational talent to help our clients design, build and manage multi-functional business processes. As a leading firm in GBS initiatives, KPMG helps clients transform business services to improve value, increase agility, and create sustainable performance.

About HfS

HfS serves the research, governance, and services strategy needs of business operations and IT leaders across finance, supply chain, human resources, marketing, and core industry functions. The firm provides insightful and meaningful analyst coverage of best business practices and innovations that impact successful business outcomes, such as the digital transformation of operations, cloud-based business platforms, services talent development strategies, process automation and outsourcing, mobility, analytics, and social collaboration. HfS applies its Blueprint Methodology to evaluate the performance of service and technology in terms of innovating and executing against those business outcomes.



Contact us:

HFS Research

Phil Fersht
Founder and CEO
HfS Research
T: 800-449-4206
E: phil.fersht@hfsresearch.com

KPMG LLP

Cliff Justice
Principal
U.S. Leader
Shared Services and Outsourcing
Advisory, KPMG LLP
T: 713-319-2781
E: cjustice@kpmg.com

Rick Bertheaud
Principal
Shared Services and Outsourcing
Advisory, KPMG LLP
T: 413-427-9952
E: rbertheaud@kpmg.com

kpmg.com