



Bots in the back office

The coming wave of digital workers

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The outsourcing dilemma

The concept of workforce as the primary value lever of business process outsourcing (BPO) is dying. The geographic discussion is giving way to automation. There is neither a "next India" nor the "next Philippines".

Although BPO may once have been your most profitable strategy, today the costs have reached a point where the benefits of moving labour time zones away simply don't equal the hardships. And the economics and performance of technology is becoming a viable alternative to low cost human workers.

Workforce arbitrage is, by definition, temporary. For one, wage inflation overseas eventually makes the cost-savings of cheap offshore workers almost impossible to sustain, even with the shrewdest workforce management. What's more, while the labour cost curve will always escalate, inevitable performance problems driven by turnover and attrition mean that it might not always equate to an increase in productivity.

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Market trends

Market trends and our own research reflect this reality. KPMG LLP's (KPMG) quarterly survey of outsourcing buyers, advisors, and service providers revealed that demand for third-party services dropped in 2015 ^[1]. Meanwhile, the size of outsourcing deals in India is dramatically decreasing, ^[2] and in the four quarters preceding June 2015, India's largest information technology service providers lost roughly 100,000 people. ^[3]

Workforce Arbitrage Characteristics	Automated Work Characteristics
15%-30% cost take out	40%-75% cost take out for relevant functions
Model is scalable to the extent that you can scale work	Model is scalable and is largely independent of work growth
Custom/complex, legacy: "Your mess for less"	Transformative- new way of doing business
Access to low cost workers Necessary to provide continuous value	Access to "rocket scientists" who can codify manual processes
Revenue/profit correlated to people	Revenue/profit NOT correlated to people

Wall Street Journal, July 13, 2015

The shrinking Indian outsource industry

	2014	2010
Deal Value	US\$120.4 billion	US\$206.8 billion
Deal Volume	1,144	1,805

Revenue growth



^[1] KPMG Sourcing Advisory Global 1Q2015 Pulse Survey (KPMG, April 27, 2015)

^[2] "The Seven Signs of India's Outsourcing Apocalypse" (WSJ.com, July 13, 2015)

^[3] "Infosys, Wipro & TCS lose over 100,000 people in last four quarters as automation kicks in" (Economic Times, July 29, 2015)

The digital workforce

Rising global workforce costs are causing BPO to become unsustainable at the same time as technologies are advancing and converging in such a way that they can not only augment work, but replace workers.

More and more companies are gaining traction with cognitive and automation platforms—machines with rapidly advancing capabilities for understanding, learning, communicating, and problem-solving. Robotic process automation (RPA)—this convergence of low-cost, easy-to-implement process automation, coupled with machine learning, data analytics, and cognitive innovations—is creating a new class of digital workers.

In many applications, these technologies are showing they can do the work of humans, only faster, better, and cheaper. The vast majority of 1,896 experts who responded to a study by the Pew Research Center believe that robots and digital agents—which cost approximately one-third the price of an offshore full-time employees^[4]—will displace significant numbers of workers by 2025^[5].



100 Million

The number of global knowledge workers who could be impacted by RPA by 2025.

^[4] "Can Robots Replace People?" (Business Standard, April 27, 2015)

^[5] "2014 Future of the Internet" (Pew Research Center, August 6, 2014)

Five factors driving the end of BPO

1. The shrinking talent pool due to global demographic trends
2. Escalating workforce costs in emerging markets
3. Expanding capabilities of robotic technologies
4. The Internet of Things making devices smarter and reducing the need for human intervention
5. Increasing influence of platform-centric cloud service providers

In fact, traditional outsourced business processes are perfect candidates for RPA. And the workers who support them—such as the millions of call center workers employed globally—are firmly in the cross-hairs. Any human job which involves largely transactional, low-end, repeatable tasks has a limited lifespan, because the payoff of transitioning from labor- to tech-centric models is enormous.

This category of the workforce is massive. The global BPO sector is currently valued above US\$300 billion, and in India alone, more than 3 million people are employed doing BPO work ^[6]. But as technology develops in capability and sophistication, BPO workers occupy only the first train car off the edge of a cliff. Behind them are potentially 100 million global knowledge workers who could be impacted by RPA by 2025 ^[7].

Indeed, RPA has become far more advantageous than employees for even higher-level knowledge work. Once you move processes from people to technology, you have little to no incremental costs and you can scale rapidly without adding costs. What's more, "smart machines," which learn and adapt 24/7, are not only 100 percent accurate, but will continually improve upon the process they are tasked to do, whereas people will only do so with continual investment in recruiting and training.

^[6] "How Robotics is Changing the Face of Business Process Outsourcing" (Robohub, January 7, 2015)

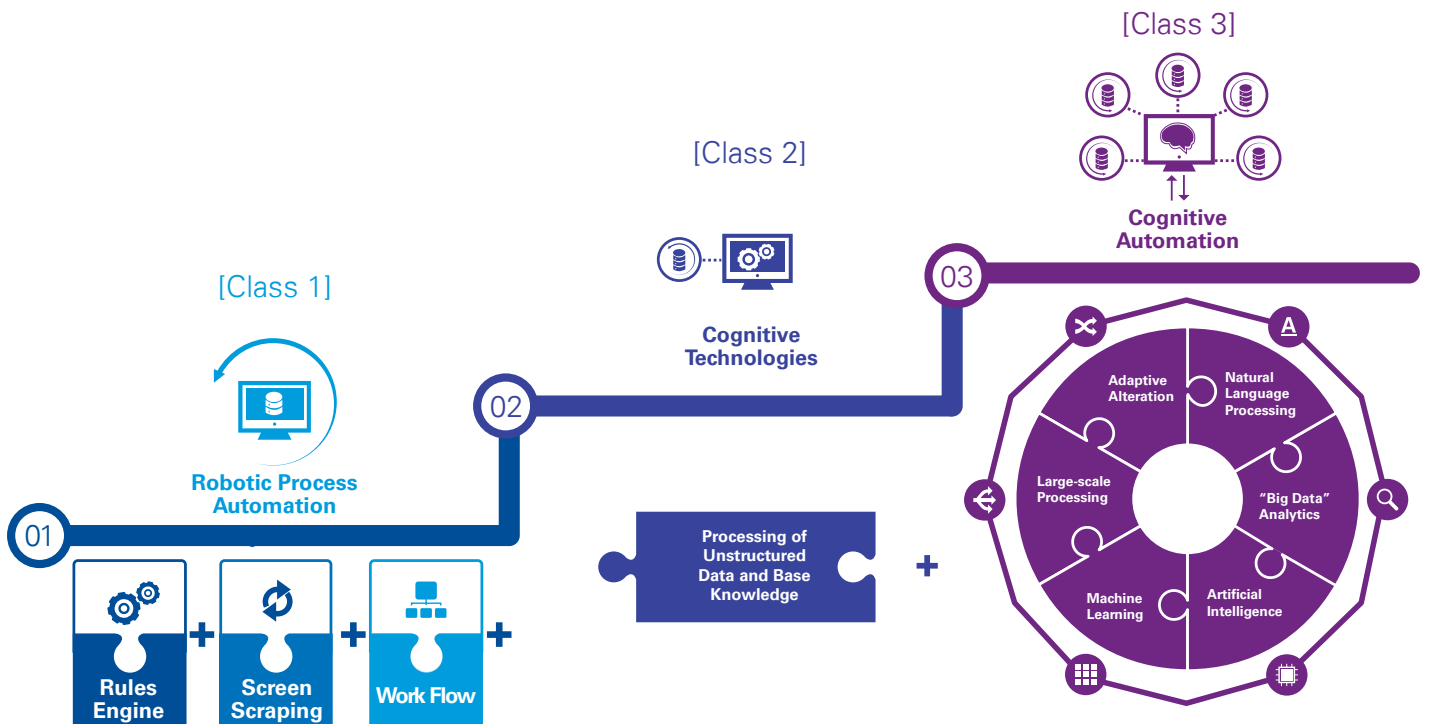
^[7] McKinsey Global Institute – "Disruptive technologies: Advances that will transform life, business and the global economy." May 2013

A sustainable workforce alternative

The end of BPO and the rise of RPA are incredibly disruptive forces, upending industries, markets, and, potentially, whole societies. But they also present powerful opportunities for forward-looking, transformative enterprises to drive long-term value.

By changing their thinking and their models around outsourcing and technology capabilities, many innovative companies and service providers are shifting away from human workers altogether—and seeing their productivity and profitability increase as a result.

As its headcount plummeted, Tata Consultancy Services has experienced a US\$3 billion productivity gain. A pilot of the Infosys Automation Platform saw a 37 percent productivity improvement and 17 percent people savings. And Wipro’s in-house artificial intelligence automation platform, Holmes, redeployed approximately 1,000 employees to gain greater efficiency ^[8].



^[8] "Infosys, Wipro & TCS lose over 100,000 people in last four quarters as automation kicks in" (*Economic Times*, July 29, 2015)

Applied RPA

These firms are embracing RPA in order to move away from outsourcing deals and create operating models that bypass the back office completely.

They recognise that cloud-based RPA technology is a game-changer in price to performance, enabling companies to deliver services in a significantly more responsive, targeted, scalable, cost-effective, and “labour-light” manner.

IBM

Watson, IBM’s cognitive system, is expert at harnessing data, gleaming insights, and making fast, confident decisions. Organisations are using Watson to help doctors evaluate treatment options and insurance agents assist customers.

IPsoft

Amelia, IPsoft’s cognitive knowledge worker, interfaces on human terms. Deployed almost instantly in the cloud, organisations hire her as a super-productive call center operator tasked with responding to customer questions and service requests.

WIPRO

Holmes is Wipro’s artificial intelligence platform, designed initially for the enterprise IT space. It helps automate industry-specific business processes, such as managing help desk tickets, categorising issues, assigning tasks, and automating resolutions.

Tata Consultancy

ignio, Tata Consultancy Services’ neural automation platform, optimises enterprise IT operations. ignio can run a wide variety of IT processes autonomously, while its “what if” modeling capability assists CIOs in scenario planning.

Radically new business models

It's not only service providers that see these changes coming. Unexpected new BPO entrants are also reevaluating their entire business and operating models through a digital lens.

While traditional service providers increase their investment in RPA ^[9], cloud providers like ServiceNow, Salesforce, and Amazon are creating a new type of service-networked platform that enables enterprises to operate their business processes virtually, with a much-reduced headcount and very low implementation costs. These companies have achieved roughly the same market cap as India's largest outsourcers, with only a fraction of the employees.

All of these forces point to a new, "uber-ised" future for BPO. No longer will skilled resources sit in a brick-and-mortar building waiting for the phone to ring. Very soon, the majority of organisations will tap into automated, digitised, on-demand expertise to help run their core business processes.

Service Providers: Investment Priority for Robotic Process Automation



“RPA will be a game-changer in our service delivery models and creating higher levels of client value”

**(Numbers may not total 100 percent due to rounding)*

^[9] “KPMG Sourcing Advisory Global 1Q2015 Pulse Survey (KPMG, April 27, 2015)



What's next?

Where do you go from here? As you begin to lay the groundwork for RPA in your business, here are three key areas of consideration:

1

Reframe your strategy and business model. Embracing RPA is not just about taking out cost. It's about creating—or protecting—your advantage. Rather than squeezing another nickel out of linear, people-centric processes, your core objective should be to leverage emerging RPA platforms to digitise business processes, eliminate manual activities, and drive greater cost efficiency, responsiveness, and productivity. To transform strategically and sustainably, leverage a comprehensive digital strategy and a deep understanding of what social, political, or regulatory barriers to adoption stand in your way.

2

Reevaluate outsourcing contracts. Look forward. What do you expect from your outsourcing relationships in this new, digitised world? If you're a buyer of outsourcing, ask your provider what they're bringing to the table in terms of automation. If you're a service provider, think about how you can digitise your business process knowledge, and talk to your clients about ways to collaborate.

3

Redeploy your resources. With RPA, you will eliminate a lot of manual activities and free up skilled labor. How will you manage widespread workforce change? Think about how you can use those displaced employees to do something else for your business. Could those resources take on higher value roles, becoming experts who resolve issues that technology cannot? For example, will you need to train more engineers and coders to develop and maintain the technologies that now do your business' manual tasks?

About KPMG

Working collaboratively and pragmatically alongside their clients, KPMG member firms help organisations improve service delivery models, reduce support costs, and drive specific business outcomes in order to achieve sustainable, continuous improvements and competitive advantage.

Our Numbers

- Member firms serving clients in 155 countries
- Hundreds of advisory professionals globally
- Providing services to 76 percent of FORTUNE Global 500 companies
- Supporting thousands of transformations

Our Differentiators

- Objectivity as advisors
- Beginning-to-end experience
- Functional breadth
- Industry-specific experience
- Technology and governance services
- Extensive data and analytics
- Proprietary research, tools, and intellectual property
- Industry relationships
- Integrated competencies and services

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To discover more of KPMG insights on cognitive automation, robotic innovations, and the digital workforce, please visit

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