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# Digital labor promises major disruptions to outsourcing

As the processing power, cost, and performance of technologies that enable digital labor continue to advance at a dizzying pace, outsourcing buyers need to fully understand the coming changes—including tax, governance, and contractual implications—and take the steps necessary to avoid business disruptions. Like their clients, service providers need to move quickly to adapt their business models. Some may struggle to compete or even stay in business.

## Digital labor: a confluence of capabilities

Digital labor—which today comprises basic robotic process automation (RPA), enhanced RPA, and cognitive automation—is enabled by a confluence of capabilities that includes rules-based macros, artificial intelligence, and natural-language processing. At the most basic level, robots, or bots, automate the steps in a process instead of having people move transactions from one step to the next. At the most complex level, cognitive systems draw on historical data to handle exception processing, make judgments to resolve customer issues, and complement knowledge workers to provide new insights.

Digital labor's effectiveness at reducing costs and automating jobs is driven by greater process accuracy, faster process throughput, and, most importantly, the ability to analyze vast amounts of data. The potential impact is immense: By 2025, automation of work enabled by digital technologies is expected to supplement or replace the work of the preponderance of knowledge workers.

## Risks and opportunities

Outsourcing today is primarily transactional—handling back-office tasks such as order-to-cash, the hire-to-retire process, and middle-office functions such as claims processing—and is supported by a premises-based human staff. But rapid adoption of digital labor may change how and where those services are performed, as bots and the processes they support can be located anywhere, and can be ramped up as needed to handle significant increases in process volume.

As a result, some businesses that use outsourced labor may decide to bring both routine and higher-level services back in-house, either through third-party cloud providers delivering process automation solutions or self-implementation of these technologies. Doing so can reduce costs and improve process effectiveness by, for example, reducing error rates and aggregating massive amounts of transactional data. But the decision to potentially insource work to bots must be weighed against implications for the business, such as benefits from existing tax arrangements that that may change as a result of decisions to leave certain locations.

The changes also provide clear opportunities for outsourcing service providers that adapt quickly to the new environment. To stay relevant, providers need to lower their cost of delivery by scaling and automating services, and using technology platforms to offer services across groups of clients instead of only managing one-to-one relationships. Providers must focus on adding additional higher-cost, higher-value offerings to their low-cost transactional services. This may include supplementing clients' in-house teams with hard-to-find skills and knowledge. For example, leveraging the acumen and experience of a top-notch data scientist to analyze the enormous amounts of data generated by automated processes.

## Take strategic and operational action now

Digital labor is here to stay. Businesses that use outsourcing services—and the providers that deliver them—should begin identifying potential gaps, and taking the strategic and operational steps necessary to ensure continuity of services and, ultimately, that success is achieved as this new model becomes the standard.

As you prepare for the changes, here are some critical questions to consider:

— What functions and processes are most suited for automation and offer the greatest potential short- and long-term benefits?

— Are you assessing your current mix of delivery centers and locations?

— Do you understand how your governance model will be affected by a move to automation?

— Are you knowledgeable about the tax and risk implications?

— Is your service provider preparing for the fast-approaching changes and modifying its business and pricing models to reflect them?

If you are unsure about how to proceed, or if you need additional information, talk to an adviser who can help you define your needs, ensure that you have the right mix of services, evaluate your governance models and contracts, and help you prepare for an exciting future.

## Digital labor contract considerations

As you review existing outsourcing contracts or consider new engagements, here are a few questions from KPMG LLP's (KPMG) Digital Labor Contract Assessment to help get you started:

— Are your providers leveraging digital labor sufficiently to capture available savings and service improvements?

— Are your providers sharing the benefits of digital labor equitably and transparently?

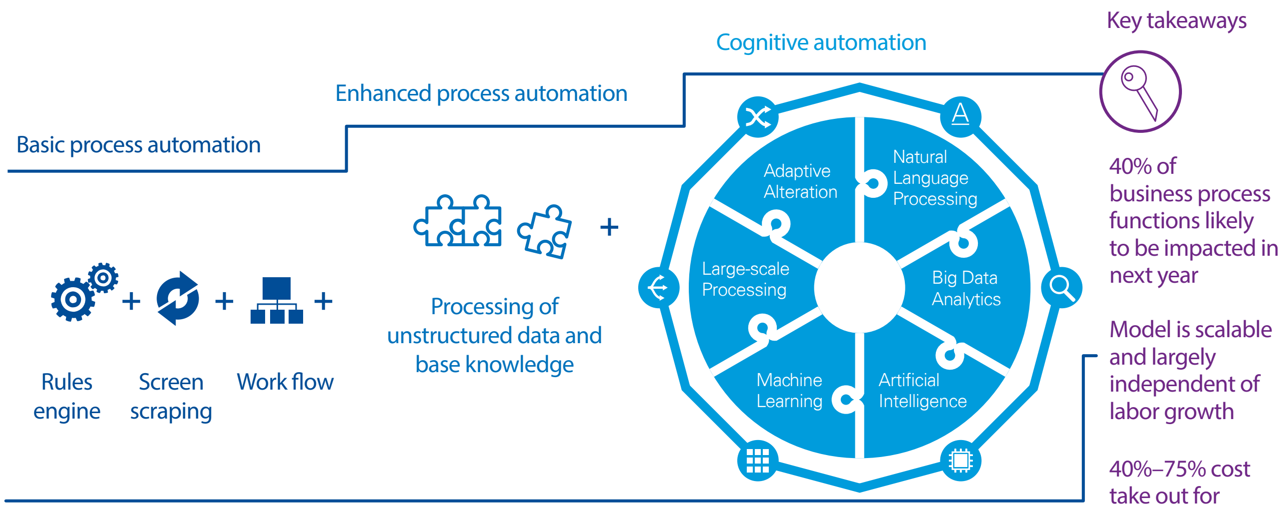
— Does your contract include incentives for providers to bring digital labor solutions to the table or does it discourage them from doing so?

— What contract options are available to accelerate the deployment of digital labor?

— Do your outsourcing contracts enable your organization to capture some of the benefits of digital labor deployment, such as sharing of the cost savings your service provider may garner from its deployment?

## Case study

# Robotics and cognitive automation imperative




Macro-based applets
Screen scrapping data collection
Workflow automation
Vision-type building blocks
Process mapping
Business process management

Built-in knowledge repository
Learning capabilities
Ability to work with unstructured data
Pattern recognition
Reading Source data manuals
Natural language processing

Artificial intelligence
Natural language recognition & processing
Self-optimization/self-learning
Digestion of super data sets
predictive analytics
Hypothesis generation
Evidence-based learning

## How KPMG can help

KPMG helps our clients transform their business service delivery to realize improved value, increased agility, and sustainable business performance. We bring together experience in global business services, shared services, outsourcing risk, transactions, tax, and compliance.

If your organization is seeking new ways to achieve genuine business services delivery transformation, KPMG Shared Services and Outsourcing Advisory can help. For more information, there is no better place to start than by accessing our research and thought leadership on the KPMG Shared Services and Outsourcing Institute: www.kpmg.com/us/insights.

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