

Demand for Service Delivery

Automation (SDA) is changing traditional global services models in general and staffing in particular. Recent Everest Group [research](#) shows that partially or fully automated processes reduce the number of FTEs needed to deliver services and also impact skill levels required among those FTEs that remain. Because the simpler and higher-volume processes are most likely to be automated, the FTEs at lower skill levels are most impacted. On the other end of the scale, people with higher skill levels are needed to help program robots to handle process exceptions and to manage the robots/automations.

Why automation

Headcount reductions can bring significant cost savings to an enterprise or outsourcing service provider by lowering not only salary costs but also the total employee cost, from hire to retire. At the same time, automation introduces additional benefits that help to reduce overall costs, or Total Cost of Ownership (TCO), including:

- Error elimination: Robots do not make cut-and-paste or other typing errors, which improves data quality.
- Robots adhere to the rules embedded in their code, applying the same rules in the same way every time, increasing standardization and adherence to policies and regulatory requirements.
- Robots can be programed to automatically log everything that they do, further enhancing audit controls and regulatory compliance.
- Robots can run as long as needed to deal with capacity fluctuations.
- Service delivery location becomes moot, as automation costs, such as software licenses, are the same no matter the location.

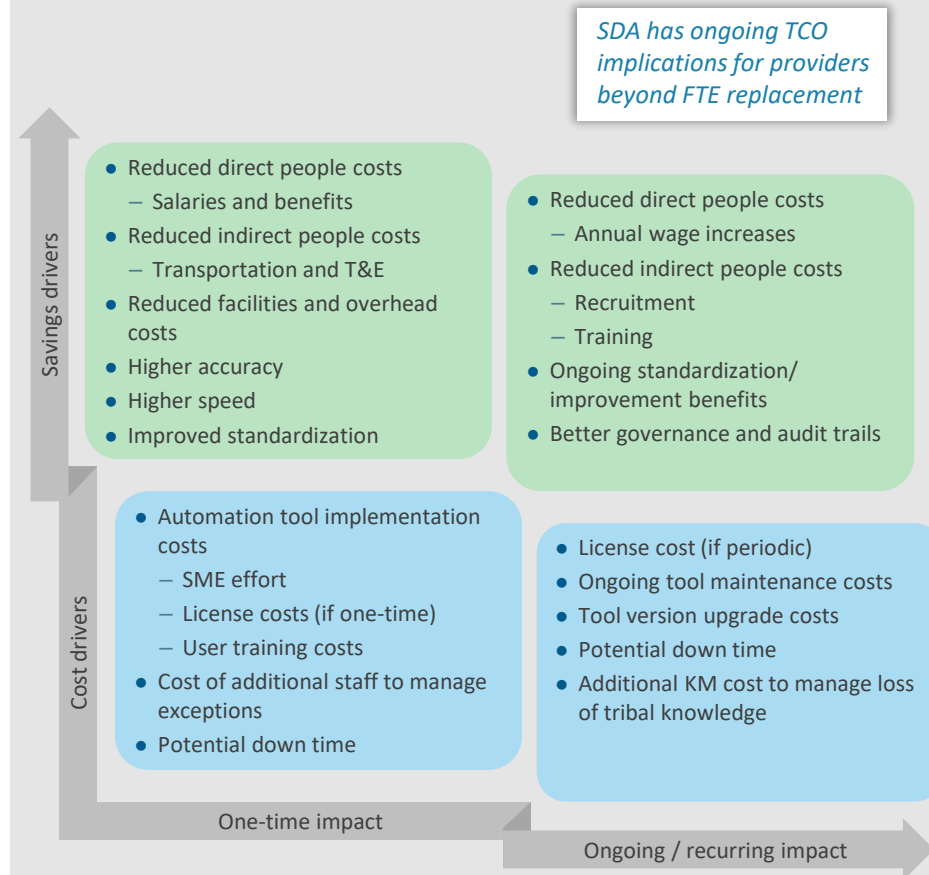
TCO impact

SDA has ongoing TCO implications for service providers beyond the one-time FTE replacement effort as indicated in *Figure 1*.

FTE costs

- *Headcount*
The adoption of basic automations replaces FTEs engaged in volume-intensive, repetitive transactional processes, resulting in cost reduction of up to 40% in the bottom layer of the delivery pyramid. Subsequent adoption of smart automation (SA) can automate processes performed by middle management roles, resulting in additional cost savings of 15-65%, depending on the process, technology used and existing delivery location.
- *Administrative / office space costs*
Headcount reductions, in turn, lead to declining administrative and office expenses such as office space / real estate cost, salaries and other employee benefits (as FTEs are replaced by robots) and support costs (such as HR, furniture, utilities, employee transportation, office supplies and equipment) decline.

Figure 1 *Key TCO components*



- *Skills*

FTEs working in the bottom layer of the pyramid can be upskilled to take on additional jobs, potentially reducing recruitment and hiring costs. Furthermore, automation adoption often improves talent retention, as attrition for complex processes is notably lower than that for transactional and repetitive processes.

It is important to note that some costs will actually increase. While overall costs will decline due to the reduction in hires, some of that savings will be lost to the higher cost associated with the demand for higher-skilled FTEs. And, of course, there are one-time and ongoing fees associated with the automation itself.

Productivity per FTE

As organizations' levels of process automation and optimization increase, throughput and capacity will rise, and fewer FTEs will be required to run and maintain systems and to manage complex and judgment-oriented work.

Productivity per FTE

Automation minimizes manual intervention, errors and duplication, thus helping both enterprises and service providers reduce overall costs and improve performance.

Impact on Pricing and Pricing Models

Input-based/FTE-based pricing is the most prevalent model in outsourcing deals; however, advances in technology and the increasing adoption of automation will quickly render this model outdated. Over the next few years we will see more advanced pricing models in new contracts, including output-/transaction-based pricing, outcome / gain sharing and blended pricing. Pricing will decline for transactions delivered through automated processes and increase for FTEs with higher skills who would handle the exceptions.

Fees could be combined with SDA standalone service prices charged on a per robot or utility-style basis. And pricing models will have some flexibility to incorporate transaction exceptions that would have to be resolved by higher-skilled FTEs.

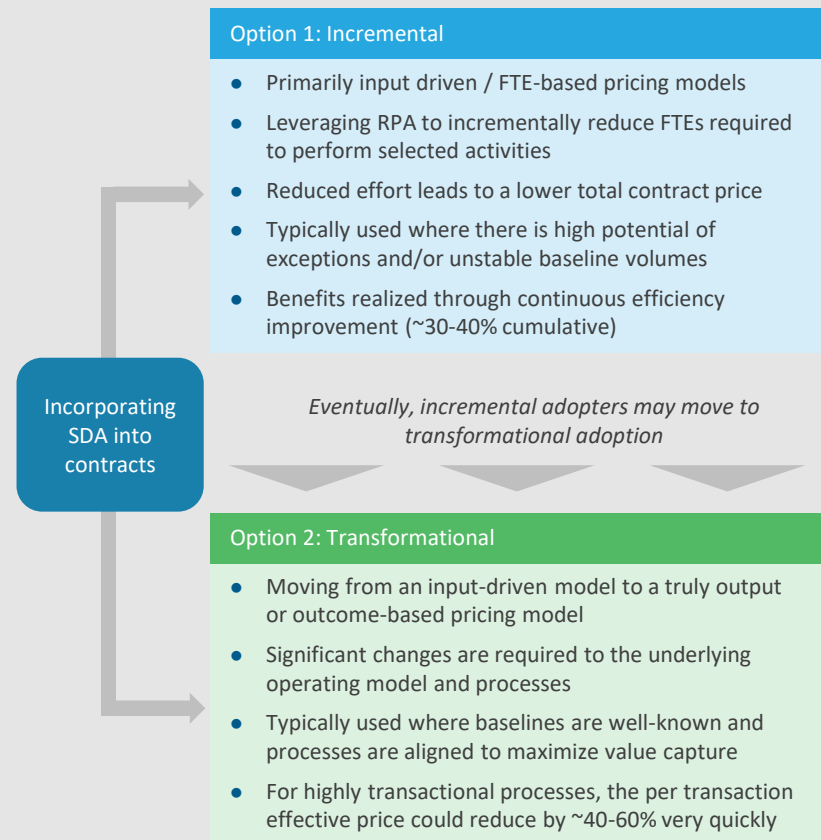
Finally, as adoption matures and confidence levels increase, we might see new processes that have not traditionally been outsourced put out to tender, for example, risk and regulatory compliance management services or customization services that would allow enterprises to offer seemingly highly bespoke services to their customers. As a result of the new opportunities, we might see service providers broaden their service portfolios and win more work from their existing buyers and increase revenue. These opportunities will also absorb some of the FTEs that will have been replaced by robots.

For a more detailed analysis of the impacts of SDA on TCO, see the full report, [The Impact of SDA on Services TCO](#).

Additional Resources

- [Service Delivery Automation \(SDA\) – Best Practice Guide to Establishing an SDA Center of Excellence](#)
- [Robotic Process Automation in HR Outsourcing: Not the Same as Other Business Process Service Lines](#)
- [Clever Machines at Your Service](#)

Figure 2 *Two common routes to incorporate use of SDA within outsourced contracts*





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Dallas (Headquarters)

info@everestgrp.com

+1-214-451-3000

Bangalore

india@everestgrp.com

+91-804-276-4533

Delhi

india@everestgrp.com

+91-124-284-1000

London

unitedkingdom@everestgrp.com

+44-207-129-1318

New York

info@everestgrp.com

+1-646-805-4000

Toronto

canada@everestgrp.com

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