

OUTSOURCING IN THE AGE OF INTELLIGENT AUTOMATION

FOREWORD



The emergence of intelligent automation is a watershed event in the life of outsourcing. Enterprises, which used to farm out business processes for cost and productivity efficiencies, can now reap superior gains by installing robotic software and other AI (artificial intelligence) in-house. As client organizations recalibrate their expectations from outsourcing providers, what is the impact on the nature of those engagements? How are outsourcing priorities changing? What new capabilities are clients seeking in their outsourcing partners? To understand this, we commissioned an independent research firm to conduct a quick survey on outsourcing in the robotic age. The survey, which was implemented in February 2018, polled leaders whose role involved making or influencing outsourcing services buying decisions for firms with revenue above \$1B and employing more than 1000 people in North America, Europe and APAC regions.

In this brief report, we share the survey findings within a broader narrative of the Infosys perspective on the future of outsourcing in the age of intelligent automation.

EXECUTIVE SUMMARY



- 85 percent of respondents place emphasis on reviewing (reviewed/plan to review) existing contracts for use of intelligent automation.
- 58 percent rated strong capabilities in the business process domain as critically important when choosing an outsourcing partner.
- 21 percent say biggest value sought from outsourcing is value creation from innovation; 19 percent look for access to and leverage from digital skills. Only 14 percent mention cost reduction.
- 85 percent name innovation ability as an important factor in the choice of outsourcing partner.
- Enterprises turn to outsourcing partners to bridge digital skills gap; 46 percent of respondents are interested in outsourcing new digital skills, and 24 percent in outsourcing digital skills training for in-house resources.

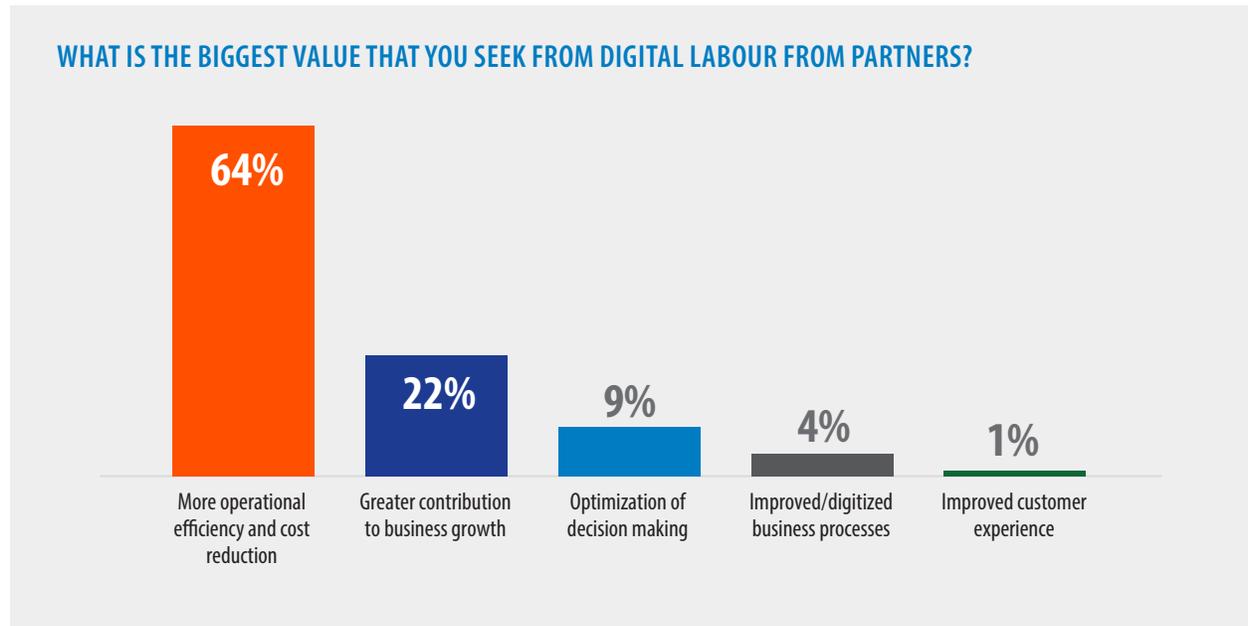
OUTSOURCING PROVIDERS FACE CHALLENGES AS ENTERPRISES IMPLEMENT INTELLIGENT AUTOMATION TOOLS ON THEIR OWN



Today, almost every enterprise, be it Just Mayo, which bioengineers its vegan spreads or Tag Heuer, which makes an Android Wear smartwatch, is a technology company at heart. With technology moving from the periphery to the business core, enterprises are choosing to exercise control over IT by developing and retaining it within the organization. As a result,

a number of companies investing in the latest digital technologies, such as robotic process automation and AI, are installing the capabilities on premise, and using them to perform a variety of basic business processes, processes that they previously outsourced to an external provider.

Naturally, this is presenting a huge challenge to the outsourcing industry. Expectations of value from them has grown, even changed.



We should expect some vendors, who cannot adapt to the disruption caused by intelligent automation, to fold. For the agile and adaptive outsourcing provider, however, there will be new opportunity in the shape of a fresh outsourcing paradigm. But why will enterprises

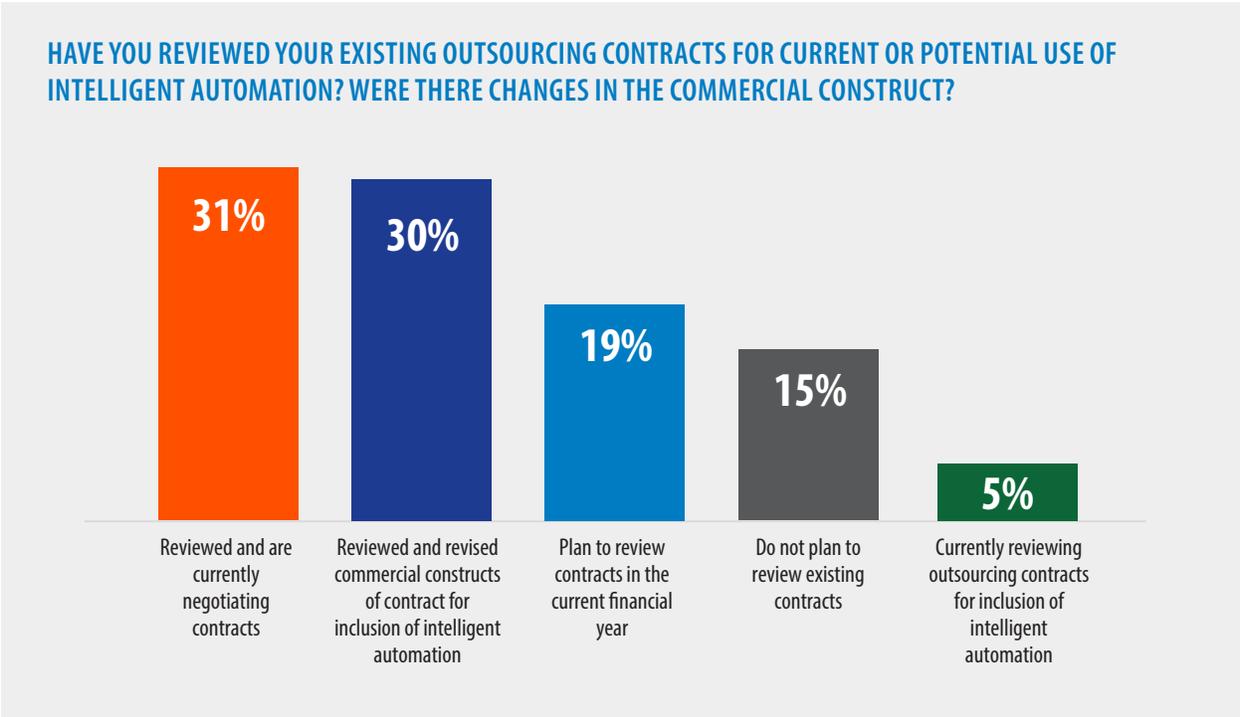
turn to outsourcing when they have an army of digital labor at their service? What will they look to outsource? And how will they engage with their providers? The survey has the answers.

CLIENTS REVIEW OUTSOURCING CONTRACTS TO INCLUDE INTELLIGENT AUTOMATION; REVISE MOTIVES FOR OUTSOURCING TO INNOVATION, DIGITAL SKILLS AMPLIFICATION

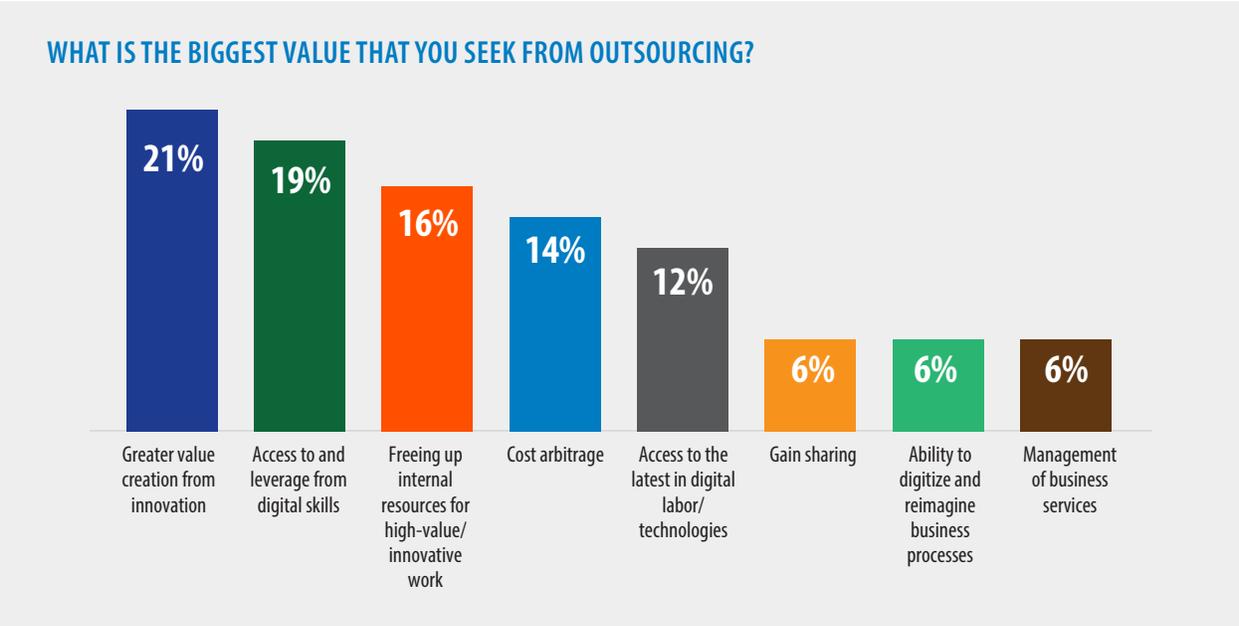


85 percent of respondents said they had already, or were planning to, review their existing outsourcing contracts to include intelligent automation; 30 percent had even revised the commercial constructs to accommodate the change. It was obvious that they were also revisiting their reasons for outsourcing,

because they had shifted the onus for saving cost from the outsourcing provider to the digital labor force: when asked what they primarily sought from RPA and AI, 64 percent of respondents said operational efficiency and cost reduction.



On the other hand, when asked the same question about their outsourcing provider, about one in five respondents said that the biggest value they sought was to gain from innovation (21 percent) or to leverage digital skills (19 percent); only 14 percent mentioned cost arbitrage.



They also reinforced the above message in their answers to a couple of other questions. Asked to rate the factors that were most important when choosing an outsourcing partner, 86 percent of survey participants named business process domain and technology capabilities as expected, but 85 percent of respondents also named innovation ability, and

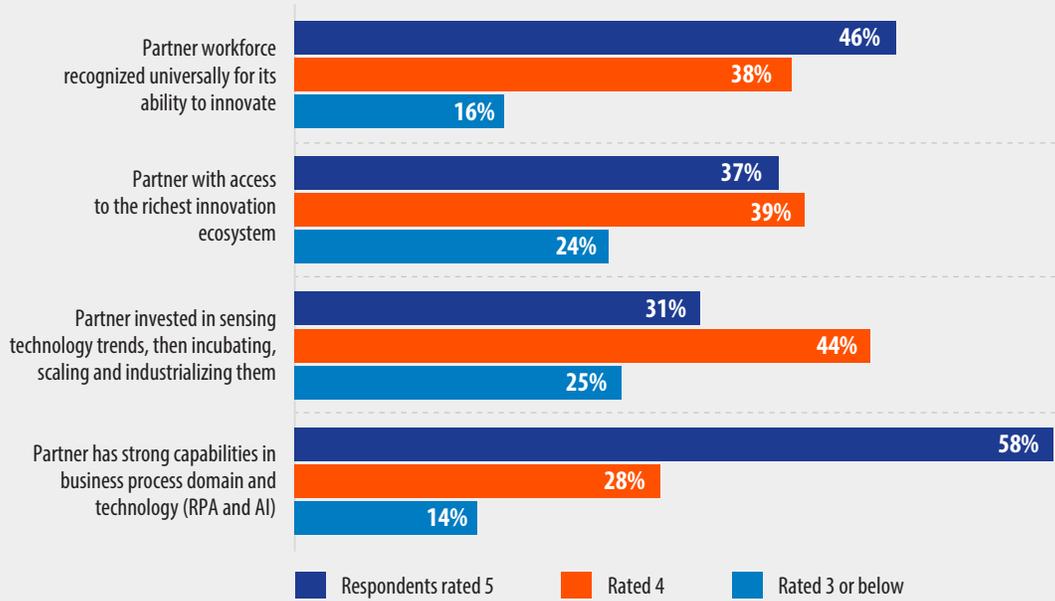
76 percent called out the partner’s access to a rich innovation ecosystem. And when respondents were asked about how their outsourcing priorities had changed because of intelligent automation, 46 percent said they were outsourcing new digital skills, while 24 percent said they were outsourcing the training of their employees in digital skills to an external partner.



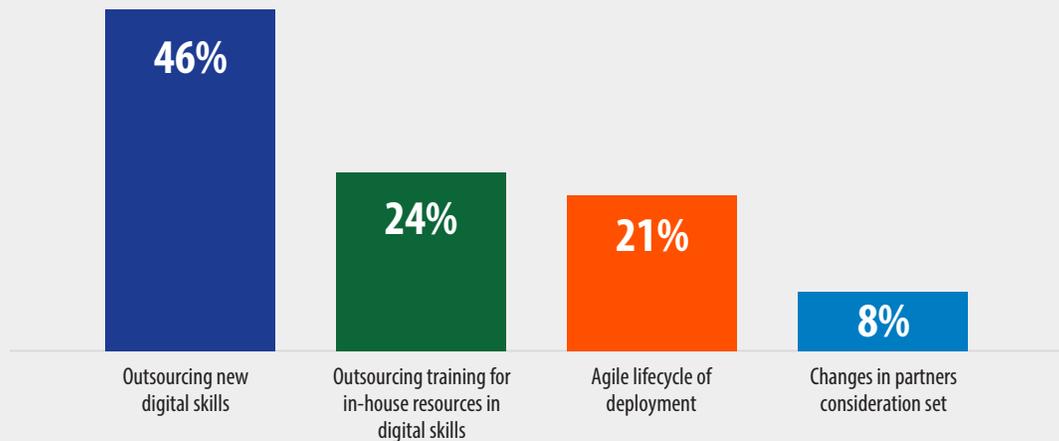
“We want our outsourcing service providers to bring more innovation to us. Introduce new tools, methods, ideas to improve with agility and pervasive automation .”

The good news is that while clients are definitely seeking to change the services they outsource, they are not really looking to change their outsourcing providers. Only 8 percent of survey respondents reported changing their outsourcing partner consideration set in the advent of robotics and AI.

HOW IMPORTANT ARE THE FOLLOWING FACTORS ON A SCALE OF 1-5 (WITH 5 BEING CRITICALLY IMPORTANT AND 1 BEING NOT IMPORTANT) IN DETERMINING YOUR CHOICE OF OUTSOURCING PARTNER?



WHAT IS THE BIGGEST CHANGE IN YOUR OUTSOURCING PRIORITIES WITH THE ADVENT OF ROBOTICS AND AI?



REVISED OUTSOURCING MIX OFFERS NEW OPPORTUNITY TO PROVIDERS IN TALENT CREATION, INNOVATION, PROCESS ENHANCEMENT



These findings signal a real opportunity for outsourcing providers to step into a higher plane where they offer much more valuable services than before. This will eventually change the mix of outsourced services, from a combination of IT and processes to innovation, digital skills and digital skills training. In fact, we view these findings as being indicative of a larger shift in the purpose of outsourcing where providers share a part of their talent value chain to recruit, train and

refactor their clients' human resources; lend out not just their innovations but give clients access to their ecosystem of innovation partners; uplift clients' business processes to amplify process automation outcomes; oversee the digital labor force; and advise clients on their cognitive automation roadmap, through various engagements.

“Leveraging the latest in AI, big data, cloud-led opportunities. Using Design Thinking – to think end user and business alike. Developing usable proofs of concept to demonstrate benefit and value for money. Using Agile approaches to develop all this good stuff. We need talent with these skills. We are building and nurturing our own and believe our service provider partners can truly help us here.”

“There is a great opportunity for our service providers to understand us deeply, especially our incremental needs and the changing needs of our customers. Quickly bringing incremental new offerings specific to these needs is extremely critical. A cookie-cutter approach won’t work for us. And we, in turn, are willing to make our own investments in this strategic relationship.”

VENDOR-BUYER TRANSACTION MAKES WAY FOR COLLABORATIVE PARTNERSHIP MODEL



For such a relationship to flourish there needs to be a deeper model of engagement, one that brings the client and provider closer, both physically and figuratively. Hence we believe offshoring arrangements will be jettisoned in favor of near-shore or on-premise ‘in-servicing’ partnerships. This will work to the advantage of large outsourcing partners with their own innovation

hubs in key client markets. We also foresee a much more collaborative model of engagement emerging to support the revised outsourcing mix of innovation, training, reskilling etc.

THE OLD OUTSOURCING PARADIGM DISSOLVES, AND A NEW ONE EMERGES

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In short, intelligent automation will disrupt the outsourcing of routine processes, but at the same time, it will also recast the industry with new motives, mixes and models. Outsourcing providers can set their apprehensions aside, because as the survey shows, enterprises will continue to outsource, albeit a different set of services, in the future. What's more, even those organizations that install a digital labor force in-house will need significant support from their outsourcing partners to program, manage and oversee their AI assets, train employees in new digital skills and help them chart a cognitive automation roadmap.

This is why nearly three out of five participants (58 percent) said that when awarding a contract in the future, they would take the vendor's credentials in AI and automation (existing portfolio and platform) into account. So, providers who build capabilities in the new areas of outsourcing – digital skills training, innovation, business process enhancement, talent provisioning and cognitive automation advisory services – will continue to see opportunities ahead.

“Think more local needs and specifically for non-native English language speaking countries. We need for our talent – even the outsourced set - to be native language people to avoid translation and waste of time. We wish service providers had stronger near-shore presence to understand the cultural influence, collaborate more closely with us and for overall efficiency.”

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