The Real Future for European Sourcing... now Automation is part of the Deal

ABSL Summit
Poznań, Poland, June 7th 2018

Phil Fersht
CEO and Chief Analyst, HfS Research
phil.fersht@hfsresearch.com
CEE region has a burning ambition to be at the centre of innovation

- Estonia has become a hotbed for digital entrepreneurs in recent years, a pioneer of Blockchain since 2008.
- Skype, the video-calling app, and TransferWise, an online money transfer start-up, had a substantial part of their development work done in Estonia.
- The central bank of Lithuania has launched a new regulatory "sandbox" for start-ups working with blockchain: The "LBChain" initiative. Both Estonia and Lithuania are hotbeds for emerging Python talent.
- The Czech Republic and Slovenia spend just as much on research and innovation as western European countries do, and Slovakia’s investment has grown at a rate four times higher than the average in the EU.
- A string of antivirus software companies, such as the Czech Republic’s Avast and AVG and Slovakia’s Eset, are well known in the global cyber security market.
- Hungary’s Prezi, an online presentation app, is also used by millions worldwide.
- Romania’s UiPath is now one of the leading RPA Unicorns.
CEE region boasts an impressive ICO (Initial Coin Offering) scene

- CEE Companies account for 17% of the ICOs and pre-ICOss conducted globally in 2017, and 22% of the funds raised.

- 130 ICOs or pre-ICOss came from Russia (out of 237 from the region as a whole) – making this country by far the regional leader.

- Next comes Estonia (22 identified operations), then Slovenia and Ukraine (22 and 13), respectively.
What I love about Poland!

- Poland, with the population of 8.5 million boasts **400,000 graduates from institutions of higher learning each year**, half of them in engineering sector.
- **Warsaw** is building a culture that’s acting like a magnet for startups and innovators.
- **Poznań** is one of the major trade centres in Poland
- **Krakow, Katowice** and Łódź are the best BPO and international shared services cities in the world – especially for multilingual, high quality process and technology support!
- Polish college kids built a messaging app - “Five” that makes **Messaging Accessible to Deaf Users worldwide**
- **Coinfirm**, the blockchain AML risk & compliance platform is making its mark on the international banking market
- **Estimote** is making IoT work with its Beacons and Stickers. Virgin Atlantic has now deployed Beacons in London Heathrow airport to communicate with its passengers.
- **Growbots**, an outbound sales automation tool founded in 2014, has attracting funding and moved its business HQ to San Francisco
- **Brainly**, a group of social learning networks for students and educators has more than 100 million students from 35 countries.
- **IVONA** text-to-speech technology, voice guide, and explore-by-touch services was acquired by Amazon in 2013 to compete with Apple and replace Amazon Polly. It offers 47 voices in 24 languages
- **Nethone** is specializing in AI solutions for fraud prevention. Customer portfolio includes a major American airline, an online travel agency, and a leading video-streaming platform.
- **Deepsense.ai** provides deep learning solutions for enterprises. It was founded and is now managed by CodiLime, a company established by Polish computer scientists and mathematicians. Companies like Intel, IBM, Huawei, and BZ WBK are among its clients.
Poland’s innovative startups
“The unification of digital business models, intelligent automation, analytics and creative talent is happening before our very eyes”
Cost still dominates C-Suite directives, but the way to get there is driven by the smart management of data

*How critical are the following C-Suite directives/objectives to your operations strategy?*

<table>
<thead>
<tr>
<th>Objective</th>
<th>Mission Critical</th>
<th>Increasingly important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drive down operating costs</td>
<td>48%</td>
<td>39%</td>
</tr>
<tr>
<td>Adopt/invest in process automation and robotics to reduce reliance on labor</td>
<td>38%</td>
<td>40%</td>
</tr>
<tr>
<td>Create real-time data that supports predictive, not reactive decisions</td>
<td>36%</td>
<td>44%</td>
</tr>
<tr>
<td>Align middle/back office operations to improve customer experiences (OneOffice)</td>
<td>37%</td>
<td>40%</td>
</tr>
<tr>
<td>Invest in cognitive technologies and machine learning to drive more value from labor</td>
<td>25%</td>
<td>49%</td>
</tr>
<tr>
<td>Foster an entrepreneurial culture that drives more business value</td>
<td>20%</td>
<td>43%</td>
</tr>
<tr>
<td>Enabling the hyper personalization/customization of products to customers' requirements</td>
<td>32%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Predictive Data, Automation, AI and OneOffice – gateway to new cost / operating models
Unstructured data plagues enterprises

Q. Can you estimate the proportion of structured v unstructured data in your organization?

Only 22% of organizations have more than half their data structured.

Source: HfS Research, 2018
"Intelligent Operations Study"
Sample: Global 2000 Enterprise Buyers = 460
Digital disruption is rampant: 29% have already seen their top 2 competitors change in just past three years

Are your top 2 competitors the same now as in 2014?

- Yes: 71%
- No: 29%

And will they be the same in 2020?

- Yes: 63%
- No: 37%

Source: HfS Research, “Journey to the OneOffice, 2018”
Sample: n=395 Digital Decision Makers (Global 2000)
The HfS Digital OneOffice™ Framework

The Customer Centric Digital Organization

- Mobile & Social Interaction
- Touchless Interaction
- Real-time Personalization
- Customer-driven Process Design
- The Nervous System

The Empowering Digital OneOffice

- Digital Underbelly
  - Digitization & Automation of Processes
  - Cloudification and Security
  - Unification of Data

- Intelligent Support Functions
  - Autonomous and Agile Working Culture
  - Inclusive Digital Mindset
  - Unification of Outcomes
  - LEAN & Design Thinking

- Predictive Digital Insights
  - Predictive analytics
  - Cognitive AI Processes
  - Machine Learning
  - Blockchain and IoT

Source: HfS Research, 2018

Collaborative, Unified, Dynamic, Intelligent, Responsive, Simple

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How enterprises can achieve the Digital OneOffice...

• **CX is not just fancy UI.** Make CX the core of all your business operations from front to back.

• **Cost reduction is not a strategy.** Drive metrics that measure value creation, versus only cost reduction.

• **Stop kicking the intelligent technology can down the road.** It’s all here and now you need to make decisions on where you go with it

• **Weed out the people unprepared to change.** Invest in an inclusive talent strategy, based on people who want to learn and share.

• **Build co-innovation relationships and shed legacy relationships.** The partners who got you here may not be the ones to take you where you want to go.

• **Stop thinking about the Future of Work.** It’s already here... act now!
Meatball Parm

AVAILABLE THROUGH APRIL 5TH
Lemonade

- Flips the traditional model on its head
- Has social causes at the core of its mission
- Leverages AI to create competitive advantage
- Reduces fraud by social impact
- Massively disruptive

People left these insurance companies to join Lemonade:

- 31% Assurant, Farmers, Homersite, Progressive, Stillwater & more...
- 19% Allstate
- 10% Liberty Mutual
- 16% State Farm
- 14% Travelers
- 10% Gelco
“Traditional” companies are taking on the challenge of integrating AI to improve their Digital Customer Experience

Deployed artificial intelligence in deciding personal injury claims after trials showed processing time was significantly reduced. Cut the processing time from an hour to just seconds, its chairman said. Claim they have “saved 40,000 work hours, while speeding up the claim processing time to five seconds”

Using Watson’s API, the company transformed its Easy Button into a cognitive ordering ecosystem that customers can use to order supplies from a variety of devices using voice, text or email.

Siemens Healthineers has developed a portfolio of AI solutions that help automate and standardize complex diagnostics.

But few have created true shifts in their business model – Yet......
Remember folks....Technology by itself is not the real disruptor...

...didn’t kill Blockbuster
Ridiculous late fees did!

...didn’t kill the taxi business
Limited taxi access and fare control did!

...did not kill the music industry
Being forced to buy full-length albums did!

...didn’t kill other retailers
Bad customer service and experience did!

...isn’t killing the hotel industry
Limited availability and pricing options are!

Not being customer-concentric is the biggest threat to any business
How Outsourcing is being impacted by Intelligent Process Technologies
### Making the Leap to Digital OneOffice: IT Lacks Talent, Business Lacks Mindset...

**Q. What are your greatest challenges holding back your journey to achieve the Digital OneOffice Framework?**

<table>
<thead>
<tr>
<th>Challenge</th>
<th>IT Rank 1</th>
<th>IT Rank 2</th>
<th>Business Rank 1</th>
<th>Business Rank 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legacy thinking / lack of a “digital mindset” from biz functions</td>
<td>29%</td>
<td>8%</td>
<td>25%</td>
<td>6%</td>
</tr>
<tr>
<td>Legacy thinking / lack of a “digital mindset” from IT</td>
<td>23%</td>
<td>8%</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>Lack of talent internally</td>
<td>10%</td>
<td>35%</td>
<td>13%</td>
<td>6%</td>
</tr>
<tr>
<td>We’re held hostage by legacy technology</td>
<td>12%</td>
<td>6%</td>
<td>21%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: HfS Research 2018
Sample: C-Level Enterprise Executives = 100
Enterprise intentions for Offshore/Nearshore Slowing and Focus shifts from “Cost” to “Value”

Q. To what extent is your use of offshoring/nearshoring is likely to change in the next 2 years across the following functions? (Combined outsourcing and share services results)

<table>
<thead>
<tr>
<th>Function</th>
<th>2014</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and Accounting</td>
<td>22%</td>
<td>13%</td>
<td>18%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>13%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Procurement</td>
<td>18%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>IT application maintenance &amp; development</td>
<td>20%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>IT and Network infrastructure support</td>
<td>23%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Customer Service / Sales Support</td>
<td>12%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Supply Chain and Logistics</td>
<td>15%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Industry-specific</td>
<td>19%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Marketing</td>
<td>15%</td>
<td>8%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Sample: Global 2000 Enterprise Buyers = ~400
While plans to use offshore/nearshore slow, outsourcing growth remains strong

Q. To what extent will your company increase / reduce its reliance on outsourcing over a 3-year time horizon? (“Significantly Increase” selection only)

<table>
<thead>
<tr>
<th>Industry</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td>BFSI</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Healthcare &amp; Life Sciences</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>Software, Telecom &amp; Hi Tech</td>
<td>25%</td>
<td>40%</td>
</tr>
<tr>
<td>Energy &amp; Utilities</td>
<td>27%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Highest Performing Enterprises have evolved from “Traditional Outsourcing” to “Value-based Partnerships”

Q. How would you best describe your current primary service provider in relation to your digital transformation journey?

<table>
<thead>
<tr>
<th>Highest Quartile of G2000 Performers</th>
<th>Lowest Quartile of G2000 Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A true partner that proactively innovates and invests with you to find new thresholds of value to achieve co-defined business outcomes</strong></td>
<td><strong>A competent partner that provides access to skills, global scale, domain knowledge, and technology - provided you pay for it on a per headcount model</strong></td>
</tr>
<tr>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>34%</td>
<td>38%</td>
</tr>
<tr>
<td>8%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Efficient vehicle to drive out cost and improve efficiencies

Source: HfS Research, “Journey to the OneOffice Study, 2018”
Sample: Global 2000 Enterprise Digital Decision Makers = 395
RPA, Cloud & IoT Lead Investment Focus to drive out cost

Q. How much investment/focus is your organization making in the following in the next year to help you achieve operational cost saving goals?

<table>
<thead>
<tr>
<th>Technology</th>
<th>Significant investment/focus</th>
<th>Some investment/focus</th>
<th>Limited / Modest investment / focus</th>
<th>No investment /focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPA</td>
<td>53%</td>
<td>28%</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Cloud</td>
<td>44%</td>
<td>36%</td>
<td>14%</td>
<td>6%</td>
</tr>
<tr>
<td>Internet of Things (IOT)</td>
<td>42%</td>
<td>35%</td>
<td>18%</td>
<td>5%</td>
</tr>
<tr>
<td>Analytics</td>
<td>37%</td>
<td>41%</td>
<td>18%</td>
<td>4%</td>
</tr>
<tr>
<td>Virtual and Augmented Reality</td>
<td>33%</td>
<td>30%</td>
<td>20%</td>
<td>18%</td>
</tr>
<tr>
<td>Blockchain</td>
<td>33%</td>
<td>40%</td>
<td>23%</td>
<td>4%</td>
</tr>
<tr>
<td>AI/ML/Cognitive</td>
<td>33%</td>
<td>48%</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Drones</td>
<td>19%</td>
<td>37%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Driverless Vehicles</td>
<td>16%</td>
<td>32%</td>
<td>22%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Sample: Global 2000 Enterprise Buyers = 381
2018 Investment intentions: “Humans-plus-Bots” now the norm

<table>
<thead>
<tr>
<th>Industry</th>
<th>Significant Investment in RPA</th>
<th>Significant Investment in Outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecom</td>
<td>63%</td>
<td>40%</td>
</tr>
<tr>
<td>Insurance</td>
<td>58%</td>
<td>10%</td>
</tr>
<tr>
<td>Retail/CPG</td>
<td>54%</td>
<td>20%</td>
</tr>
<tr>
<td>Energy</td>
<td>53%</td>
<td>32%</td>
</tr>
<tr>
<td>Travel (H&amp;L)</td>
<td>53%</td>
<td>24%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>52%</td>
<td>20%</td>
</tr>
<tr>
<td>BFS</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>BFS</td>
<td>39%</td>
<td>29%</td>
</tr>
<tr>
<td>Utilities</td>
<td>33%</td>
<td>19%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>32%</td>
<td>24%</td>
</tr>
<tr>
<td>BFS</td>
<td>29%</td>
<td>20%</td>
</tr>
<tr>
<td>BFS</td>
<td>19%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Sample: Global 2000 Enterprise Buyers = 381
Focus is on the Right-brain, not the Left!

Q. What are your top workforce requirements required today?

**Critical Skills:**
Creative thinkers who reach across the business ecosystem to define and design businesses solutions.

*Change is the norm*

**Less Critical Skills:**
Operational experts to enable smart execution

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Ranked First</th>
<th>Ranked Second</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploring new ways of partnering across the services ecosystem</td>
<td>32%</td>
<td>9%</td>
</tr>
<tr>
<td>Creative, entrepreneurial spirit &amp; curiosity for innovation</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>Defining business outcomes</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>Vision and ability to drive change</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Analytical prowess to improve operations / productivity</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Improving end-to-end processes</td>
<td>2%</td>
<td>7%</td>
</tr>
<tr>
<td>Understanding business processes and using automation and AI to improve business...</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: HfS Research, 2018
"Intelligent Operations Study"
Sample: Global 2000 Enterprise Buyers = 460
The Digital Worker’s Survival Guide

What tools can add real value to our business I can master? Chatbots? RPA?

Being smart about data is no longer geeky if I want to progress my career!

How can I energize my colleagues, get to know them and include them in my initiatives – and vice versa?

What quick wins can I demonstrate to get momentum?

How have I helped add value to new business wins? And do my colleagues see it?
The ABSL Technology Panel:
The Real Future for European Sourcing now
Automation is Part of the Deal

ABSL Summit
Posnan, Poland
June 7th 2018
Tech Panel: The Real Future for European Sourcing
now Automation is Part of the Deal

7th June, 12:05 - 12:55

Panelists:

Maciej Borkowski, Chief Risk Office & Poland Head, Credit Suisse
Jolanta Gantkowska, Director of Operations, AMS
Iwona Kozera, CSE Advisory Leader, EY
Katalin Miskolci, Senior Implementation Leaders, McKinsey & Company, Budapest Office
What is going to have the biggest impact on business operations in the next 2 years:

--Automation?
--Blockchain?
--Artificial Intelligence?
--Machine Learning?
--Cyber Security
--Digital revenue channels?
--Brexit?
--GDPR?
--Donald Trump?

... or Something else?
Is outsourcing genuinely becoming a mix of bots plus humans?
Is “Botsourcing” the New Enterprise Operating Model?

2018 Investment intentions in RPA and Outsourcing, 2018


Sample: Global 2000 Enterprise Buyers = 381

Significant Investment in RPA

Significant Investment in Outsourcing

<table>
<thead>
<tr>
<th>Industry</th>
<th>RPA</th>
<th>Outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecom</td>
<td>63%</td>
<td>40%</td>
</tr>
<tr>
<td>Insurance</td>
<td>58%</td>
<td>10%</td>
</tr>
<tr>
<td>Retail/CPG</td>
<td>54%</td>
<td>20%</td>
</tr>
<tr>
<td>Energy</td>
<td>53%</td>
<td>32%</td>
</tr>
<tr>
<td>Travel (H&amp;L)</td>
<td>53%</td>
<td>24%</td>
</tr>
<tr>
<td>Manufacturing</td>
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<tr>
<td>BFS</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Utilities</td>
<td>39%</td>
<td>29%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>33%</td>
<td>19%</td>
</tr>
</tbody>
</table>

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How much is “culture” holding back organizations to become true digital organizations?
Organizational culture holds back half of enterprises in achieving progress with digital business models

Q. How significantly is your firm’s culture holding back progress when it comes to making real investments in digital business models?

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotes and fosters digital</td>
<td>15%</td>
</tr>
<tr>
<td>Does not hold back</td>
<td>15%</td>
</tr>
<tr>
<td>Neutral</td>
<td>21%</td>
</tr>
<tr>
<td>Somewhat significantly</td>
<td>35%</td>
</tr>
<tr>
<td>Highly significantly</td>
<td>14%</td>
</tr>
</tbody>
</table>

51% of the highest performing enterprises see their cultures as holding them back in the digital transformation journey.

Source: HfS Research, “Journey to the OneOffice, 2018”
Sample: n=395 Digital Decision Makers (Global 2000)
Why can't we change faster?

Does everything necessitate a phased 5-year program?
What will be the true impact of Automation and AI on operations and IT jobs? Should we be worried?
Low end jobs getting heavily impacted, while high end ones are created

Total Impact of Automation and AI on IT/BPO Services Workers across the Global Services

Most critical skills:
Creative thinkers to solve problems and design solutions

Less critical skills:
Common, repetitive, and linear tasks

Source: HfS Research, 2017
Do we (as industry leaders) have a moral obligation to protect jobs and develop a set of ethics to follow?
Over Half of Enterprises Bracing for Major Changes in Internal Roles

Q. In terms of the number of transactional internal roles within the following process areas, what proportion do you expect to be significantly impacted by automation in the next 2 years? (Average Across Functions)

![Bar chart showing percentage of employees impacted by automation]

Source: HfS Research in Conjunction with KPMG, "State of Operations and Outsourcing 2018, April 2018
Sample: Global 2000 Enterprise Buyers = 381
And what plans (if any) do you have for staff impacted by Automation?

Buyers: What is your plan with the majority of staff impacted by automation in next 2 years?

- Don’t know yet, and won’t for a while (40%)
- Retain them to do more data intensive work (data science, analytics etc) (21%)
- Let them go (16%)
- Retain them to use new technologies (RPA, ML etc) (16%)
- Retain them to take on more right-brained activities (marketing, creative design, smart partnering, entrepreneurial activities) (7%)
Being truly honest, how disruptive, in your opinion, is AI?

Isn’t this just a continuation of new tech and “digital”, as opposed to anything revolutionary?
How should we craft careers for our talent in this environment?

Can we become an exciting industry for the younger generation?
What will future jobs look like?

**Function**

Speech and language, logical analysis and reasoning, mathematical computations.

**Trait**

Linear thinking, sequential processing, logical decision-making, reality-oriented.

**Perceived personality traits**

Analytical, logical, pay attention to detail.

**Overall thinking**

Linear, detail-oriented - "details to whole" approach.

**Thought process**

Sequential; verbal (process with words).

**Problem-solving**

Logical - order/pattern perception; emphasis on strategies.

**Function**

Spatial awareness, intuition, facial recognition, visual imagery, music awareness, art, rhythm.

**Trait**

Holistic thinking, random processing, intuitive decision-making, non-verbal processing, fantasy-oriented.

**Perceived personality traits**

Creative, artistic, open-minded.

**Overall thinking**

Holistic, big-picture oriented - "whole to details" approach.

**Thought process**

Random; non-verbal (process with visuals).

**Problem-solving**

Intuitive - spatial/abstract perception; emphasis on possibilities.
What is the one thing attendees can go back and do on Monday to impact their companies, based on everything we have talked about today?
Dziękuję!