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AUTO-TRAGE

Auto-trage – *Automation arbitrage; the buying of automation services to replace services delivered by labor to take advantage of differing prices for the same services*

The disparity of global labor costs has been a major factor that led to widespread offshoring. Labor arbitrage and advances in technology to support remote operations have led to huge cost savings for customers and service providers. Vendors and businesses have identified countries with favorable labor rates in places like India, the Philippines, South America and countries in Eastern Europe, among others. Countries with technical and business skills paired with language proficiencies have excelled in providing offshore services. Some offshore outsourcing giants emerged, most notably in India, with names like Tata, Infosys and others. The model delivers a number of benefits:

- Operational flexibility – services that can ramp up and down quickly
- Reduced operational costs – reduced labor costs of offshore resources when compared to domestic labor costs
- Access to staff – offshore operations often have vast labor pools, often highly skilled, to choose from
- Greater availability – services can be provided from a complimentary time zone and delivered with expanded hours of operation
- Reduced Risk – the delivery of services is decentralized and may be spread across multiple geographies
- Business focus on core functions – certain functions can be handed off to a remote operation, freeing up corporate resources to focus on strategic matters
- Continuing refinement of services through increasing specialization, including as-a-service, and commoditization

Labor arbitrage has been a major factor in the business process outsourcing and information technology outsourcing marketplace. Automation arbitrage (Auto-trage), where the arbitrage is based on labor being replaced by automation has emerged as the latest option and capability in many companies. Auto-trage is based on automation that leverages technologies including robotic process automation (RPA), artificial intelligence, cognitive technology and machine learning. In my conversations with many executives, there is often a desire to repatriate work that has been moved offshore. The reasons for this are numerous:

- Lower than expected savings – after offshoring, many companies experience less than expected end-to-end cost reduction
- Cultural and social issues – for a variety of reasons companies often struggle to optimize working relationships
- Poor collaboration – due to a variety of factors that include time zone differences and language/cultural differences, offshore collaboration may be problematic
- Knowledge retention problems – in many geographies, there is high turnover and with that turnover institutional knowledge is lost
- Security issues – there are an ever-increasing number of security issues firms have to deal with that are further complicated with offshore services
- Data privacy, including GDPR, concerns

Frequently, CFO's have told me their big concerns with offshoring, and outsourcing in general, are control and agility. For many firms the ability to rapidly make changes or to review work that has been performed offshore requires a burdensome interface with their service provider.

Until now, any thoughts of bringing work onshore have been economically unfeasible due to the labor arbitrage. Auto-trage has created a new opportunity for businesses to leverage automation to repatriate part of or all of the services previously offshored due to the economics. In addition, many of the automation technologies are easy-to-learn, easy-to-use and they deliver quick paybacks. One CFO reported to me that she will be taking the opportunity of an acquisition to onshore back office operations as an auto-trage initiative. Unfortunately for many companies, fewer than two-thirds of global companies are leveraging the benefits automation can deliver.

Auto-trage is a real threat to the traditional service providers. For a service provider, replacing labor with automation can deliver improved margins but at the same time dramatically erode revenue. I've never seen a situation where this scenario is acceptable. As I have advised several service providers, properly managing the transformation from labor to automation can result in improved customer retention. If managed carefully, revenues can remain constant and even improve. It's no wonder that Sykes, a multichannel demand generation and customer engagement services provider, acquired the global RPA leader Symphony. Transformation from labor-based to automation-based services can be challenging, but ignoring automation will result in a downward death spiral for those service providers who choose to ignore it.

As I've advised several customers, if your service provider is not delivering auto-trage benefits today, you have the wrong service provider. For customers with forward thinking service providers who are delivering the benefits of auto-trage, this can be an optimal way to achieve automation in a cost-effective and timely fashion. Smart customers need to renegotiate their business process and information technology outsourcing contracts to incorporate automation with all of the proper provisions and protections required. As the negotiator for one of the first major BPO to BPO with auto-trage renegotiations, incorporating auto-trage into a contract is complex with a number of issues to be resolved that include controls, intellectual property and change management to name a few. Expert help is key to properly renegotiate these contracts.

Whether you are using remote services from a vendor or from your own operations, what are you waiting for?

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