The Robots are Coming:

Sourcing Implications on Pricing, Contracting and the Future

Everest Group
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SIG Global Executive Summit

Everest Group®

The Robots are Coming: Sourcing Implications on Pricing, Contracting, and the Future

October 17, 2018

Strategic Outsourcing & Vendor Management Enterprise Membership

Helping Category Managers, Vendor Managers, and Business Leaders Unlock Value from Outsourcing

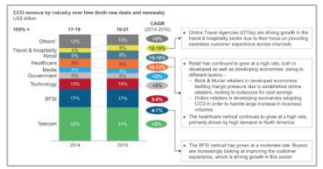
About the membership

From peers to partners, providers to locations, get a complete view of the services outsourcing market delivered through a combination of published reports, data sources and assessments, and interactions

Coverage includes IT, business process, and engineering services, with deep dives in financial services and healthcare

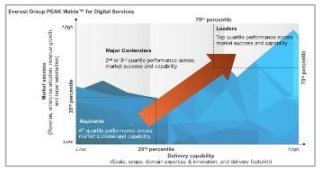
Understand outsourcing markets & service providers

Annual Reports



Market growth and trends, emerging solution models, and service provider developments

PEAK Matrix™



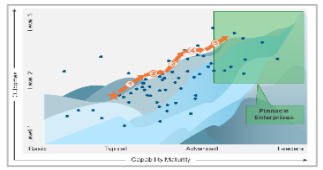
Assessment of service provider capabilities, with strategies & investments that distinguish leaders

PriceBook

Price points across multiple functions, roles, and geographies, and standard deal economics

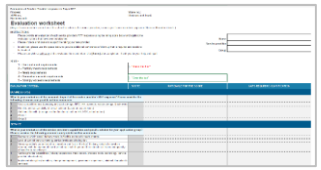
Improve your performance & gain peer intelligence

Pinnacle Model™



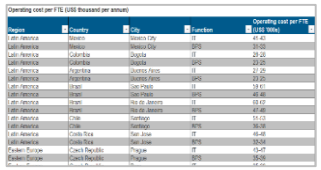
Assess your strategic outsourcing and benchmark against peers

Accelerators



Case studies, tools & diagnostics to help you assess strategies and approaches and speed efforts to focus on critical areas

Inquiry & Data Cuts



Access to leading experts and information & data extracts from our published research databases

How we're different

Breadth

Research covers outsourcing spend categories in detail across IT, business process, and engineering services

Two views

Providing perspectives on both service provider capabilities and peer-to-peer evaluations of capabilities and performance

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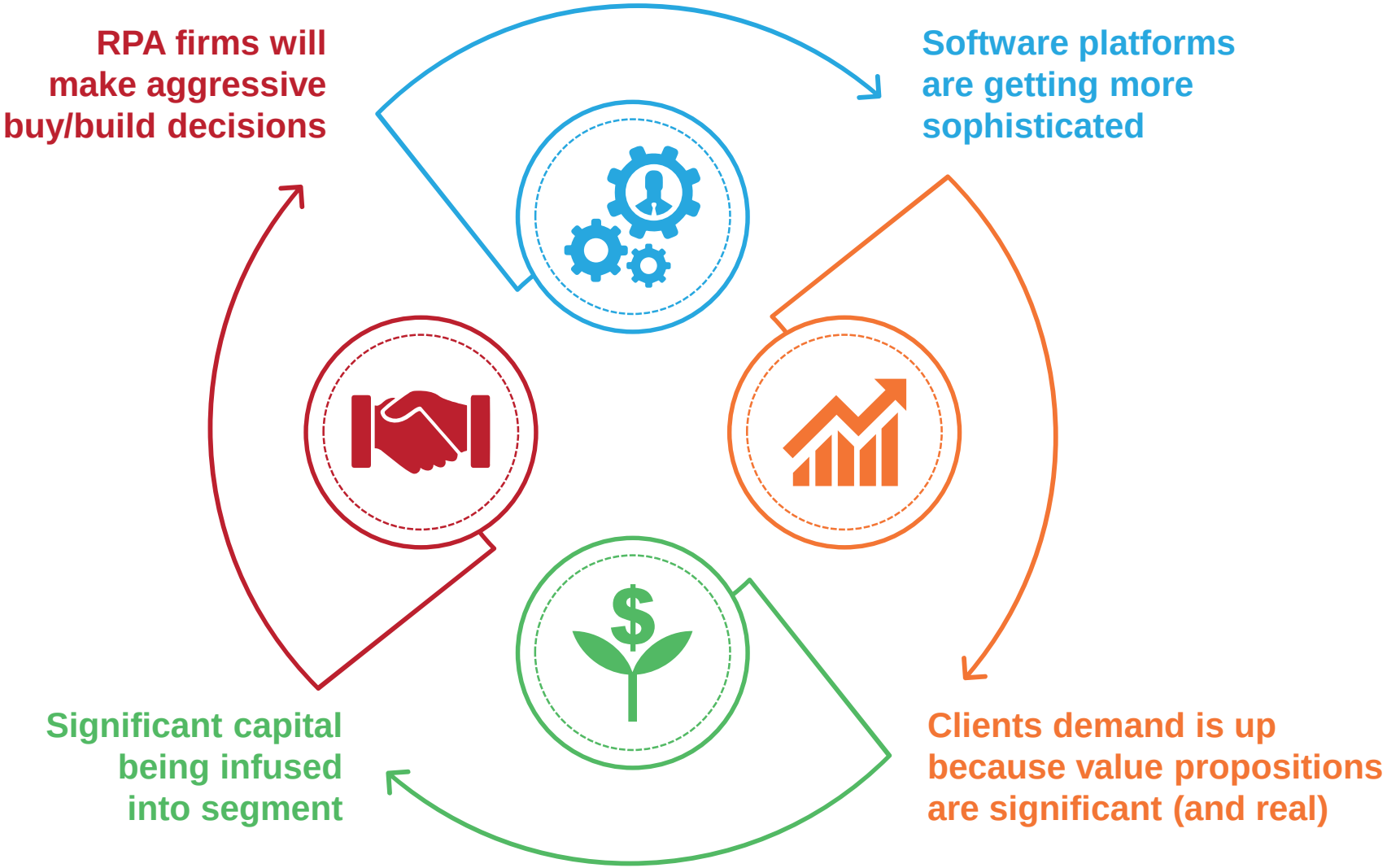
For more information
kevin.capalbo@everestgrp.com

Discussion points for today

- RPA software vendors
- Birth of the intelligent RPA platform
- Key contract pricing metrics
- Existing outsourcing relationships
- Q&A
- Late-breaking market developments

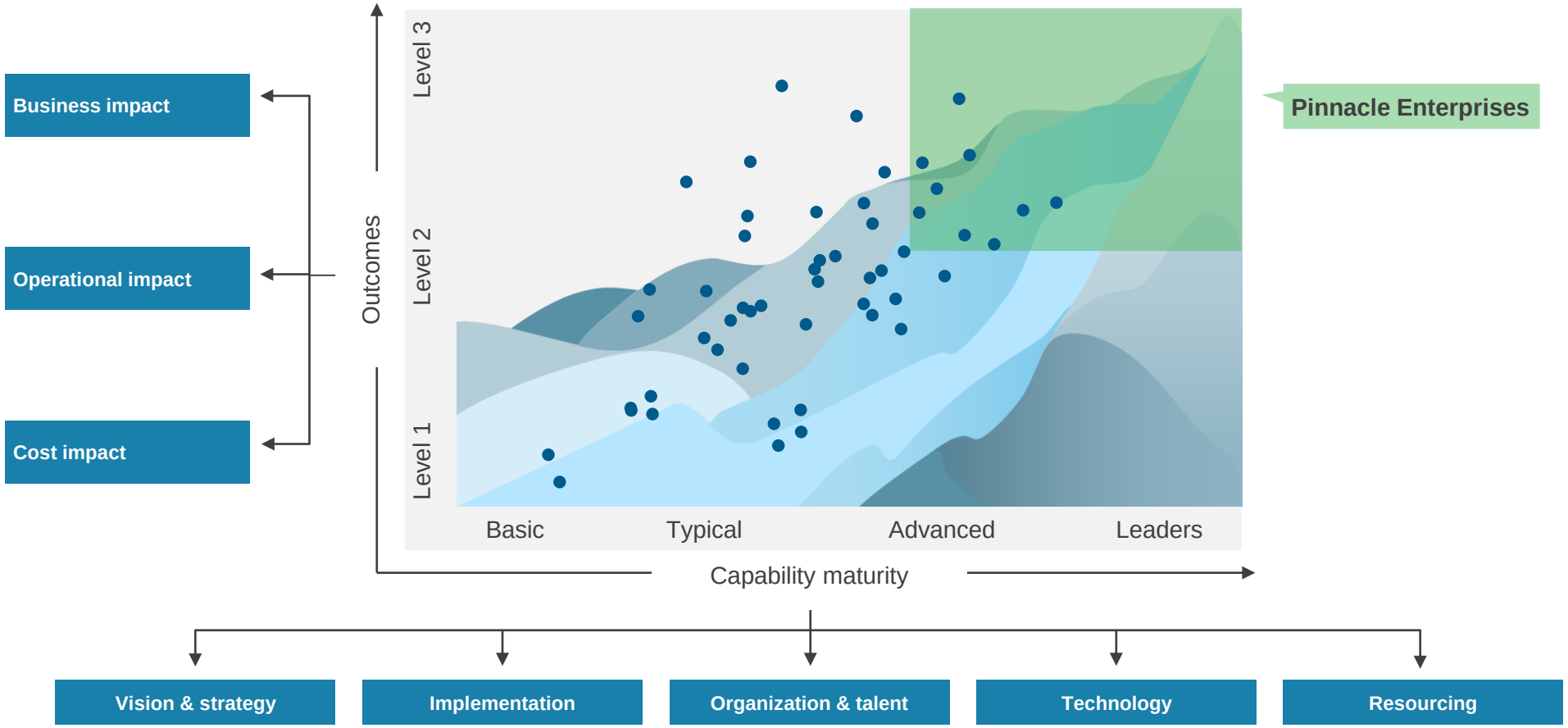
Everest Group's "RPA Virtuous Circle"…is moving at warp speed



We identified RPA Pinnacle Enterprises™ based on their focus on outcomes and capability maturity

Everest Group PINNACLE MODEL™

Everest Group recently assessed Enterprise RPA adoption on the Pinnacle Model™ based on a study with 52 enterprises

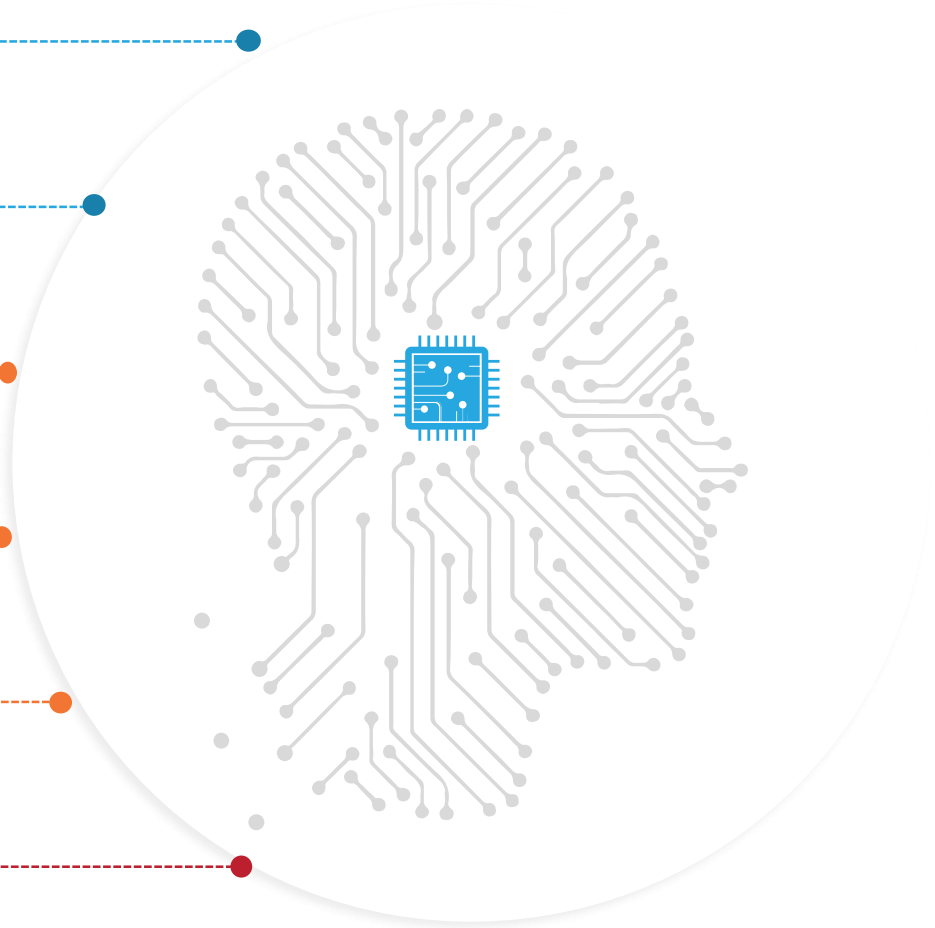


Source: Everest Group's RPA Pinnacle Model™ Assessment (2018)

Smart RPA is a core capability to enable the change to digital, automated, and smart business processes…

Factors that are driving the adoption of Smart RPA among enterprises

- Enhancing customer experience, disrupting competition, and top-line growth
- Laying grounds for a broader digital transformation agenda
- Increasing operational efficiency and quality
- Increasing employee productivity and experience
- Improve governance and compliance
- Cost-savings



Pinnacle Enterprises™, on average, have achieved 50% improvement in operational metrics, compared to 30% by other enterprises

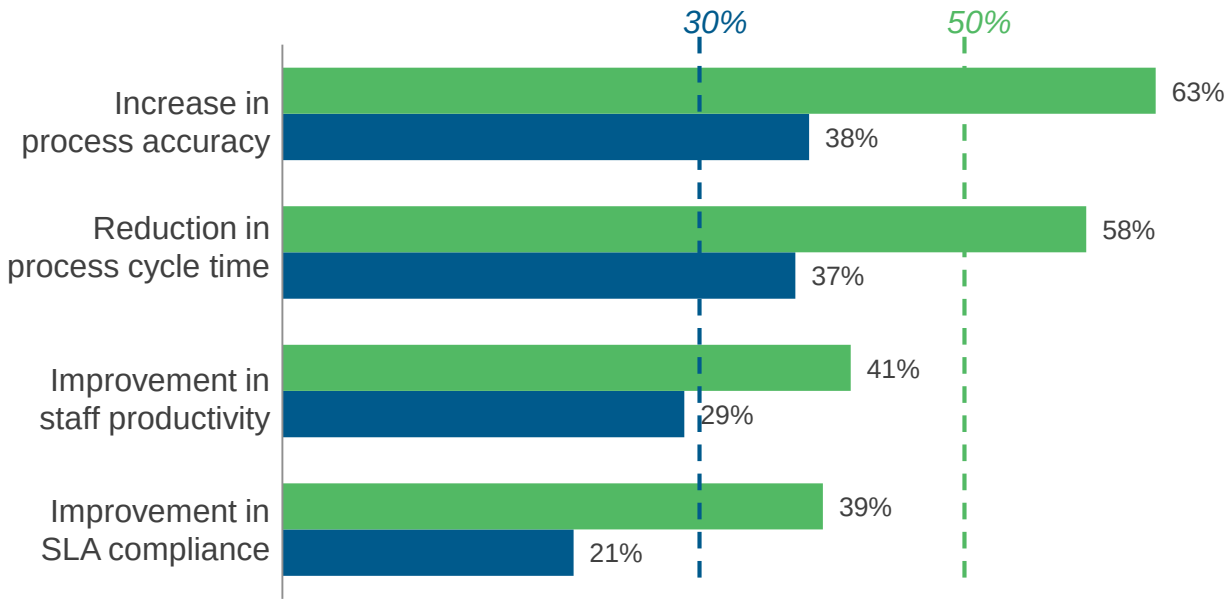
Operational impact

Practitioner's view

"Productivity benefits from RPA, depending on the complexity of the process, can range between 5-60%. On average, 25% productivity benefits are easily attainable."

- Head of RPA program, Top 10 global bank

Average improvement (over pre-RPA scenario) from RPA on operational metrics



Pinnacle Enterprises
Other enterprises
Average improvement

- RPA implementation across Pinnacle and other enterprises results in significant improvement in operational metrics; however, Pinnacle Enterprises performance surpasses that of other enterprises
  - 67% of Pinnacle Enterprises are highly satisfied with operational optimization, compared to 21% of other enterprises
- Pinnacle Enterprises have achieved, on average, 51% automation in processes where RPA has been applied, compared to 24% achieved by other enterprises

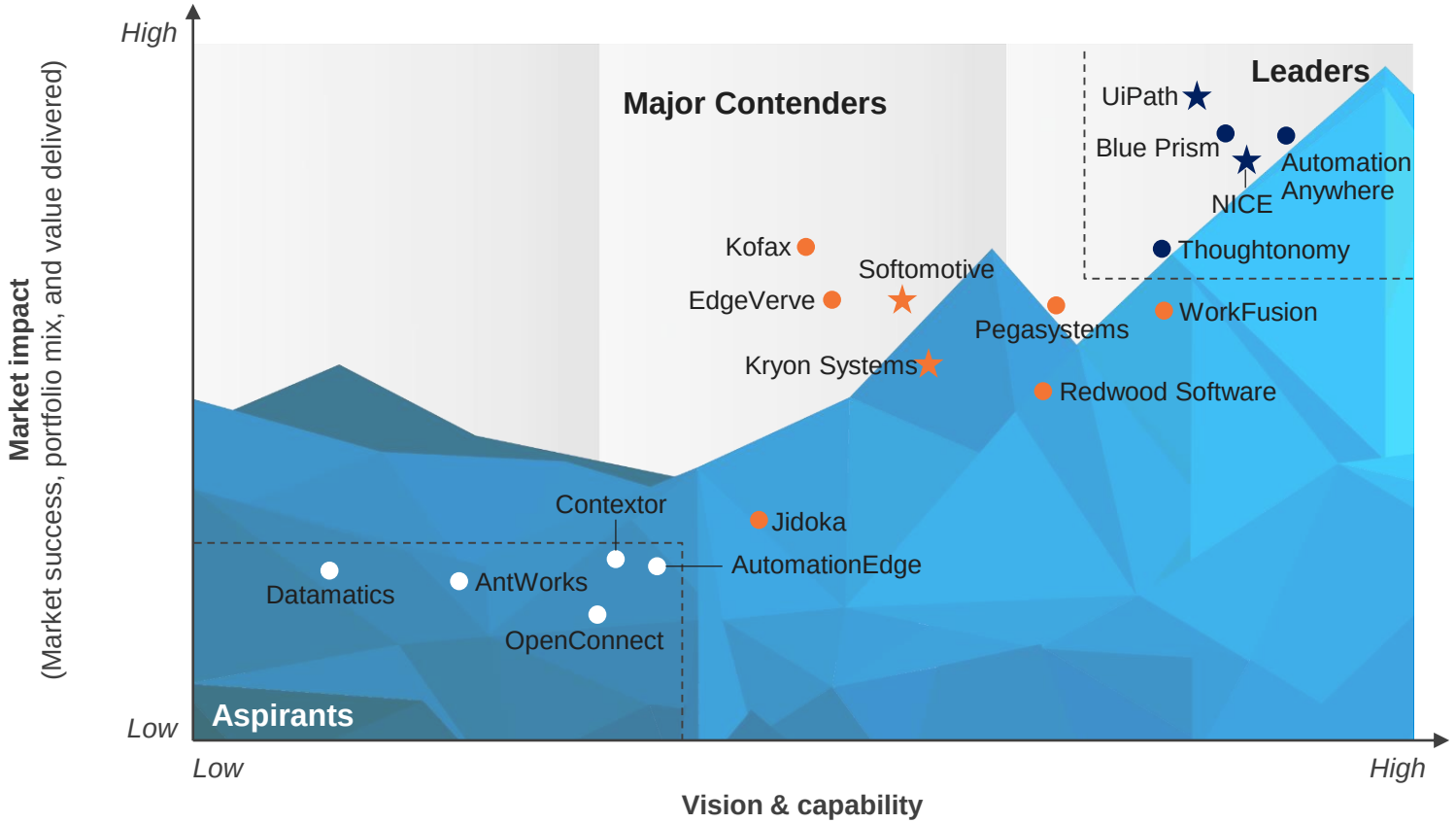
Source: Everest Group's RPA Pinnacle Model™ Assessment (2018)

Everest Group PEAK Matrix™

Robotic Process Automation (RPA) – Technology Vendor PEAK Matrix™ Assessment 2018

Everest Group PEAK MATRIX

Everest Group Robotic Process Automation (RPA) Products PEAK Matrix™ 2018



1 Star Performers are selected based on a relative comparison of vendors' total scores along both the market impact and vision & capability dimensions between our previous and current assessment. Only those vendors that were part of our previous RPA products assessment were considered for the Star Performer analysis. Those vendors with the greatest year-over-year improvement are designated as Star Performers.

The RPA vendor landscape is rapidly changing

Significant capital will allow for further scaling of their organizations, R&D, and acquisitions to increase their capability and speed of adoption

UiPath confirms $153M at $1.1B valuation from Accel, CapitalG and KP for its "software robots"

Ingrid Lunden @ingridlunden / Mar 6, 2018 Comment

Last week, we reported that UiPath, a startup out of Romania building AI-based services for enterprises in the area of robotic process automation (RPA) — helping businesses automate mundane tasks in back-office IT systems — was about to close a big round, upwards of $120 million at a $1 billion-plus valuation.

Today, the company is making it official (and officially bigger): UiPath has raised $153 million in a Series B round that values the company at $1.1 billion — more than ten-fold the company's valuation when it last raised funding, in April of last year.

This latest round was led by previous backer Accel, along with participation from new investors CapitalG (one of Google's investment vehicles) and Kleiner Perkins & Caulfield & Byers, as well as previous

UiPath lands $225M Series C on $3 billion valuation as robotic process automation soars

Ron Miller @ron_miller / 16 hours ago Comment

WorkFusion Raises $50 Million Series E to Bring AI-powered Software Robots to Enterprise Business

WorkFusion adds leadership talent in conjunction with new funding to fuel global growth and delivery of AI-driven RPA

30th January 2018 | Posted in Automation, Digital Workforce, Robotic Process Automation, Virtual Workforce by v2comms

Blue Prism More than Doubles Revenue in FY2017 and Secures £70M via Placing in Public Markets

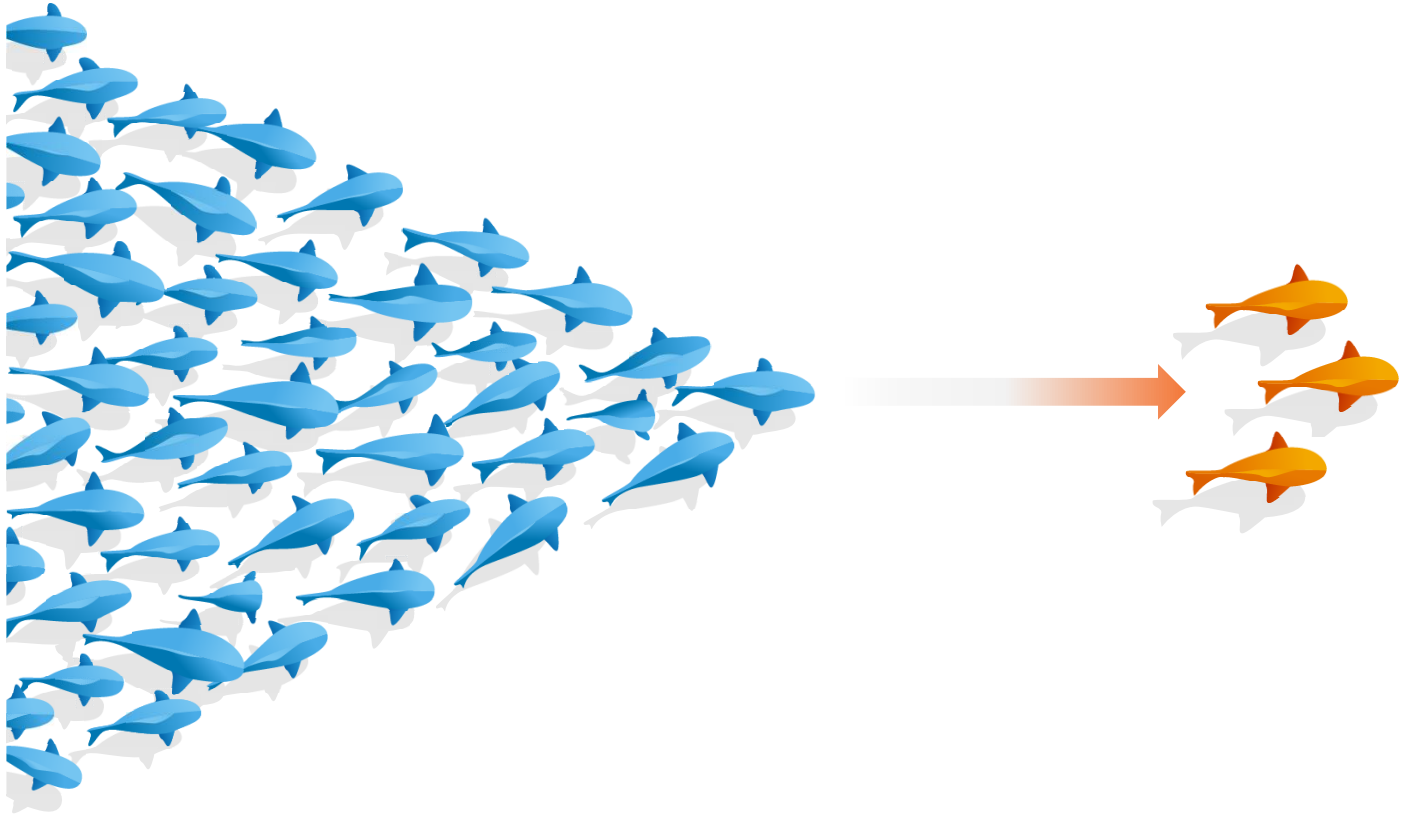
Award-Winning RPA Company Accelerates Sales and Marketing Efforts for its Industry-Leading Digital Workforce

Automation Anywhere Raises $250 Million, Reaching a $1.8 Billion Valuation in one of the Largest Series A Financing Rounds

Written by Automation Anywhere in Press on July 2, 2018 23 25

Funding led by NEA and Goldman Sachs Growth Equity with participation from General Atlantic and World Innovation Lab to accelerate customer engagements across all markets and product development efforts

RPA "leaders" are pulling away from the pack



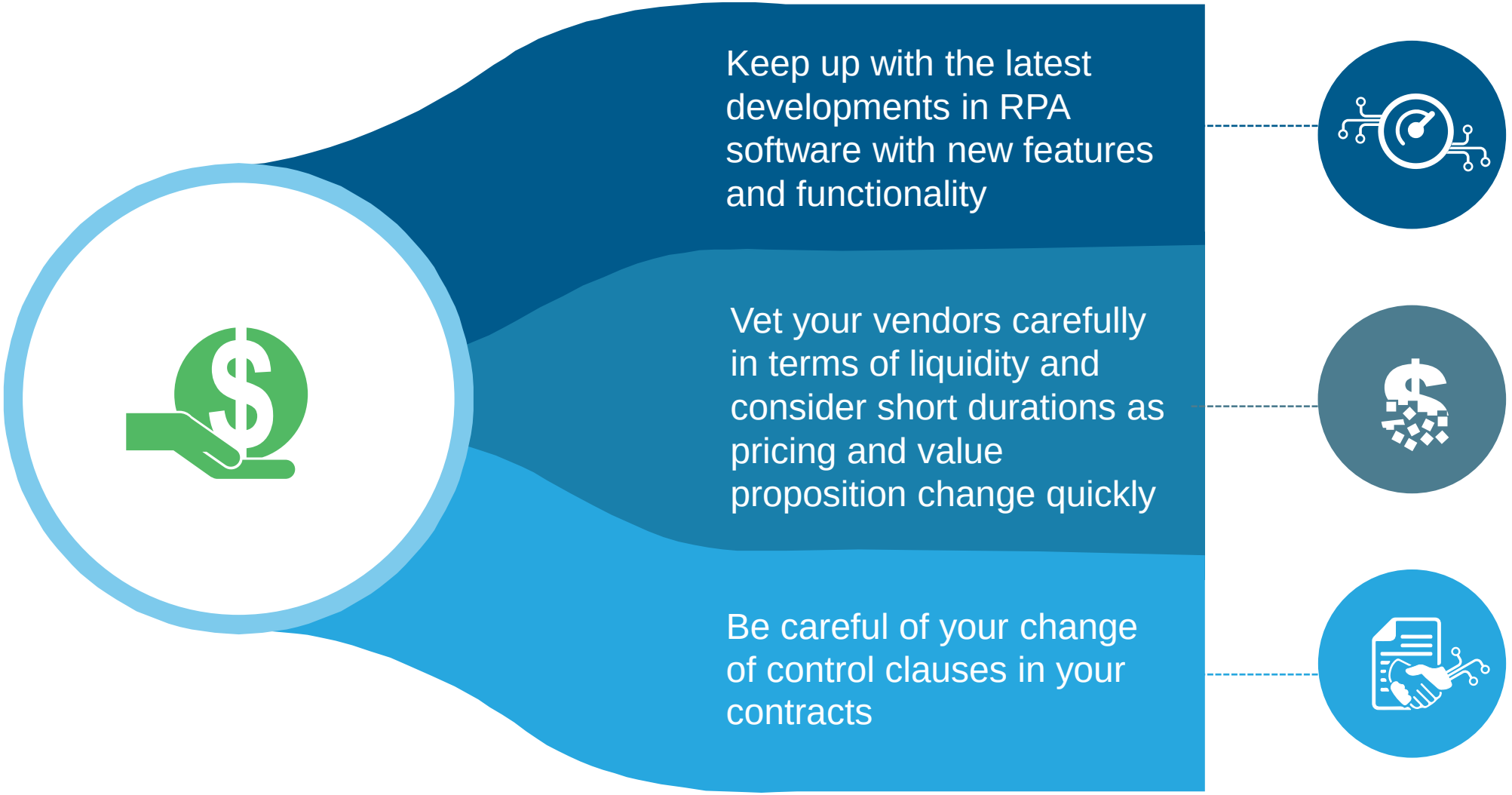
- Increased sales and marketing teams/budgets
- Geo expansion
- Customer support
- More R&D
- Acquisition of other smaller players
- Acquisition of automation functionality
- Positive positioning with enterprises

Significant capital will allow for further scaling of their organizations, R&D, and acquisitions to increase their capability and speed of adoption

Source: Everest Group (2018)

RPA vendor landscape changes

Implication for enterprises



Discussion points for today

RPA software vendors

Birth of the intelligent RPA platform

Understand impacts of the convergence of RPA and AI (and other key automation tools)

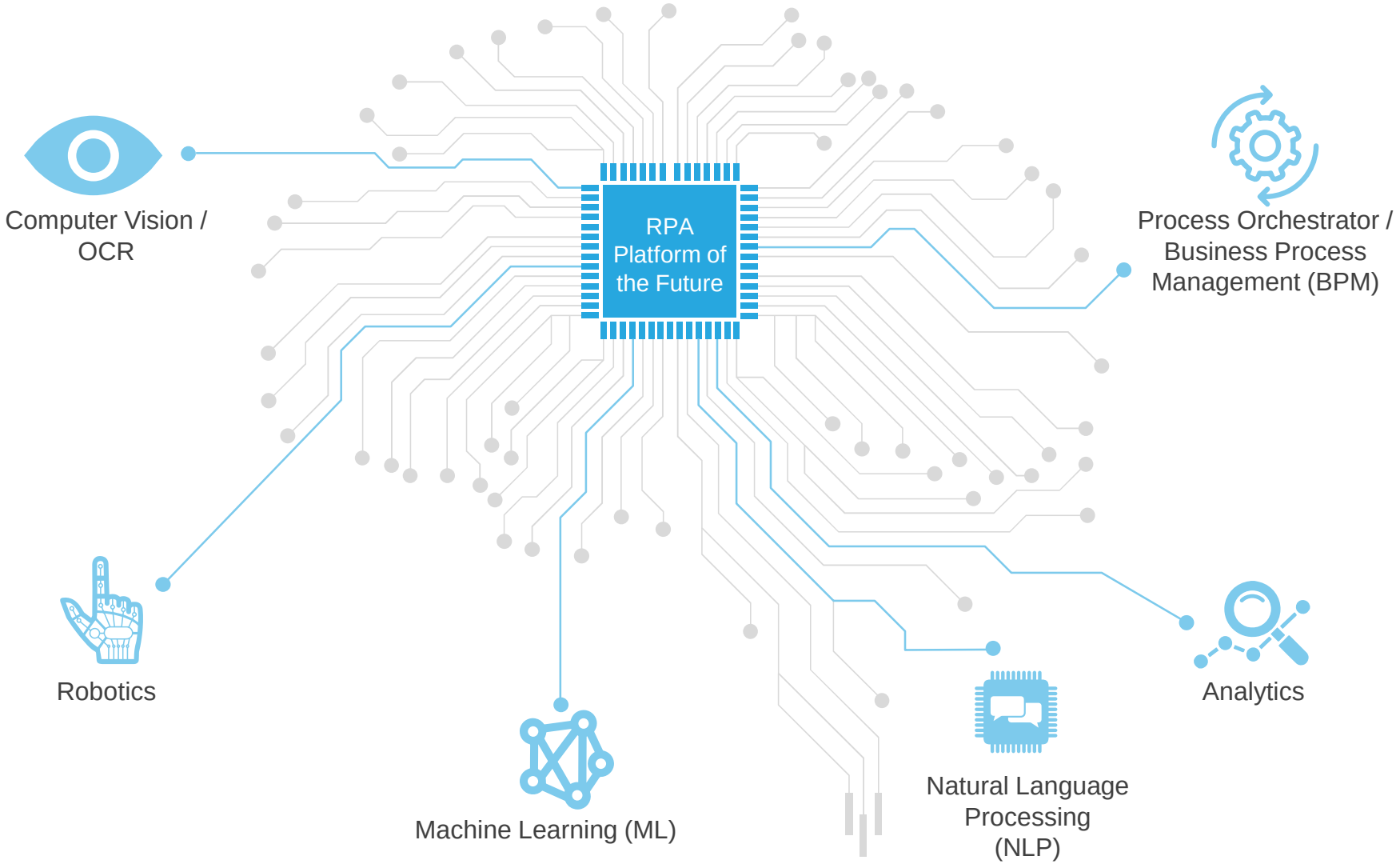
Key contract pricing metrics

Existing outsourcing relationships

Q&A

Core RPA technology is changing rapidly

RPA vendors are going to make their platforms the glue that brings together enterprise automation

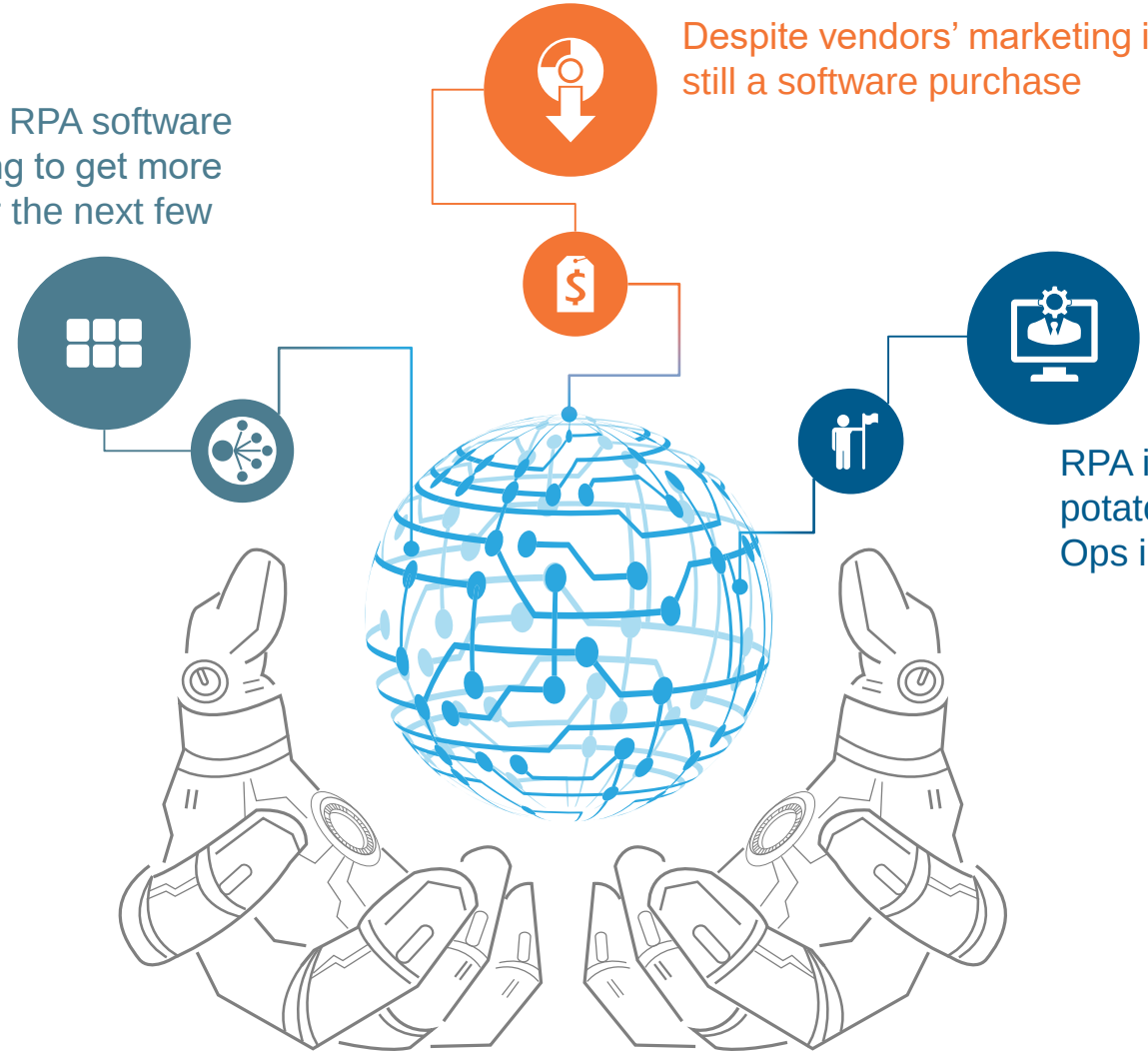


The birth of the RPA platform

Implications for enterprises

Integration of the RPA software "modules" is going to get more complicated over the next few years

Despite vendors' marketing imagery, it is still a software purchase



RPA is still a bit of a hot potato between IT and Biz Ops in terms of ownership

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Learn about key contract pricing metrics so you are prepared for deal negotiations

Pricing models for RPA technology

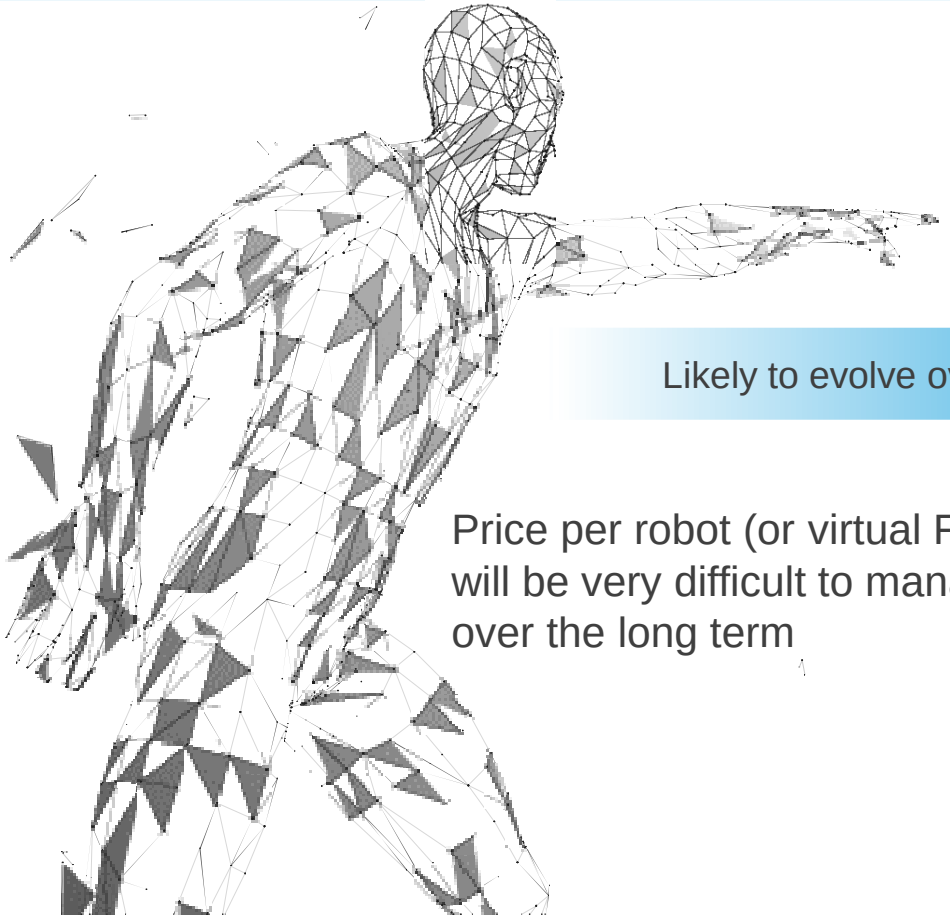
RPA vendors are approaching buyers with a multitude of innovative pricing options

High ■■■■■■■ Low □□□□□□□

Pricing Models	Description	Adoption Frequency
Perpetual licensing	Buyer pays up-front fee for technology and software licenses for the long term plus an Annual Maintenance Charge (AMC); low recurring costs	■■■□□□□
Subscription-based		
Fixed capacity	Buyer pays a fixed fee per term (generally annually) for each robot inclusive of maintenance costs	■■■■■■□
Transactional / per process-based	Pricing is directly and linearly linked to discrete units of outputs delivered by the RPA technology to the buyer; price based on discrete unit of output	■■□□□□□
Usage-based	Buyer pays for robot usage; best for buyers whose requirement and workload volumes vary significantly	■□□□□□□
Outcome-based	Pricing linked to outcomes; i.e., measurable cost or revenue impact delivered to the buyer; price based on gainsharing model	■□□□□□□

Pricing metrics are likely to evolve as the offerings become more sophisticated

- The majority of pricing will still be fixed price…but the unit of measure will change
- Pricing will become more complicated as the software packages evolve to include more “automation modules”



Likely to evolve over time

Price per robot (or virtual FTE) will be very difficult to manage over the long term

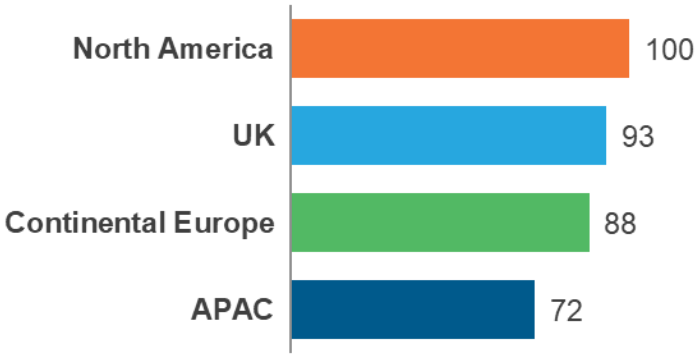
Price per seat/headcount like many other SaaS platforms

Largely fixed flat price by enterprise based upon enterprise size and number of “modules”

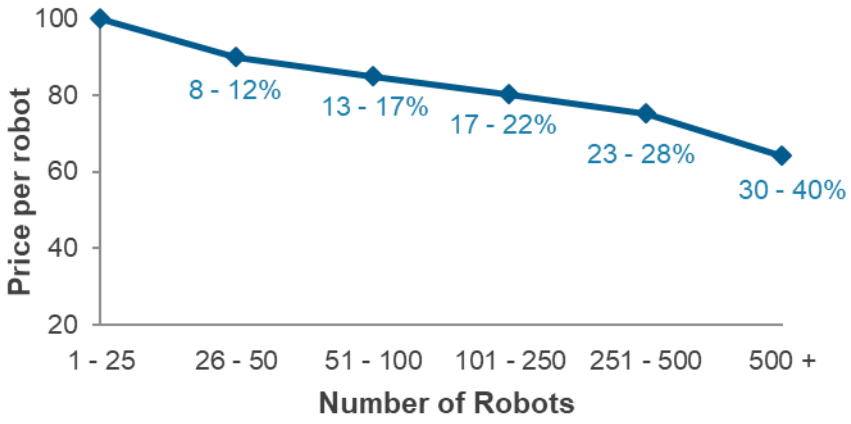
RPA pricing trends

Pricing in this segment is highly variable (and negotiable)

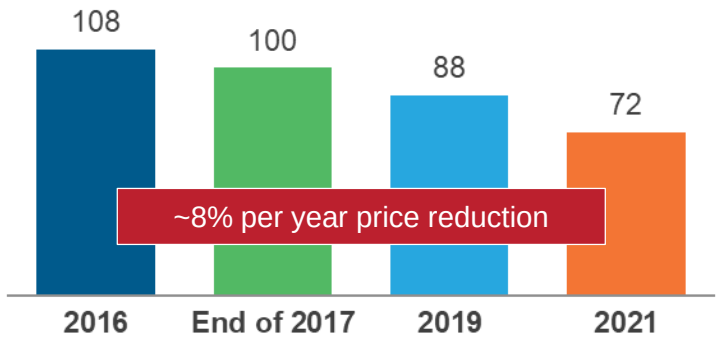
Price variation by geography
Per robot price in North America indexed at 100



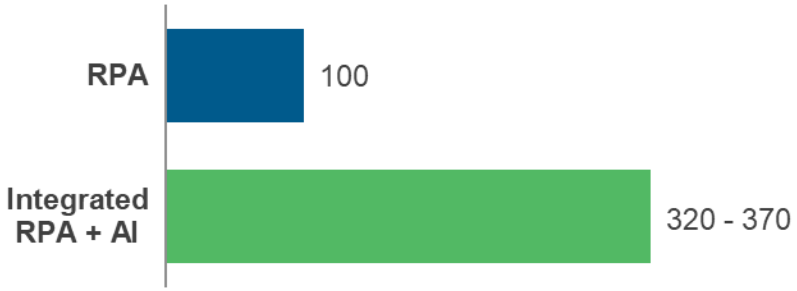
Price variation by volume
Average per robot price for 1-25 bot usage indexed at 100



Market price movement across years
Current per robot price indexed at 100



Price premium for AI capabilities
Price per RPA robot license indexed at 100



Pricing changes

Implications for enterprises

Keep your contract duration short so that you take advantage of changing prices in a very competitive market (and increasing capability)

Ensure that – as volumes scale – it makes sense for your business (think 10-100x increases)

Ensure that the billing metrics are understandable and easy to count

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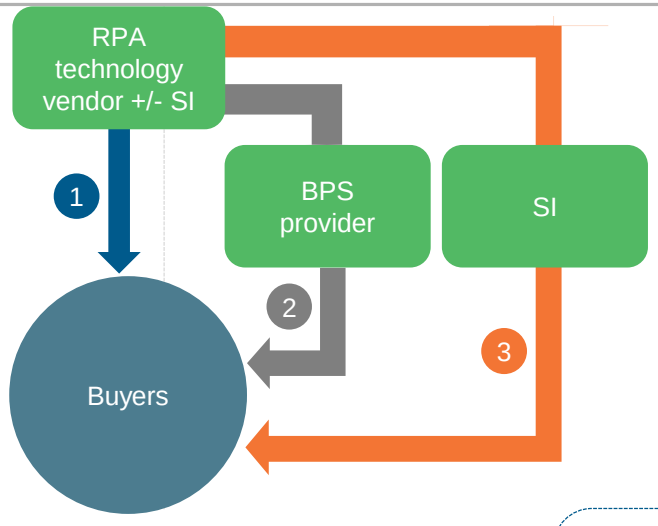
Tips for managing the implications with your existing outsourcing relationships

There are broadly three choices for sourcing and deploying RPA solutions for buyers



Representative lists

1 The buyer purchases directly from the RPA technology vendor and deploys in-house with or without consultancy

2 The buyer commissions a BPS provider to automate outsourced processes. The BPS provider works with an RPA technology partner to deliver alongside its own IP

3 The buyer commissions a specialist technology System Integrator (SI) to implement RPA

Important TCO components to be aware of when negotiating with service providers

Incorporating automation into contracts

Option 1: Incremental

- Primarily input-driven / FTE-based pricing models
- Leveraging RPA to incrementally reduce the FTEs required to perform selected activities
- Reduced effort leads to a lower total price of the contract
- Typically used where there is a high potential of exceptions and/or unstable baseline volumes
- Benefits realized as higher ongoing continuous efficiency commitments (~30-40% cumulative)

Eventually, incremental adopters may move to transformational adoption

Option 2: Transformational

- Moving from an input-driven model to a truly output- or outcome-based pricing model
- Significant changes are required to the underlying operating model and processes
- Typically used where baselines are well known and processes are aligned to maximize value capture
- For highly transactional processes, the per transaction effective price could reduce by ~40-60% very quickly

Two common routes to incorporate use of automation within outsourced contracts

Savings drivers

- Reduced direct people costs
  - Salaries and benefits
- Reduced indirect people costs
  - Transportation and T&E
- Reduced facilities and overhead costs
- Higher accuracy
- Higher speed
- Improved standardization

- Reduced direct people costs
  - Annual wage increases
- Reduced indirect people costs
  - Recruitment
  - Training
- Ongoing standardization/improvement benefits
- Better governance and audit trails

Cost drivers

- Automation tool implementation costs
  - SME effort
  - License costs (if one-time)
  - User training costs
- Cost of additional staff to manage exceptions
- Potential down time

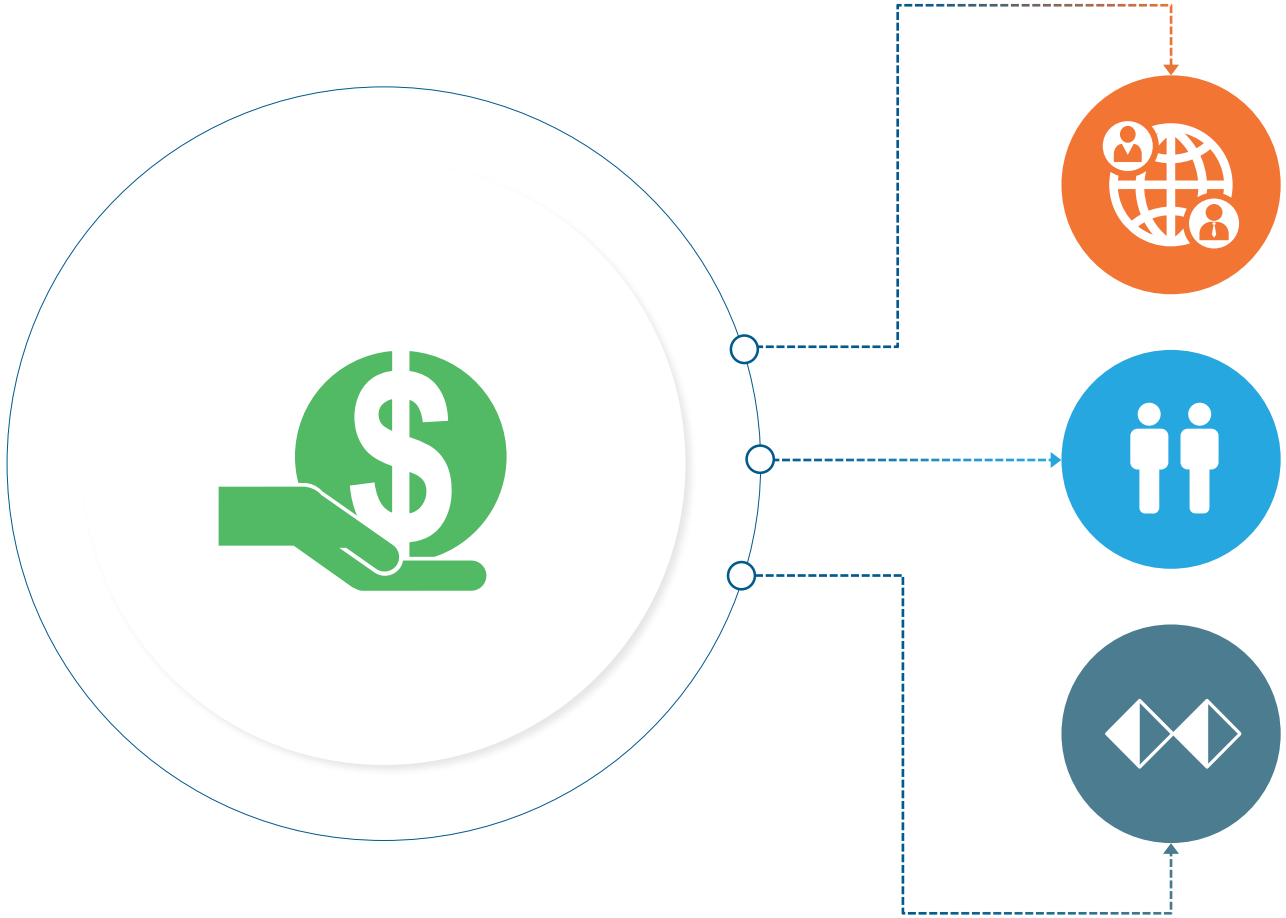
- License cost (if periodic)
- Ongoing tool maintenance costs
- Tool version upgrade costs
- Potential down time
- Additional KM cost to manage loss of tribal knowledge

One-time impact

Ongoing/recurring impact

RPA within outsourcing contracts

Implications for enterprises



Absolutely ask your outsourcing partner for its plan for a step change in price and operational metrics

Ultimately, the business case has to work for both parties – but if you don't ask (insist) it won't happen

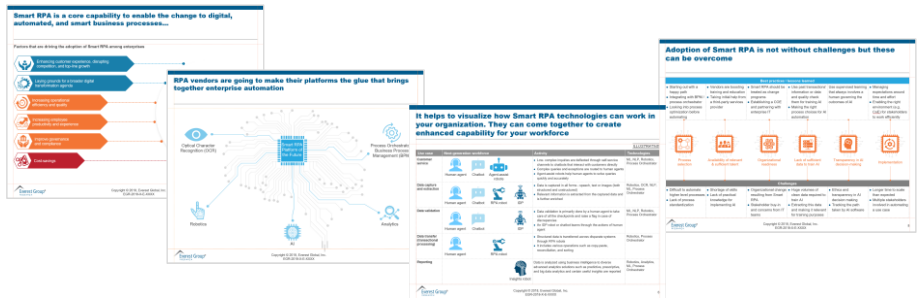
Understand the biggest part of the challenge is process redesign within your organization

The Smart RPA Enterprise Playbook

Successful execution demands a comprhensive, strategic plan

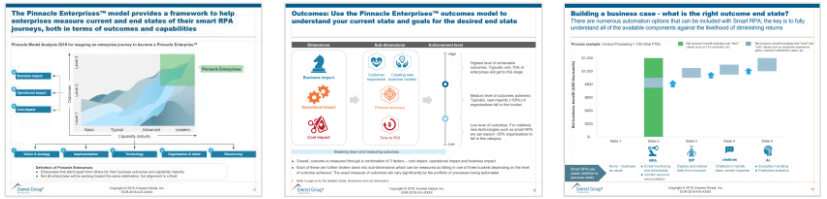
The Smart RPA marketplace

- Factors driving the adoption of Smart RPA among enterprises
- Defining the Smart RPA platform of the future
- Use cases for, and benefits of, Smart RPA
- Best practices for Smart RPA adoption



Building the business case

- The adoption framework
- Measuring current positioning on the adoption journey
- Clearly defining the right outcomes and charting a path to the desired end state



Understanding the journey

- Measuring current capabilities
- Comparing to peers' capabilities and gleaning best practices from Pinnacle Enterprises™
- Developing your unique journey in the context of your current and future states
- Immediate next steps

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Q&A

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From **insight** to ***action***.

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