

What You Need to Know about Including RPA in Your AMS Managed Services Contract

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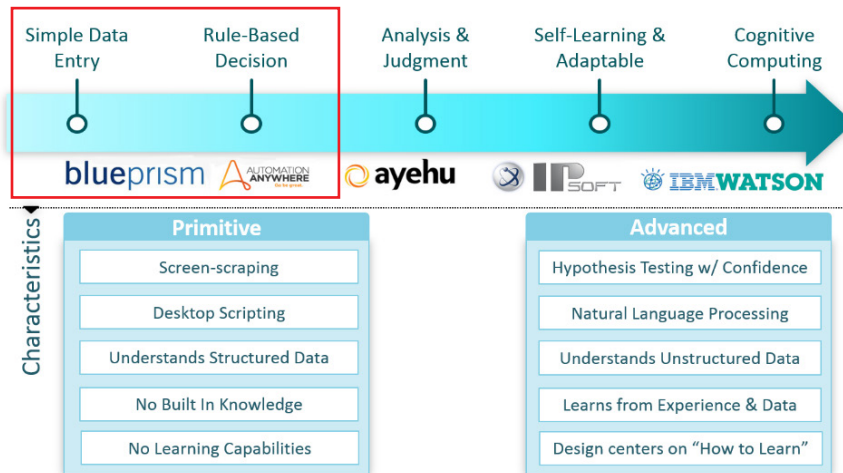
Introduction

Automation technologies cover a broad spectrum of capabilities, from robotic process automation (RPA) to deep machine learning and natural language processing. In the marketplace, RPA is considered the simplest form of automation, with easy-to-program applications for rules-based business processes and data entry as depicted in the red box in Figure 1 below. RPA has proven to be a smart investment for companies hoping to make big improvements in back-office efficiency and accuracy.



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Figure 1: Automation technologies range from simple to complex, with RPA on the simple end of the spectrum.



Today, RPA is beginning to gain traction in applications management services (AMS) and production support with some early adopters deploying RPA bots to automatically resolve ticket problems, for example, or update a secondary and tertiary instance of an enterprise resource planning (ERP) application. Though both service providers and enterprises are turning to automation to drive down costs in outsourced managed services, many AMS contracts are lacking the appropriate language to help enterprises adequately govern the development and support of RPA.



Whether a company needs to modify a current AMS contract to include RPA for the first time or is considering including RPA in a new AMS contract, the following questions will need to be addressed:

1. What path through the software development lifecycle (SDLC) do we use to minimize risk and maximize productivity?
2. Who owns the RPA bot, its enabling code and the work steps associated with the enabling code once it is created?
3. Where does funding of the RPA development and maintenance come from?
4. How do we assign gainsharing of the savings that result from the RPA in production?

This ISG white paper explores how to address these four critical questions in new and existing AMS sourcing contracts.

Software Development Lifecycle

RPA bots are developed to execute predictable, rules-based processes. Developing an RPA bot to reset an ID does not need to follow a typical software development cycle. Instead, consider an abbreviated path through the SDLC so the bot responds directly to the needs of the business and the development timeline is in proportion to the level of risk associated with releasing a new bot into production. Once in production, the bot can be modified in accordance with operational change management procedures.

It is important to consider the appropriate SDLC path needed to protect the environment and mitigate risks in the case of executables. Many service providers today prefer to host proprietary analytics frameworks or toolboxes outside their clients' firewalls. Then, to provide in-scope services, providers implement real-time integration, such as ServiceNow, between their analytics toolbox and enterprise clients' systems. This means that every time an "event" or "trigger" is detected by a service provider's analytics toolbox, an executable must cross the enterprise firewall to set off one or more bots. To mitigate the risks inherent in firewall breaches, enterprise buyers must advocate for the appropriate protections from the outset.

Ownership

There are no hard-and-fast rules for who owns RPA bots, their enabling code and the tasks or work steps a service provider develops for its clients. This can make ownership of the intellectual property (IP) somewhat complicated. Enterprises and service providers should



spend time during contract negotiations to come to consensus about the following four fundamental aspects of IP ownership:

- The RPA environment in which the RPA bots are developed, tested and hosted
- The license and housing for the RPA functionality
- The RPA “code” that enables and drives the actual functionality
- The work steps and individual job tasks that make up the codified process map that power the bots.



Funding a bot and its enabling code includes paying for both its development and its maintenance.

Ownership of the RPA environment and the licenses for the bots will be determined largely by the nature of the managed services relationship – whether it is an outcome-based or transactional contract, for example. Ownership will also depend on the enterprise IT organization’s operational vision and the specific location of the environment and the bots.

Generally, the enabling code and work steps should be considered new IP that is owned by the client with liberal rights of use granted to the service provider. A managed services relationship will likely benefit if the service provider is incentivized to consistently leverage its assets and breadth of experience to promote operational efficiency. Neither language nor practice should impact the service provider’s ownership rights for the core RPA enabling code it brings into the managed service relationship, especially for the code it uses across other clients to interface with cloud-based target systems like Workday and Coupa.

Funding

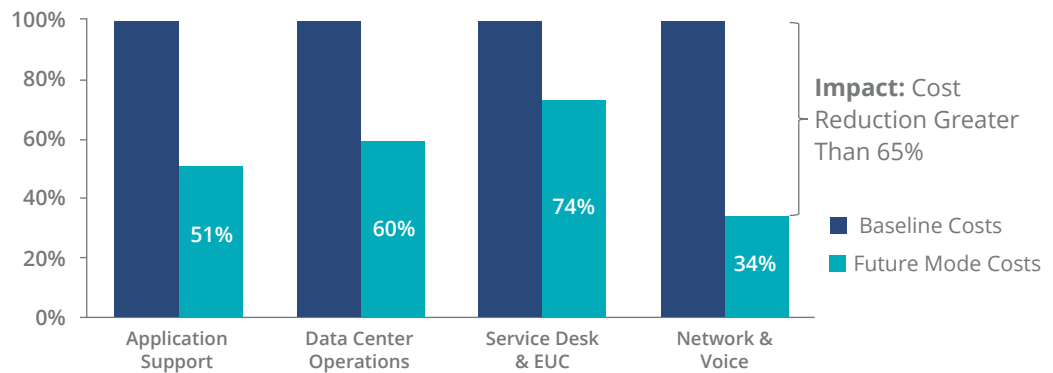
Funding a bot and its enabling code includes paying for both its development and its maintenance. If a company is sourcing a new AMS contract, it is easy enough to factor into the baseline of the contract the cost of building and maintaining bots. However, if an existing AMS contract needs to be modified, the question of who funds the building and testing of the bots and their enabling code will depend on who realizes the savings gained from the implementation of those bots.

If the service provider pays for the creation of the bots, it will likely want to apply the savings to its costs and not share the gains (see “Gainsharing” section below). If the enterprise is funding the creation of the bots, then the enterprise will likely want to see the savings realized from the implementation in the form of a reduced invoice from the service provider. Funding the ongoing support and maintenance of the bots also typically comes down to who realizes the savings. If the service provider realizes the savings, it usually pays to support the bots; if the enterprise realizes the savings, then payment for support falls to the client.

Gainsharing

The purpose of deploying RPA in AMS is to increase efficiency, improve quality and drive down costs. The [ISG Automation Index](#) finds that automation can improve productivity of managing applications by as much as 30 percent. Figure 2 below shows the impact of automation, among other modernization efforts, on future-mode outsourcing costs, which will be anywhere from 25 to 65 percent lower than today's baseline costs, depending on the IT tower in scope.

Figure 2: Service providers are committing to unseen levels of productivity and cost savings based on the implementation of their automation frameworks.



In this context, enterprises and service providers need to include language in their sourcing contracts that spells out precisely how the savings gained from improved productivity will be shared. In some cases, service providers may bake the savings into their contract baseline price. However, other potential eventualities need to be considered. What happens if the enterprise impedes savings opportunities? Who gains when RPA creates opportunities for additional – or even unexpected – savings?

Conclusion

RPA bots are becoming more prevalent in AMS outsourcing as companies look for the next lever to reduce costs of application production support. However, contracting without the appropriate protections can be risky. Clients can lose out on the potential savings from implementing RPA or forgo their rights to use a bot if they change service providers.

An enterprise needs to strike a careful balance between requiring such stringent oversight over their RPA bots that it impedes the bots' release and requiring so little oversight that it introduces risk to its production environment. The impact of automation in IT will continue to grow. Enterprises are better off updating their contracts now to make the most of it and prepare for the future.

ABOUT THE AUTHORS

WHAT YOU NEED TO KNOW ABOUT INCLUDING RPA IN YOUR AMS MANAGED SERVICES CONTRACT:



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Michael Fullwood is an ISG Director with extensive financial planning and analysis experience. His areas of expertise include sourcing assessment and RFP management, contract negotiations and transitions. He has guided major multinational companies in the Americas and Europe through multi-functional outsourcing projects and shared services transformation. Prior to joining ISG, Michael was a Senior Advisor with TPI, a sourcing advisory firm; a Director with OPI, an outsourcing services provider; and a Director of FP&A for a global telecommunications firm.



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Scott Moore is an experienced IT professional who brings considerable knowledge of information services to ISG's clients. Scott has 30+ years of experience in the industry and proven leadership in application development and maintenance (ADM) delivery, designing solutions, global resourcing and delivery, transition management and risk management. He has deep global experience working with ADM delivery teams in Europe, South America and Asia, and his client base spans a wide range of industries.



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