

Generative AI could provide the tipping point that obliterates the people-centric outsourcing model

Traditional people-centric outsourcing models could be rapidly replaced by generative business services, where advancing AI technologies such as large language models (LLMs) and autonomously capable apps drive enterprises' speed and predictive capability to function with much more agility, creativity, and intelligence.

The rapid emergence of LLMs has opened a whole new world of autonomous possibilities, catching the outsourcing industry flat-footed as service providers scramble to partner with technology firms to redefine their antiquated models.

To this end, HFS has partnered with Amelia, a global leader in enterprise conversational AI, to explore the impact of conversational AI with the added impact of generative AI (GenAI) on the delivery of business operational services. Our research is based on discussions with enterprise customers and quantitative survey data.

The legacy outsourcing model is holding back many enterprises in the GenAI era

For the past two decades, Global 2000 enterprises have relied heavily on outsourcing to run cost-efficient operations. These multi-year engagements have relied on outsourcing service providers' capabilities to deliver outcomes in functions such as customer service, IT operations, finance, and HR to scale resources while keeping wages low. Effective engagements typically run 30% to 40% less than the cost of running these operations in-house.

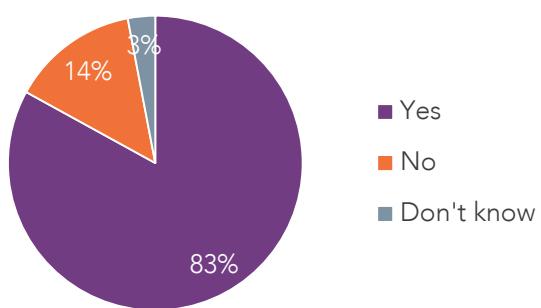
As we have debated at HFS for many years, the outsourcing struggle enterprise customers often face is finding continual value *beyond* these cost savings. Sure, they may have slashed 30% to 40% from their operating costs when they initially outsourced a business function 10 years ago, but do CFOs *still* celebrate those savings victories today? Of course not. They demand their ambitious business leaders unearth new value by continually innovating with their people, processes, data, and technology.

In a recent HFS survey, more than 80% of surveyed Global 2000 enterprise decision makers expressed a desire to renegotiate their outsourcing contracts (see Exhibit 1). To unlock additional value beyond cost savings, enterprises need to focus on outcomes that matter to the business rather than just effort put in. The shift implies services and technology providers must pivot to a new narrative focused on humans-plus-AI to align more closely with enterprise innovation goals.

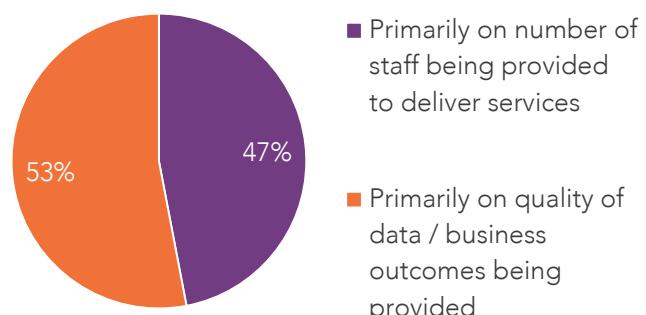
In addition, half of these enterprises expressed they would prefer to pay for outsourcing services based on data quality or business outcomes rather than people-based pricing, implying that they seek "performance and value" versus merely "effort provided."

Exhibit 1: Enterprises want to move beyond traditional outsourcing

Is your firm seeking to renegotiate contracts with your outsourcing service providers?
(Percentage of respondents)



How would you prefer to pay for outsourcing services going forward?
(Percentage of respondents)



Sample: Survey responses of outsourcing decision makers from 604 Global 2000 enterprises
Source: HFS Research, 2023

If you fail to improve your data and processes to boost your competitiveness continually, these initial cost savings gradually erode as wages inflate and stodgy operations hold you back.

GenAI is finally driving much-needed change to outsourcing

After persisting with this antiquated outsourcing model for so long, GenAI is forcing a major shift for ambitious enterprises striving to remain competitive and innovative. Many enterprises firmly glued to the old labor-centric outsourcing model are in real peril of being left behind if they fail to work with their outsourcing service providers to embrace the potential of generative technologies, including the potential for customer operations to be run much more efficiently and intelligently. Code that took weeks to write can be developed in hours, and processes can be automated in a way we were never capable of in the past.

So why is GenAI so powerful, and how will it impact traditional outsourcing?

When ambitious service providers build out their GenAI-powered service models, many enterprises will be unable to resist the staggering value impact on offer, especially in customer operations. For example, one onshore call center operation connected a GPT-4 powered application to its Salesforce system and can already see how to reduce 50% of its staff within months. Hundreds of other cases are quickly developing; new cases emerge daily as we all tinker with GenAI's disruptive potential.

GenAI technology is shaking up traditional outsourcing because it can synthesize information and language patterns and handle complex natural language processing tasks, such as natural

language understanding, automatic text generation, and dialogue systems. Amelia has long used advanced natural language processing (NLP) and LLMs, and GenAI advancements can only speed up its capabilities (see case studies later in this report). These advancements impact traditional outsourcing work, such as summarizing customer interactions (a huge part of after-call work) and providing agent assistance and next-best actions using RAG (retrieval augmented generation).

Perhaps the most compelling emerging potential for LLMs within customer operations is their ability to accurately generate and interpret text in various dialects and languages. This capability is poised to significantly disrupt the traditional contact center operations model by reducing dependency on location-based sourcing, provided the associated privacy and regulatory concerns are effectively addressed (which will differ based on the LLM model used).

GenAI is accelerating the S-curve of innovation

As shown in Exhibit 2, the Generative Enterprise™ is driving the emergence of a steep S-curve. It enables organizations to automate and streamline business processes even more while complementing traditional analytical AI and accelerating innovative insights. For enterprise leaders, the steep curve leaves little time for planning if they want to establish an early lead.

Given the complexity of the technologies involved, the talent and skills needed, and the criticality of partnerships, it is essential that enterprise leaders and their technology partners work together toward shared goals and desired outcomes. This critical dynamic is driving a massive change in the IT and business services industries (see Exhibit 2), where AI-driven processes are spurring new sources of value creation. The Generative Enterprise promises much more than efficiency and cost savings; it unleashes creative human potential and unlocks new sources of value for companies seeking to differentiate their brand on experience.

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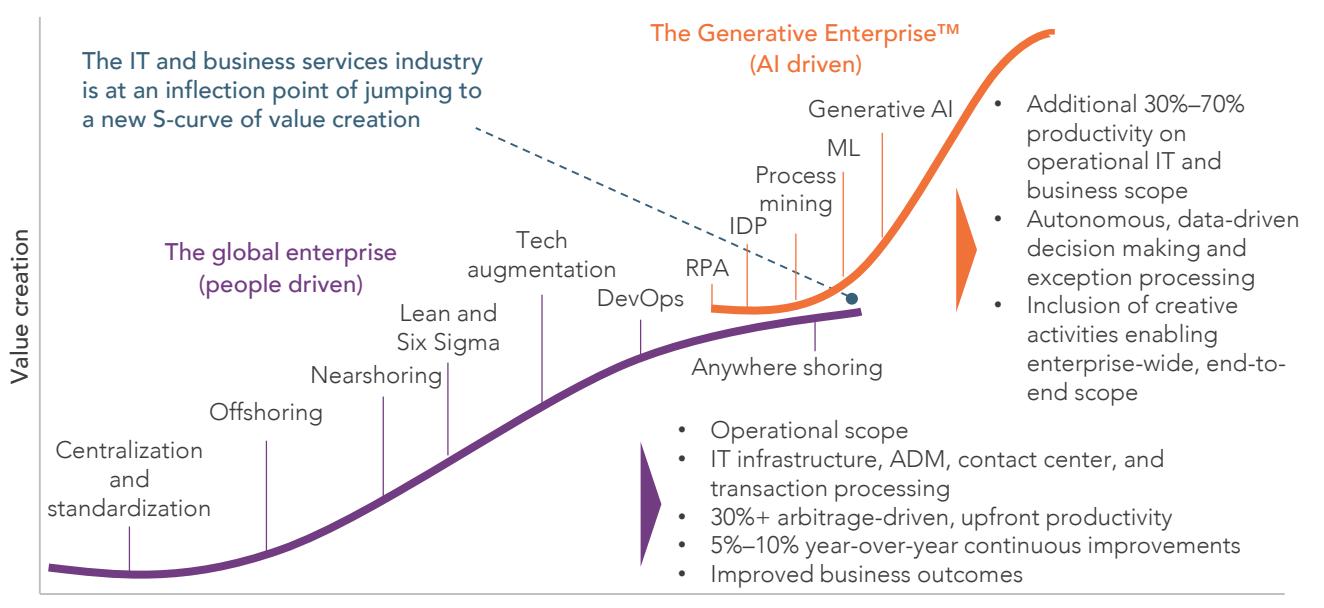
Net net, enterprise leaders searching for the next big thing after people-centric offshore outsourcing may have their prayers answered with the dawn of GenAI. It promises significant

productivity improvements (not just incremental) on voice-based work, coding, testing, and transactional processing—core elements of any business operation. What's even more interesting is that AI-driven operations can support autonomous decision making and exception processing and handle a more creative scope of work (such as art, writing, or design) beyond mundane and boring activities.

The dawn of GenAI has created an *inflection point* for global business services (GBS) to jump to a new S-curve of value creation.

The outsourcing S-curve we once knew now has a huge kink in it. We could previously save 20% here or 30% there with smart automation, chatbots, better software, or cheaper labor aligned to better processes, but a fast-moving, major shake-up has inserted a steep curve. The risk to the outsourcing industry is that as digital labor becomes more impactful, enterprises can choose to insource this digital labor and reduce their dependence on outsourcing.

Exhibit 2: The Generative Enterprise™ inspires a new S-curve of value creation



Source: HFS Research, 2023

Moving beyond autonomous—the rise of the Generative Enterprise

HFS has built the foundation to endorse embracing an autonomous strategy, leveraging automation and AI for routine and repetitive tasks and creating the organizational agility needed to survive in the digital world. With GenAI rapidly maturing, enterprises are looking to their services partners for help with using GenAI for making complex decisions and generating new ideas. In doing so, services providers must become Generative Enterprises themselves. A Generative Enterprise embraces the following characteristics and abilities:

- It uses AI to analyze data, identify patterns, and generate insights that can drive innovation, strategic thinking, and decision making.
- It leverages AI to augment human intelligence and creativity and eradicate a lot of low-level, repetitive work, enabling the organization to adapt and thrive in a rapidly changing business environment.

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The greatest barrier to the Generative Enterprise is mindset. People are often confused by buzzwords and disenchanted by intangible benefits. Once this kind of sophisticated automation is in the hands of the people and they see its real value, leadership will embrace it and staff will adopt it more willingly.

— Pushkar Shirolkar,
Regional Head, Infrastructure and Information
Security APAC, Allianz Technology

The digital dichotomy of the macroeconomic slowdown and a hurry to innovate presents an impetus for rapid change

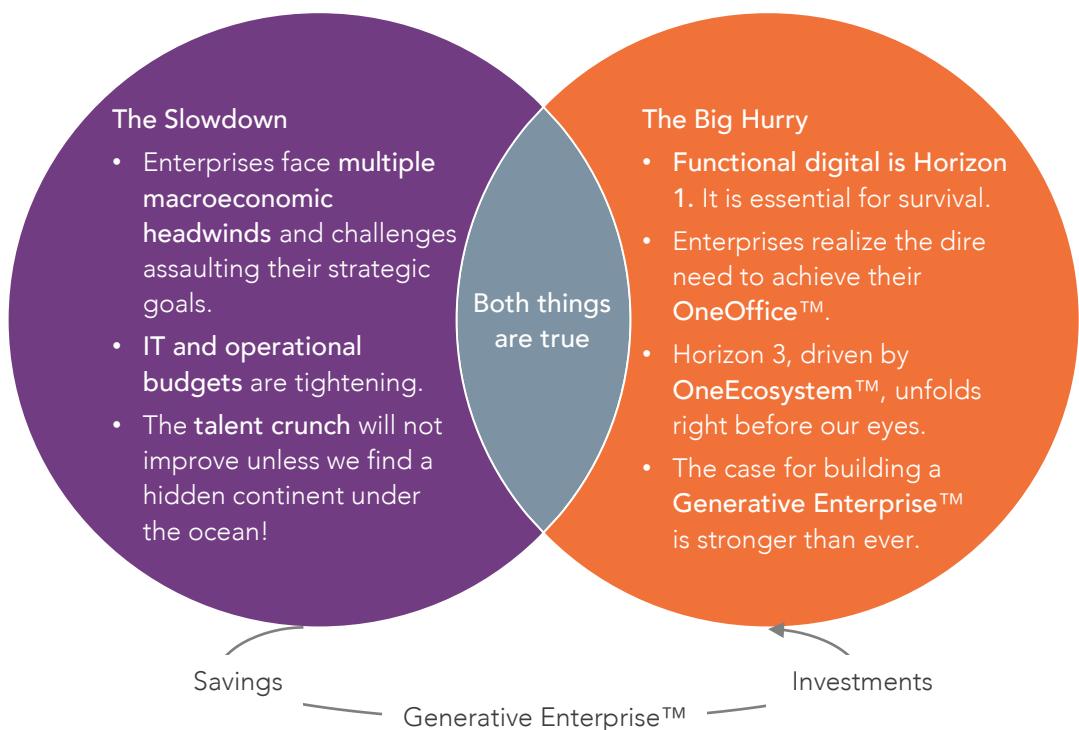
On the one hand, there is 2023's slowdown and tightening up. Our recent Pulse study of 600+ IT and business leaders across Global 2000 enterprises showed that up to 67% of IT budgets are squeezed under macroeconomic headwinds. Unsurprisingly, the optimistic increase of 11% in planned investments over 12 to 18 months in 2022 is now reduced to a paltry 3% in 2023. In addition, our research also revealed that hiring and retaining quality staff are two of the top three internal challenges that could adversely impact enterprises' strategic objectives.

But on the other hand, there is a rush to innovate and adapt to change in real time. Enterprises recognize that digital is table stakes for survival. Customer experience (CX) and employee experience (EX) improvements require much greater organizational alignment to business strategy and between the front and back offices. Traditional industry lines are blurring. The potential of emerging technologies to help enterprises respond more effectively to contextual change and find new sources of value remains largely untapped. There is a thirst to create new business models, boosting ecosystems to serve customers better and, most importantly, anticipate their needs.

Enterprises that can balance the macroeconomic slowdown with the big hurry in Exhibit 3 to accelerate the innovation cycle, act faster, and do more with less have the maximum potential to succeed. GenAI added to existing AI and automation has the potential to help with the talent crunch and reduce costs. A generative

mindset can help enterprises balance the slowdown with the hurry, using savings garnered from economic tightening to re-invest in the business and applying GenAI and automation to prompt new ideas, open new sources of value, and ultimately become more competitive.

Exhibit 3: The Generative Enterprise has the promise to successfully balance the digital dichotomy



Source: HFS Research, 2023

Amelia is taking a human-focused view of the Generative Enterprise's impact on talent and innovation

Amelia has utilized LLMs within its conversational AI platform to enhance its capabilities and provide more advanced conversational interactions since Amelia V4 in 2020. The use of LLMs in Amelia's architecture allows for more sophisticated language understanding and generation, enabling it to handle a wide range of customer inquiries and tasks with natural responses. This technology helps Amelia provide personalized and context-aware responses, enhancing the user experience and improving the efficiency of customer interactions.

With the 2020 Amelia v4 release, Amelia was built into the design environment to assist conversational designers and engineers in building use cases with the Amelia Natural Language Compiler, which takes instructions in plain English and implements them in code. In Amelia v5, this was further perfected by using the Amelia Natural Language Compiler to build entire use cases by importing multiple transcripts. With Amelia v6, it is now a fully automated process using multiple LLMs recursively to build extensive use cases with back-end integration, conditional logic, and code for making calculations.

This advancement opens up the potential for the rapid creation of use cases by citizen developers and fundamentally changes ROI calculations around implementing conversational AI to handle the long tail of possible use cases.

Amelia's strategy for GenAI has not been to replace human interactions completely; Amelia leverages LLMs to generate recommendations for human agents that are coherent and contextually relevant responses to user queries, improving the overall conversational experience. LLMs also enable Amelia to understand natural language inputs, interpret user intent, and generate appropriate and accurate responses based on existing knowledge within the enterprise.

HFS Research, in partnership with Amelia, interviewed several leading enterprises rapidly

embracing emerging technologies, including GenAI, to transform and reinvent their businesses.

DXC partners with Amelia to create efficiencies and better customer service for its insurance BPO clients

DXC and Amelia have been implementing conversational IVR (interactive voice response) self-service within five insurance business process outsourcing (BPO) engagements. Amelia is a "digital employee" in the contact center, which handles common life and annuity service requests, and it is becoming the "digital front door" for these five DXC clients. Using its large language libraries, Amelia provided a base of intents mapped to DXC's clients' use cases. Amelia was quickly able to increase digital self-service containment rates and reduce call transfers and misdirects. Amelia displaced the previous IBM Watson solution, which was time-consuming and hard to implement and wasn't rendering the expected business benefits.

The Amelia platform DXC implemented is bundled with two additional components: a customer service portal where the agent gets a summary of Amelia's customer interactions on any escalated calls and a contact center analytics function that enables ongoing training of Amelia as a digital employee. Our DXC contacts expressed that the beauty of Amelia as the digital front door is the consistency of its responses and its ability to learn how to respond to new queries from interacting with customers.

For example, if there are four different types of service requests and Amelia has only been trained on three, it will use the call transcripts to build suggested responses and call flow for the fourth and then ask for human validation to confirm accuracy. This monitoring and tuning process with "human in the loop" means that Amelia can consistently learn on the job, increasing efficiency and relying less on human labor.

DXC has been continuously adding to Amelia's existing knowledge from its intent base to develop business and client-specific interactions. The pre-trained nature of Amelia's LLMs means that DXC can easily and frequently spin up new foundational models to apply across other clients and use cases. DXC is now eager to productize the solution to bring more clients and create much better experiences and efficiencies in the call center. Amelia is enabled for multichannel but is currently only being used in voice due to a lack of demand in other channels, as many of the policyholders are not digital natives.

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We believe very strongly in the efficiencies gained and customer experience results we've seen ... the digital front door is table stakes now in the contact center.

– Alessandra Cox,
Life BPS Offering Manager, Insurance Solutions
and BPS

Resorts World Las Vegas leverages Amelia to improve its guest experiences

Resorts World Las Vegas, a new chain of resort and casino facilities in Vegas, used Amelia to streamline its operations and enhance guest experiences, implementing conversation automation in areas such as the contact center and internal HR and IT processes. Resorts World automated communication through voice, text, and chat for various services, including concierge requests, restaurant reservations, and other guest needs. This automation has improved the guest experience and resulted in labor savings for the company. Amelia also enabled Resorts World to create "RED," a conversational AI virtual concierge.

Amelia's Resorts World case study highlights the need for constant iteration using analytics tools and new, easily accessible information. The team

at Resorts World conducts thorough reviews, audits processes, and monitors activity to ensure the automation system's accuracy and reliability. Without proper oversight, there is a risk of providing incorrect information to guests and negatively impacting their experience.

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There is no point in using this kind of automation for simple FAQs. The value we get is in Amelia's advanced integrations to understand our guests' needs, which drives value by improving the guest experience.

– Namratha Nandagopal,
Executive Director - App Development & QA at
Resorts World Las Vegas

Allianz Technology engages Amelia to enhance customer and employee experiences

Allianz Technology leveraged Amelia's conversational AI platform to automate IT operations and improve customer and employee experiences. Implementing Amelia helped Allianz Technology complete a shift toward intelligent AI ops. Amelia serves as a conversational AI interface, allowing customers and employees to communicate via natural language (voice or chat) to resolve support issues, issue queries, or submit transactions without having to open tickets or wait on hold. Amelia connects with back-office applications to carry out tasks for users to improve efficiency. The use of Amelia has resulted in OneOffice™ outcomes such as decreasing mean time to recover, improving FTE efficiency, freeing up people for high-value work, and achieving cost savings. Additionally, Amelia's omnichannel capabilities and predictive analytics contribute to better stability and enhanced customer experiences. Allianz Technology's goal is to free up people to do higher-value work and create a democratized platform that puts automation and AI in the hands of its people.

Quantum Health is scaling operations by automating simple interactions

Quantum Health started by automating some repetitive tasks in the healthcare journey, and now AI is executing simple interactions to identify and qualify members and answer claims status questions. The voice automation has saved the equivalent time of 30 FTEs over three months. Quantum's goal is not to remove the human touch but to automate simple interactions where the company aims to scale for new services while also maintaining the same level of excellence its clients expect. The natural language element of the automation lowers anxiety in its members and frees employees to focus on more complex conversations.

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It's important to begin with a framework of use cases. Don't try to do everything at once; focus on developing proofs of concept that enhance your current service.

– Anthony Liccardi,
Sr. Technical Project Manager, Quantum Health

A virtual assistant improves customer experience in an investment bank

An investment bank uses Amelia's conversational AI platform to enhance customer experiences and streamline operations. Amelia serves as a virtual assistant, providing support and assistance to customers through natural language conversations.

The bank implemented Amelia in its contact center to handle customer queries and provide personalized assistance. Amelia answers frequently asked questions and guides customers through various banking processes. By leveraging Amelia, the firm is improving digital containment to reduce costs and enhance the customer experience.

Additionally, the bank integrated Amelia with its mobile banking app to provide customers with self-service capabilities. Customers can use the virtual assistant to perform tasks such as checking account balances, making payments, and managing finances. This integration allows customers to access banking services conveniently and efficiently. Implementing Amelia helped reduce call volumes, freeing human agents to handle more complex queries and provide personalized assistance. The virtual assistant has contributed to improved customer satisfaction by providing quick and accurate responses to customer inquiries.

The Bottom Line: Amelia's vision for the Generative Enterprise is to unleash human creativity by developing solutions that automate routine tasks, supporting the future of human-machine collaboration. This is the new S-curve of value for outsourcing in the Generative Enterprise. We're on the cusp of re-invention.

GenAI adoption in the Generative Enterprise will fuel a great re-invention that changes outsourcing relationships as we know them. The tools, know-how, and competitive realization are forcing the move to a generative mindset for those companies desperate to propel themselves into the GenAI era.

If implemented well, GenAI could be the nail in the coffin of the traditional labor-based outsourcing model that's been desperate to change for more than a decade. Now, it's all about aligning outcomes for the next generation of work as we reach this tipping point that significantly disrupts outsourcing models and dependence on labor-based models.

It is time for the great re-invention. Don't get left behind.

HFS Research authors



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Melissa is an Executive Research Leader and Head of Research Operations at HFS Research. Melissa leads HFS' research initiatives for all things customer experience, including contact center, digital marketing and sales, CX design, and conversational AI. Her industry research focuses on key services dynamics within retail, CPG, travel, and hospitality firms. Melissa also looks after operations across all research coverage areas, helping HFS realize our own version of OneOffice™.



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Phil Fersht is widely recognized as the world's leading industry analyst focused on the reinvention of business operations due to technological innovations and the globalization of talent.

He identifies change agents enabling organizations to streamline digital operations, access rapid and critical data to base decisions, and exploit the increasingly available global talent base.

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