



ISG Index™: RPA is the Tip of the Digital Transformation Spear

As we detailed in this week's 4Q 2017 ISG Index™ announcement, 2017 started and ended strong. Annual Contract Value (ACV) for the combined market bested the record high set in the first quarter of 2017. Eight of the past nine quarters have exceeded \$9 billion. Disruption by digital competition is pushing a switch from traditional products to

This export was generated by user ted.wang@isg-one.com at account ISG on 1/23/2018 from IP address 73.232.242.52.

© 2018 ISG - All Rights Reserved

Using Interactive Document Server technology from Publish Interactive



new technology, with a strong focus on cloud transformation and automation. The combination of those two factors is driving much of the growth. Traditional Sourcing again surpassed \$6 billion in ACV, as it has for three of the past four quarters. As-a-Service broke through the \$5 billion mark for the first time this quarter.

Publication date: Friday, 12 January 2018



Table of Contents

Table of Contents	3
ISG Index™: RPA is the Tip of the Digital Transformation Spear.....	4
What is Happening?.....	4
Why is it Happening?.....	5
Net Impact.....	5
Associated Insights.....	7



ISG INDEX™: RPA IS THE TIP OF THE DIGITAL TRANSFORMATION SPEAR

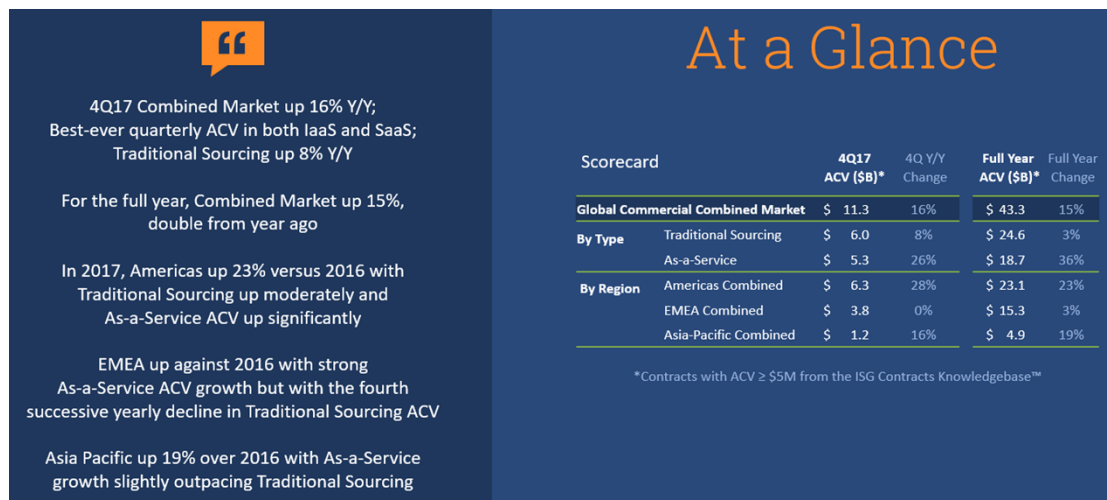
By Stanton Jones

WHAT IS HAPPENING?

As we detailed in this week’s 4Q 2017 ISG Index™ announcement, 2017 started and ended strong. Annual Contract Value (ACV) for the combined market bested the record high set in the first quarter of 2017. Eight of the past nine quarters have exceeded \$9 billion. Disruption by digital competition is pushing a switch from traditional products to new technology, with a strong focus on cloud transformation and automation. The combination of those two factors is driving much of the growth. Traditional Sourcing again surpassed \$6 billion in ACV, as it has for three of the past four quarters. As-a-Service broke through the \$5 billion mark for the first time this quarter.

This continued spend indicates that As-a-Service is not replacing traditional sourcing business. The pie is growing, rather than getting reallocated. The rise in ACV at a time when pricing in traditional sourcing is low points to businesses spending more on technology that is driving the digital transformation. One of the areas where we see a significant uptick in spending is automation.

Figure 1: Key Insights – ISG Index, Fourth Quarter and Full Year 2017



Source: ISG Research



WHY IS IT HAPPENING?

Intelligent Automation, specifically RPA, is one of the key forces driving digital workforce transformation — at both enterprises and service providers.

Robotic technologies automate repetitive tasks as if they were human. For example, RPA is good at automating things like financial reconciliations and invoice exception processing in accounting. It's a low cost, quick-to-implement solution, but to be effective, RPA needs to be applied to processes that are clear and mature - this is because it can't learn on the fly, like more emerging cognitive technologies can.

Combining a low cost of entry with a quick initial implementation means growth – and a lot of it – for the RPA vendors, and we believe we'll see well over 100 percent growth from this segment in 2018, with high double-digit growth in later years.

We think this growth has legs because while a number of enterprises are well along in their RPA journey, we see just as many that have yet to get started. So the opportunity for the RPA vendors to sell into net-new clients, and to expand at existing ones, we think is quite significant.

Also, we believe one of the big drivers for future RPA growth will be *the desire to replace BPO with automation in some cases*, enabling clients to repatriate portions of work back onshore. As we've discussed previously, our research indicates that a majority of business and IT executives feel that automation will enable them to bring back in-house more than half the work they currently do in low-cost locations.

That said, a couple of areas could slow growth in this market. From the enterprise perspective, we see some companies hitting bumps in their implementations, because they've underestimated the process and change discipline required to not only implement RPA, but to scale it beyond a few bots. From a vendor perspective, given the small deal sizes, the RPA vendors will have to sell a lot of licensing deals in order to keep up this growth, which will of course become more difficult as revenues grow.

NET IMPACT

RPA is seeing today, and will likely become increasingly susceptible to, *aggressive pricing*. Just like any other new market, leaders and challengers will implement aggressive pricing strategies or even give away their software in order to gain market share. We're starting to see this happen in RPA and this is one of the reasons why vendors in this sector will

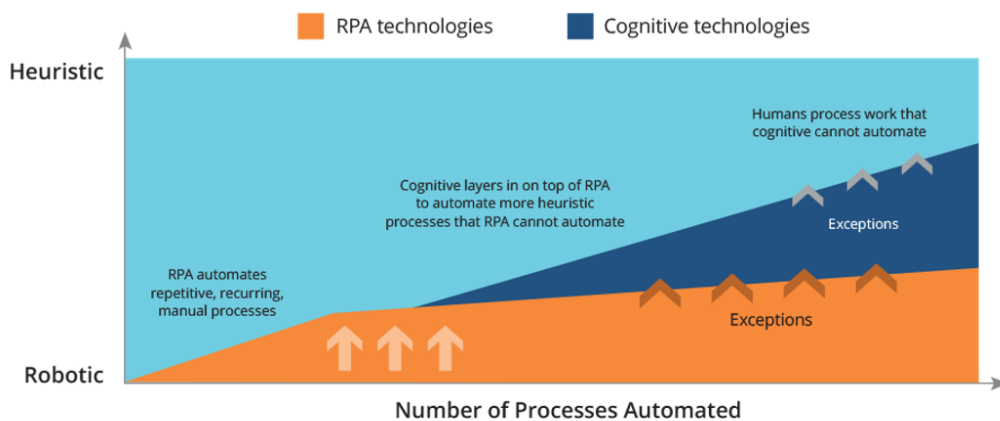


eventually need to move “up” the enterprise value chain in order to avoid commoditization and to expand the number of use cases its software can address.

That means they’ll need to be able to automate more “heuristic” business processes where judgment is required. We believe that one way this will be accomplished is through the addition of cognitive technology.

RPA will eventually hit a wall in terms of the number of repetitive business processes that can be automated; eventually, companies need to address exceptions that require judgment. Today this is done primary by humans, as can be seen in Figure 2.

Figure 2: RPA Vendors Need to Move Up the Process Value Chain



Source: ISG Research

Therefore, RPA vendors need to either build cognitive capabilities into their software, or partner with vendors that have cognitive technology. RPA vendor strategies are still being formed, but alliance and investment activity is already well under way. For example, IBM will be integrating Automation Anywhere into its business process management software, Blue Prism aligned with low-code platform Appian and intelligent OCR vendor Captricity, and UiPath announced a \$30 million dollar investment from Accel, which it will use to add cognitive capabilities to its platform.

So in 2018, as enterprises start to move beyond a few bots and into hundreds or even thousands, we believe this will drive triple-digit growth from the RPA vendors, but don’t be surprised if this hyper-growth starts to move the market from alliances where it is today to more acquisition activity as the big technology vendors start to place their digital workforce bets.



ASSOCIATED INSIGHTS

[View the Global ISG Index™ Slides](#)

[Check out the Index infographic](#)

[Read Press Release](#)

[View the Index replay](#)