



DIGITAL & TECHNOLOGY SERVICES

Technology-Based Solutions Are Radically Changing the Service Delivery Landscapes

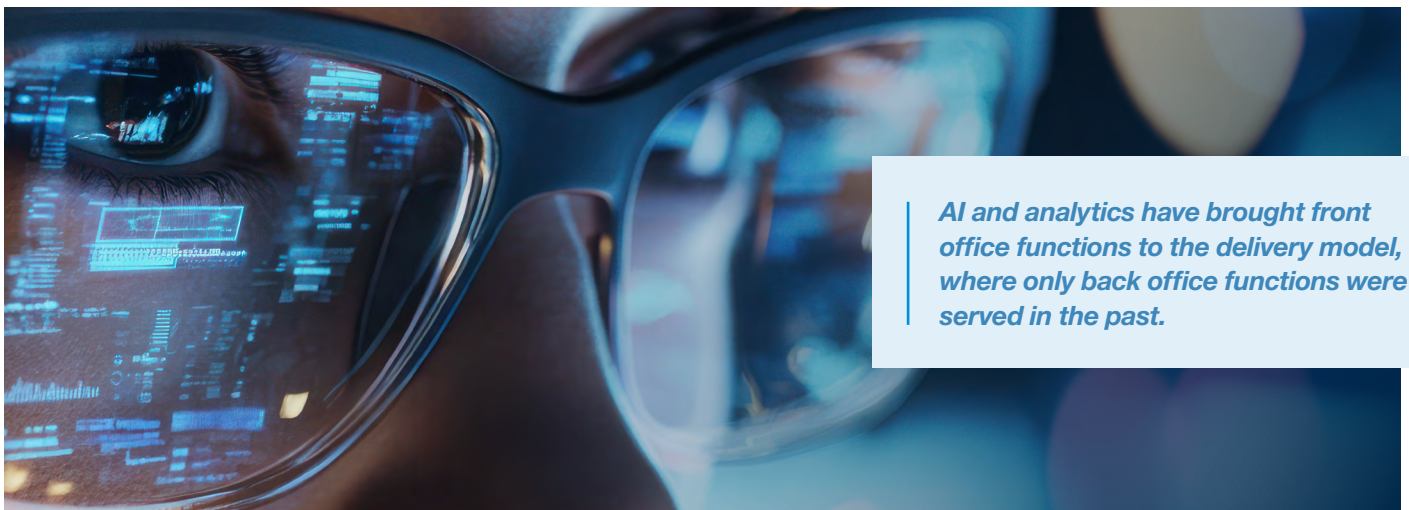
Since the early 2000s the dominant delivery model, other than in-house, has been based on arbitrated labor from lower cost jurisdictions, with language capability being a key driver.

However, with increasing use of technology, from robotic process automation (RPA) to machine learning (ML) and artificial intelligence (AI), there is dramatic change across multiple dimensions, including the activities that are delivered, the use of technology in some or all of the activities, the locations that are utilized, the choice of service provider, and overall agility.

Rapidly developing technology and the prevalence of AI are radically changing the delivery model landscape.

Historically, activities where alternative delivery models have been adopted were in the back office areas, including Finance, Human Resources, Procurement and Information Technology. However, the maturing of the industry and the incorporation of artificial intelligence into delivery models has provided the opportunity to include front office services such as Sales, Marketing or Research and Development into new models. These have been aided by incorporation of analytics, using data that can be produced rapidly from automated delivery processes, and real-time reporting to enable improved decision-making.

Delivery location remains a key factor, but it will become less influential than before. Language has been the factor that required services to be delivered from particular locations, but for some years technology has substituted for labor in written applications that include multiple foreign languages. Moreover, greater use of chat bots and application of artificial intelligence has reduced dependency on even spoken language capabilities. This has a profound implication on delivery location and the number of centers required, with opportunities to concentrate in fewer operating centers and to locate in some of the multiple smaller, and more diverse, locations that are emerging for specific activities.



AI and analytics have brought front office functions to the delivery model, where only back office functions were served in the past.



Scale has been a key driver of economy. However, the requirement for scale will diminish progressively with the increased adoption of tools, including machine learning and artificial intelligence. These tools continue to facilitate nimbler and cost-effective operations, with greater flexibility, smaller scale and faster output. As noted above, this trend has enabled customer-facing activities to be delivered without the same requirements for scale, including emerging, smaller service providers.

ML and AI have diminished the importance of scale, enabling smaller service providers to compete.

Established service providers have been growing over time and providing wider ranges of activities, given their ability to invest, including from an increasing number of global locations. As new and more agile providers enter the market, with an ability to deliver significantly faster and cheaper services with lower transition costs, the large-scale, more traditional service providers, with larger overheads, will be threatened. We expect this trend will result in greater diversification in the portfolio of service providers used by individual customers and will reinforce the trend to global capability centers (GCCs), some of which will manage a portfolio of service providers.

In addition, there is an increasing trend of establishing global capability centers by companies. Originally, it was only the larger corporations that had the desire, scale and brand recognition to establish GCCs in offshore locations, such as India. Even more, the infrastructure required — management that is knowledgeable about the local market, an ability to recruit and train, especially in the face of attrition of up to 30 percent, with a local facility with transport for employees, and a corporate structure that is tax compliant — has driven companies toward either large-scale captives or service providers. However, with the trends that have been described, establishment of GCCs is easier and increasingly common.



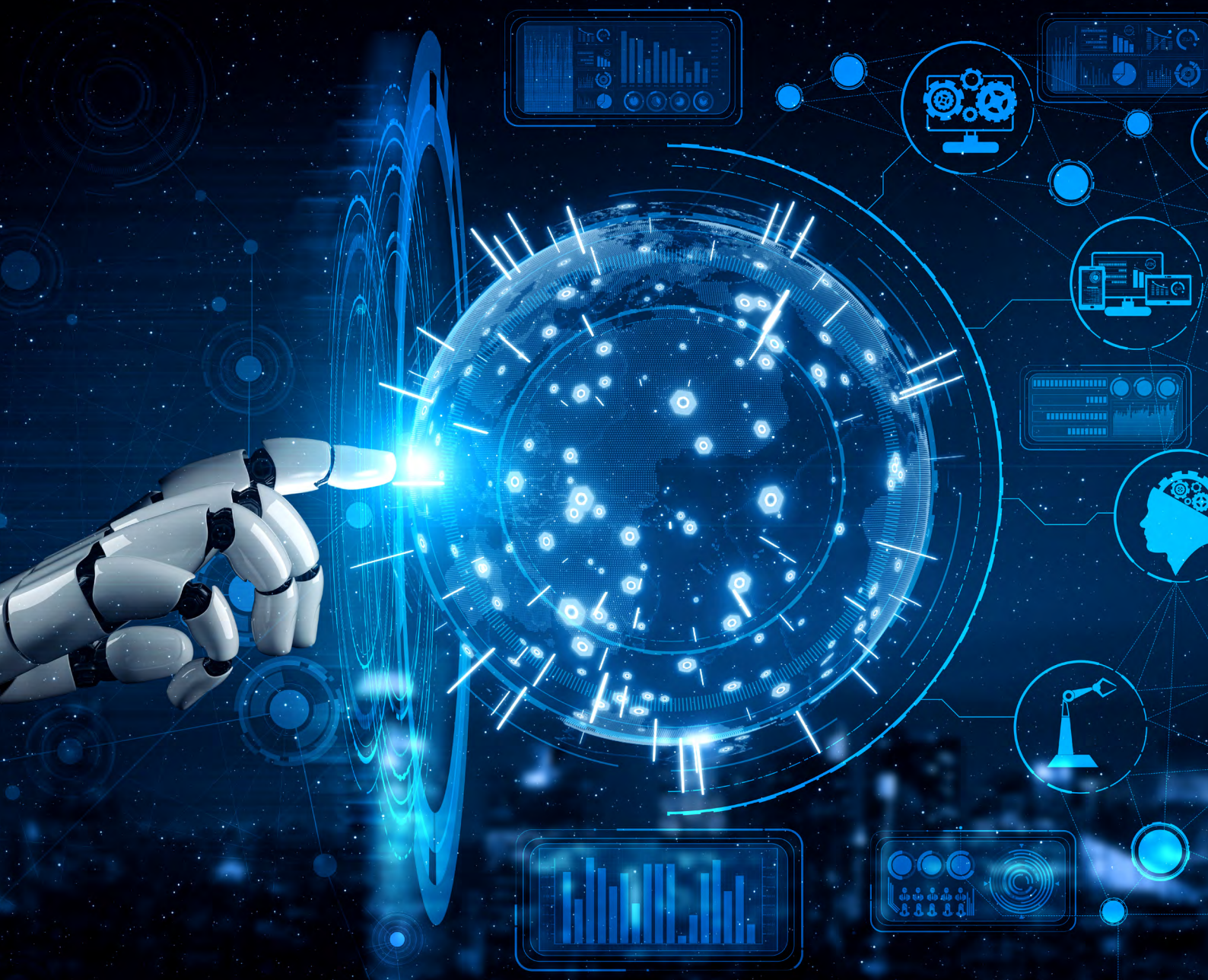
The growing trend to establish GCCs is now driving toward a mixed economy model, with a combination of onshore and offshore locations, as part of the customer's operations, together with the use of a broader range of service providers. The trend is further exacerbated by more and smaller locations, and contracts with several service providers that are of lower value and shorter duration. This will require increasing management effort to develop and implement a coherent strategy and manage the delivery model evolution over time. More effort will be required for vendor management, contracting, risk management and reporting, and it will require additional skills.

The trend to set up global capacity centers is pointing to a mixed economy model, combining onshore and offshore locations, with the use of more service providers.

Overall, the rapid development of technology and increasing prevalence of artificial intelligence are changing the delivery model landscape radically. The traditional, large-scale service providers are under an increasing threat from a changing landscape, greater usage of GCCs, and the rise of smaller, nimbler service providers. Customers are responding to the opportunities but they require considerable efforts to drive efficiency and cost savings with better service at lower risk. The changing environment makes it an ideal time to assess the opportunities in the market, including newly emerging, niche providers, establishing or strengthening global capability centers, and considering alternative locations. Alvarez & Marsal helps clients review the landscape to optimize their service delivery model and take advantage of new opportunities.



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