



Pillsbury | Global Sourcing

Realities of Outsourcing:

16th in a Series
of Webinar Presentations

Finance and Accounting Outsourcing

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Winthrop
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- FAO service offering
- FAO service provider landscape
- Value proposition
- Structuring a solution
 - ▶ Adopting the right operating model
 - ▶ Outsource first or transform first
 - ▶ Tools and technology enablers
 - ▶ India vs. Philippines
 - ▶ Bundling with other domains
 - ▶ Fee structures
- Lessons learned

Finance & Accounting Outsourcing

- Outsourcing of routine transactional financial activities which often include:
 - ▶ Accounts payable
 - ▶ Fixed assets
 - ▶ Financial administration

- However, companies are also outsourcing more strategic financial sub-processes:
 - ▶ Order to cash / accounts receivable
 - ▶ Treasury / cash management
 - ▶ General accounting

- Retained vs in-scope activities vary by the strategic content of the sub-process:

	Retained	Outsourced
Accounts Payables	5%	95%
Fixed Assets	30%	70%
General Accounting	30%	70%
Order to Cash	30%	70%
Financial Analysis	60%	40%
Cash Management	70%	30%

- Finance and Accounting outsourcing is a maturing service offering with a number of well qualified suppliers in the marketplace
 - ▶ FAO Today (faotoday.com) lists some 500 service providers in 10 different domains
- Finance and Accounting outsourcing, however, is behind the maturity curve of both IT and human resource outsourcing
- 2007 has seen a renewed level of client activity investigating Finance and Accounting outsourcing
- The service provider landscape offers a competitive market with a number of good service provider alternatives for clients considering FAO



■ Accenture (accenture.com)



- ▶ One of the top global FAO transformational service providers
- ▶ Has the ability to bundle with HRO, Procurement and Customer contact outsourcing
- ▶ Offers value added services like 'profit recovery and analytics' and others

■ ACS (acs-inc.com)



- ▶ Also a multi domain BPO service provider
- ▶ Offers the full range of F&A services – accounts payable, accounts receivable, billing, general accounting, treasury
- ▶ Dallas based, comes from an ITO heritage

■ Capgemini (capgemini.com)



- ▶ One of the large European FAO service providers
- ▶ Focusing on BPO in North America
- ▶ In the US market – historically have had success in bundled deals in niche industry verticals (utilities, manufacturing, etc.)

■ Genpact (genpact.com)



- ▶ Started in 1997 as GE's captive shared services center
- ▶ IPO on NYSE - Aug 2007
- ▶ Has a significant F&A client base

■ Hewlett-Packard (hp.com)

- ▶ One of the world's largest IT firms, has cautiously entered BPO market
- ▶ Has a limited number of marquee clients
- ▶ Appears to be selectively pursuing FAO deals



■ IBM (ibm.com)

- ▶ Offer full range of BPO services
- ▶ Has a truly global reach
- ▶ Has a large consulting division to support client short term requirements



■ Infosys (infosys.com)

- ▶ IT heritage, started as the outsourcing subsidiary of Infosys Technologies in 2002
- ▶ NASDAQ-traded company, offers full range of finance and accounting services
- ▶ Recent Philips win has positioned Infosys on the FAO map



■ Outsource Partners International (OPI) (opiglobal.com)

- ▶ Dedicated solely to F&A and tax outsourcing
- ▶ KPMG heritage, privately held, backed by Trident Capital and Cargill Ventures
- ▶ Significant focus on compliance, risk mitigation and Sarbanes Oxley



■ Vengroff, Williams & Associates (VWA) (vwainc.com)

- ▶ Leading provider of receivables management business process outsourcing
- ▶ Offers an alternative “Insource” solution (temp staffing)
- ▶ Has full range of third party collection services



■ Wipro (wipro.com)

- ▶ Global ITO provider
- ▶ Among the top 5 offshore BPO services provider in the world
- ▶ Offers a full range of finance and accounting solutions



■ WNS (wnsgs.com)

- ▶ British Airways heritage, global finance and accounting services provider
- ▶ Listed on NYSE
- ▶ Has a significant number of finance and accounting clients



Key business case drivers

- Use of offshore delivery centers and resources vs on-shore or near shore
 - ▶ European vs India / Philippines resource mix ratio's
 - ▶ Depends upon European language requirements
- Speed at which transition can be accomplished
 - ▶ One or two months of retained payroll has a significant impact on the business case
 - ◆ Knowledge transfer and training approaches vary by service provider
 - ◆ These have a direct correlation to speed of transition
 - ▶ Current level of centralized shared services
 - ◆ Higher levels of process centralization will typically be easier / faster to migrate
 - ▶ Level of automation
 - ◆ Higher levels of automation are also faster to migrate
- Ability of service provider to drive:
 - ▶ Transformation
 - ▶ Standardization
 - ▶ Process improvement (lean / six sigma)

Savings are significant and can range from 20 – 30% *

Structuring a solution – adopting the right operating model

- Finance & Accounting operating model can have many dimensions, but there are three major issues that must be addressed; the extent of –
 - ▶ Standardization
 - ▶ Centralization
 - ▶ Off-site support (i.e., shared services facilities)
- Absent a real commitment to accept a standardized solution, it is difficult for suppliers to achieve significant cost savings and process improvement
 - ▶ While our clients hardly ever indicate an unwillingness to standardize, actual performance is mixed and many failed FAO relationships are the result of clients who lacked the will power to impose a standard solution
- Centralization is not the same as standardization; within a standardized environment, operations can be centralized or decentralized
 - ▶ It is important to understand in which the direction the client is moving and ensure that the outsource supplier develops a solution consistent with that approach
- On the other hand, use of multi-skilled, off-site shared service facilities is often a necessary requirement for a successful FAO relationship
 - ▶ Clients who insist on significant on-site support, or include within the planned outsourcing scope services that cannot meaningfully be provided off-site, are not likely to achieve optimum results from an outsourced relationship

Structuring a solution - outsource first or transform first

■ Outsource and then Transform

- ▶ Drives speed to savings
- ▶ Variablizes cost to trend with business performance
- ▶ Less executive distraction
- ▶ Contractually committed savings and service levels
- ▶ Service provider drives transformation
- ▶ Service provider incentives for continuous improvement
- ▶ Major cultural shift - perceived loss of control, people impact
- ▶ Big decision – timeframes, value
- ▶ Radically different business model

■ Transform and then Outsource

- ▶ Keeps ‘low hanging fruit’ for client
- ▶ Contractually, much simpler to secure third party assistance (consulting contract)
- ▶ Client often comfortable when it is “in control” of the transformation
- ▶ Client may have better insight in what needs to be accomplished to achieve the necessary transformation
 - Avoids the need for knowledge transfer to a third party
- ▶ Training on the transformed processes may be easier since client has cadre of staff who worked on the transformation
- ▶ But, and this is the significant issue, may have higher risk of transformation failure (internally driven vs externally driven)

Structuring a solution - tools and technology enablers



- Service providers offer numerous technology enablers (by sub-process) that require careful evaluation of functionality and total cost of ownership when comparing solutions:
 - ▶ Non-process specific
 - ◆ Workflow tools (for approvals and assignment of work queues)
 - ◆ e-forms (often web based, useful for submitting requests)
 - ◆ Executive dashboards (online, web based reporting portals)
 - ▶ Accounts payable
 - ◆ Imaging tools (for paper invoices and other paper documents)
 - Alternatively, service providers leverage sub-contractors for imaging, scanning and record retention (Xerox, Iron Mountain, etc.)
 - ◆ e-Invoicing portals (Xign, OB10)
 - Can make a significant impact on paper / electronic invoice ratio's
 - Also drives supplier discounts for early payments
 - ◆ Vendor portals (for supplier registration, queries, etc.)
 - ▶ Order to cash / accounts receivable
 - ◆ Accounts receivable collection software (AvantGard GETPAID)
 - ▶ General accounting (including fixed assets)
 - ◆ Account reconciliation tracking tools
 - ◆ Reconciliation tools (rules based, automated matching tools
 - ideally suited for high transaction volume GL accounts)
 - ◆ Close tools
 - used to standardize, track and review activities related to the financial close process during each period

Service provider proprietary solutions have different end of term implications for clients than third party commercially available software

Structuring a solution - India vs. Philippines



- The Philippines is rising in attractiveness as an F&A offshore center

 Philippines	India 
Speak English well, with very little accent, <ul style="list-style-type: none"> - American English is the basic language in schools, government, business dealings, and everyday conversation - already understand much about U.S. culture 	Good English language skills, but accent neutralization required
94% literacy rate - a large talent pool	High education levels - large cadre of highly skilled MBAs and other graduates Attrition challenges are growing
Same Accounting Standards accepted by the US	Most large BPO providers have significant investments in facilities in India
Average salary - \$6,564/Year	Average salary - \$5,880/Year

Structuring a solution – bundling with other domains

Finance and accounting processes have a natural extension into other domains and can unlock additional value if leveraged

■ Finance and Accounting and HR:

- ▶ There are often technology and administrative overlaps
 - ◆ Organizational data and approval hierarchies
 - ◆ Time and expense management policies
- ▶ Payroll is frequently managed by HR but executed by accounting
- ▶ Time and expense reporting and management straddles both domains

■ Finance and Accounting and Procurement:

- ▶ Natural synergies exist in the procure to pay process
 - ◆ PO's are usually issued from the finance platform
 - ◆ Invoice discrepancies require procurement to resolve
 - ◆ Increased spend visibility from accounts payable can drive significant sourcing savings
 - ◆ Vendor master data is often managed by either domain

■ Finance and Accounting and IT:

- ▶ A company's IT footprint is usually heavily dominated by financial applications
- ▶ Bundling IT with the outsourced process may avoid duplication of effort and remove complexity from the governance process

Bundling benefits – like streamlined governance and simplified business processes should be evaluated against any cost / price trade-offs

Structuring a solution - fee structures

- Hybrid pricing structures (fixed plus variable) are becoming the ‘norm’
- Fixed price is more frequently seen where there are a high number of independent resource units (drives billing complexity) and where volume changes do not have a significant impact on the workload
 - ▶ General accounting
 - ▶ Fixed assets
 - ▶ Cash management
- Variable pricing is often used where work is directly driven by volume fluctuations
 - ▶ Accounts payable
 - ▶ Order to cash / accounts receivable
 - ▶ Typical resource units include invoices (electronic vs paper), customer credit checks, collection activities, etc.
 - ▶ Pricing based upon on a pre-determined volume within a “dead band”
 - ▶ Adds and deletes (ARC / RRC) outside of dead band to accommodate volume fluctuations and business cycles

- Executive, top-down sponsorship of the outsourcing program is required to drive the timeline and make culturally difficult scope decisions
 - ▶ There is often a natural tendency to exclude discrete “pockets of scope”
 - ▶ Internal resistance needs to be dealt with promptly

- Knowledge transfer (during transition) for strategic sub-process should be carefully planned:
 - ▶ Should include two month end closes and one quarter / year end close

- Effective transition is critical to the success of the outsourcing initiative - mobilize transition teams as early as possible:
 - ▶ Preferably during contract negotiations, pre-contract signing

- Ensure that your operating model
 - ▶ centralized/de-centralized, standardized/custom, shared-service facility/on-site supportIs aligned with
 - ▶ supplier’s service delivery model, scope of the sourcing relationship, pricing structure



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Questions and Answers