



**Finance & Accounting Outsourcing (FAO)
Market Update: March 2007 – Preview Deck**

Topic: Technology Innovation in FAO

The Finance and Accounting Outsourcing (FAO) market has transformed over the last two years, experiencing close to 100% growth during this period, with further double-digit growth anticipated for the next two years as the market begins to reach maturity. This continued growth is driven by customer success stories, aggressive supplier investments in developing F&A process capabilities and a global footprint, and an increased willingness for organizations to transform their F&A process to take advantage of the business benefits and lower costs of global sourcing.

With today's FAO suppliers all demonstrating proven capability to deliver cost savings, the onus is quickly moving toward the innovation and process excellence buyers can achieve when transitioning to an outsourced F&A environment. Technology is recognized as a lever to deliver continuous innovation and improvement in FAO. These technology requirements become significantly more complex as companies add higher business-impact F&A functions to the outsourcing mix.

In this research study, we investigate the impact technology innovation can and will play in driving incremental value from FAO. The objective of the study was to investigate the provision, development, and deployment of technology solutions that augment an ideal end-state for adopters of outsourced F&A offerings.

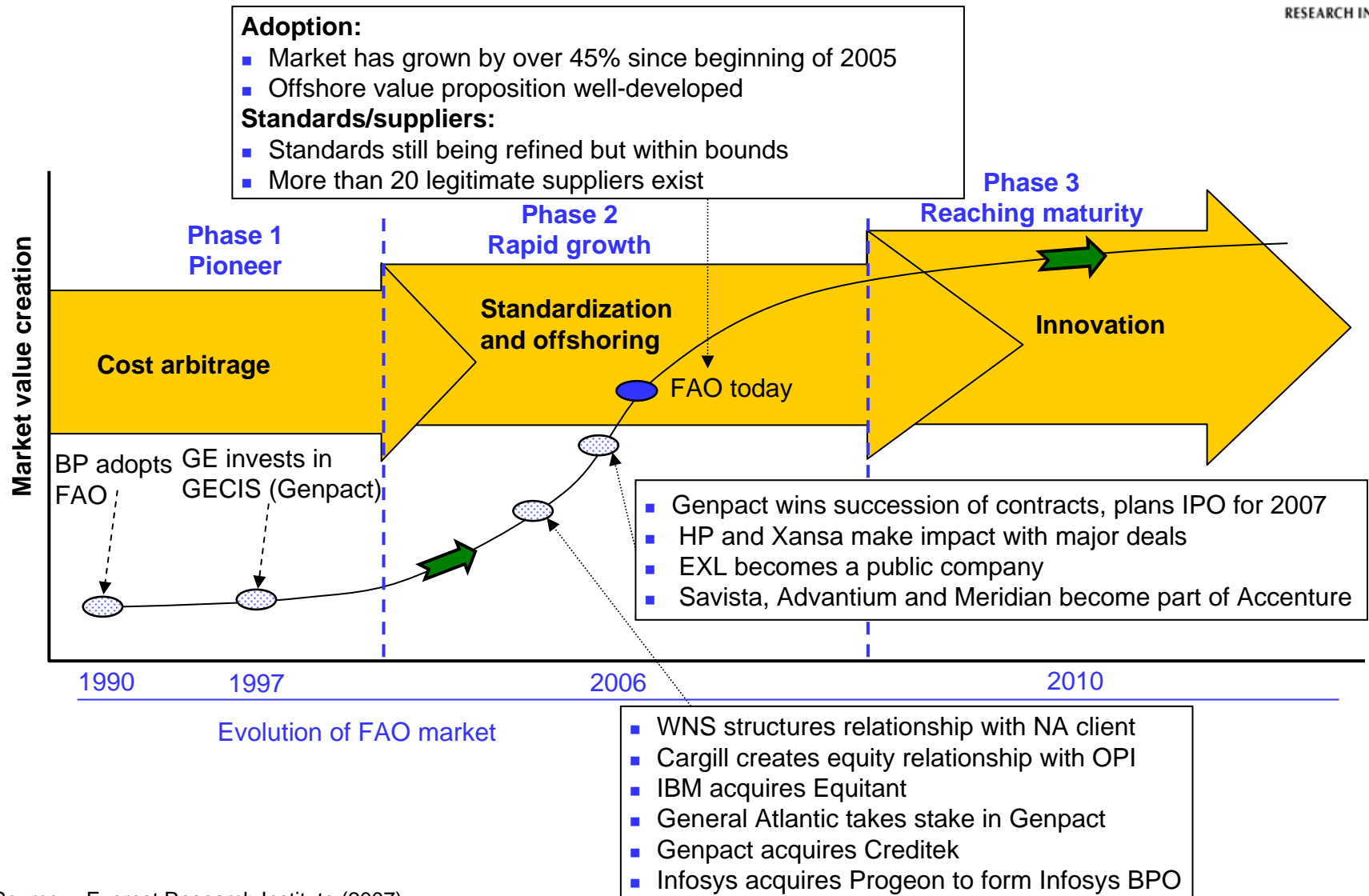
The research is based on three key information sources:

- Proprietary Everest database with 160 multi-process FAO contracts
- Focused interviews with 15 leading FAO suppliers – Accenture, ACS, Capgemini, Convergys, EDS, EXL, Genpact, HP, IBM, Perot Systems, Infosys BPO, Intelenet, VWA, Wipro, and WNS
- Executive level interviews with post-transaction FAO buyers

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The FAO market is moving towards innovation with technology as a major enabler

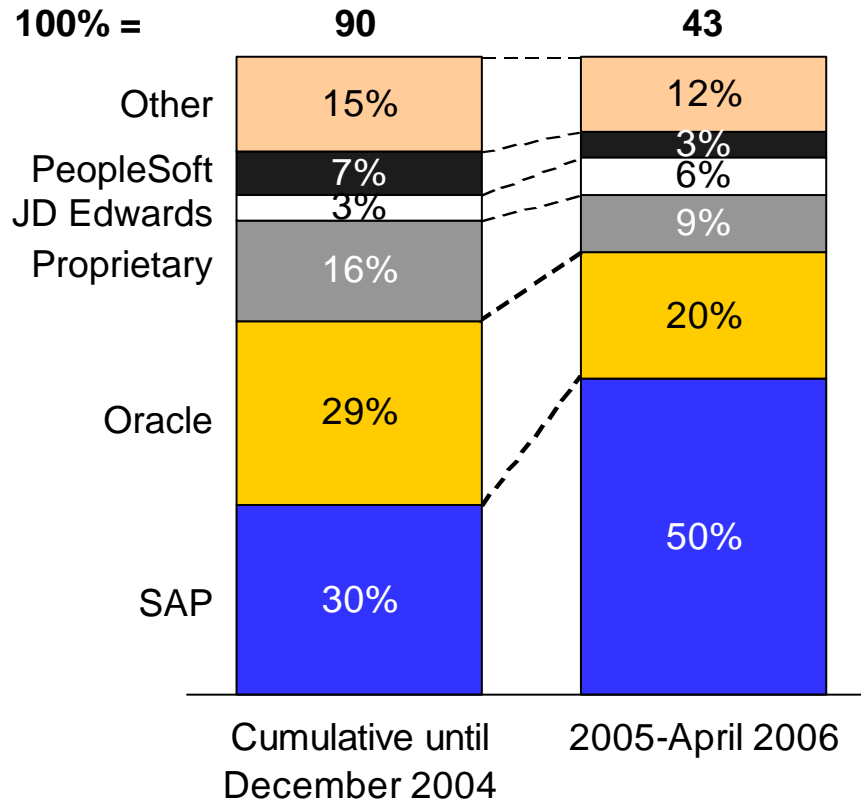


Source: Everest Research Institute (2007)

Most FAO buyers use an ERP platform as the core F&A system

Market share of core F&A systems in FAO contracts

Number of contracts



Sample size: 133 contracts signed as of April, 2006

Assumption: For contracts involving more than one technology solution, all the solutions have been credited equally

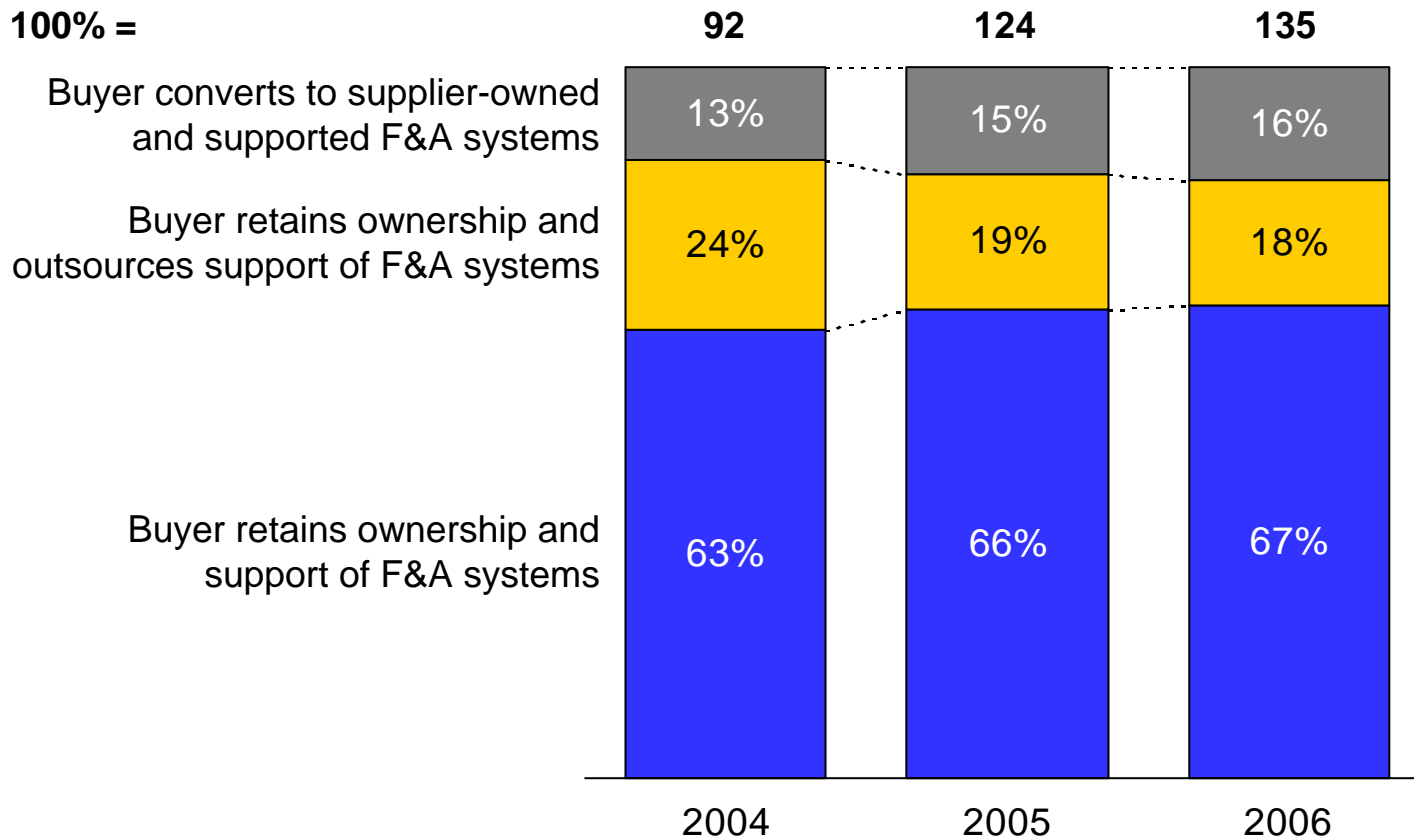
Source: Everest Research Institute (2007)

In nearly 85% of the FAO contracts, the buyer retains ownership of existing F&A systems

Share of FAO contracts by various level of technology usage

Number of contracts

100% =



Sample size: 135 contracts signed as of April 2006

Source: Everest Research Institute (2007)

Buyers have resisted to relinquish control over their F&A technology for several reasons

Sunk Cost Investment

- Buyers, particularly large-cap firms, made significant investments in i) F&A systems for Y2K, SOX and other regulatory concerns and ii) ERP systems. Buyers expect to achieve major process and cost-efficiency gains so they are reluctant to give up on these major investments prematurely

Supplier Control Assurance

- Buyers do not have confidence in suppliers' regulatory control compliance. Completion of SAS 70 and SysTrust audits are considered inadequate. Full assurance can only be achieved by i) having the firm's external auditors attest to the supplier's controls or ii) accommodating the requirement via SLAs such that vendors are legally bound to comply or face the risk of contract termination

In-House management positioning

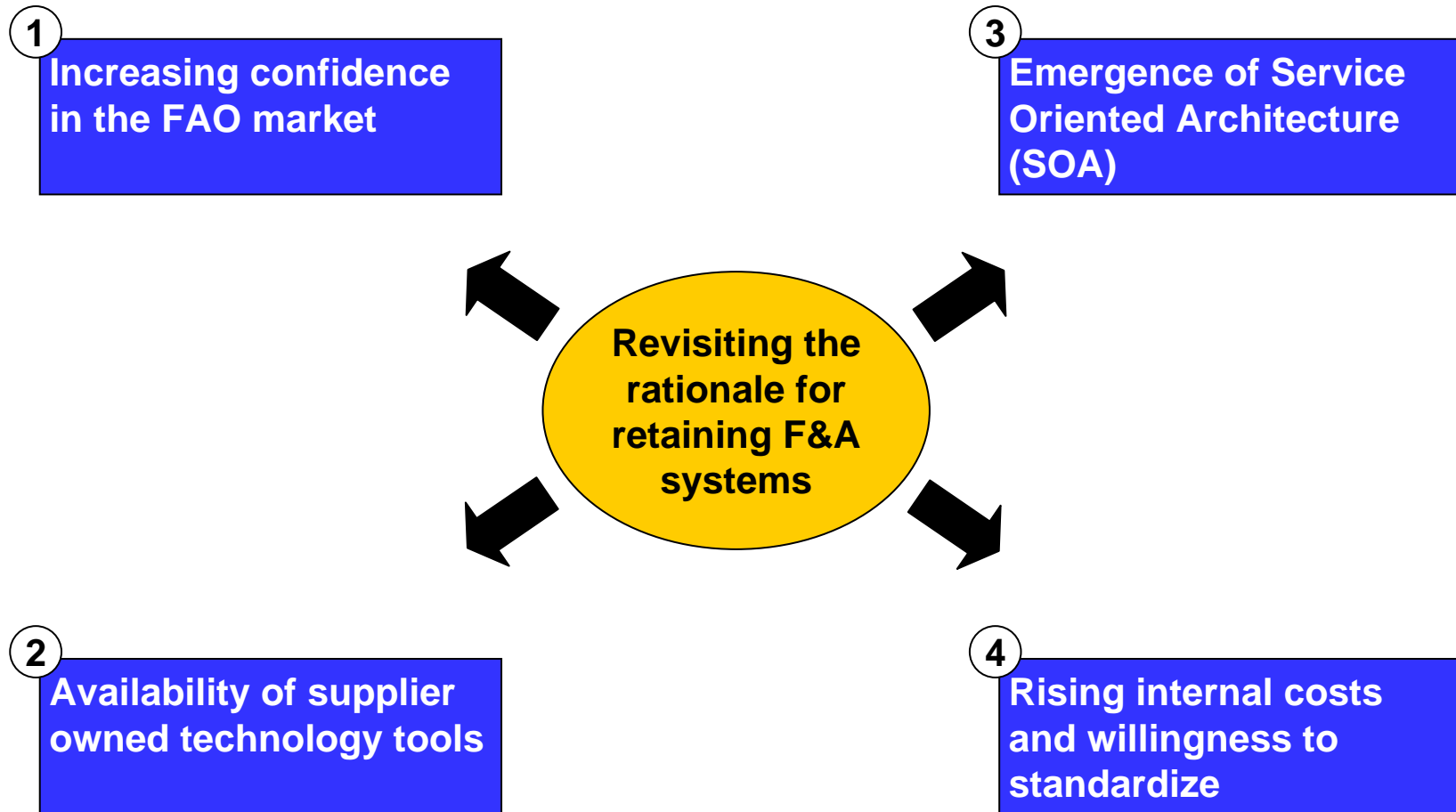
- The 1990s experienced a dramatic increase in the number of Fortune 500 companies adopting a shared-services model in order to reduce costs. With a shared-services model, all of a company's financial data is stored in one application. This data originates from one source, eliminating consolidation errors and greatly reducing the time it takes to close the books. Companies want to complete this management positioning before entertaining an outsourced management model

Risk

- Finance systems are tied to every other system and process within a company and are extremely difficult to replace. Moreover, the cost of errors in financial data and financial systems is significant, tangible, and highly visible

Source: Everest Research Institute (2007)

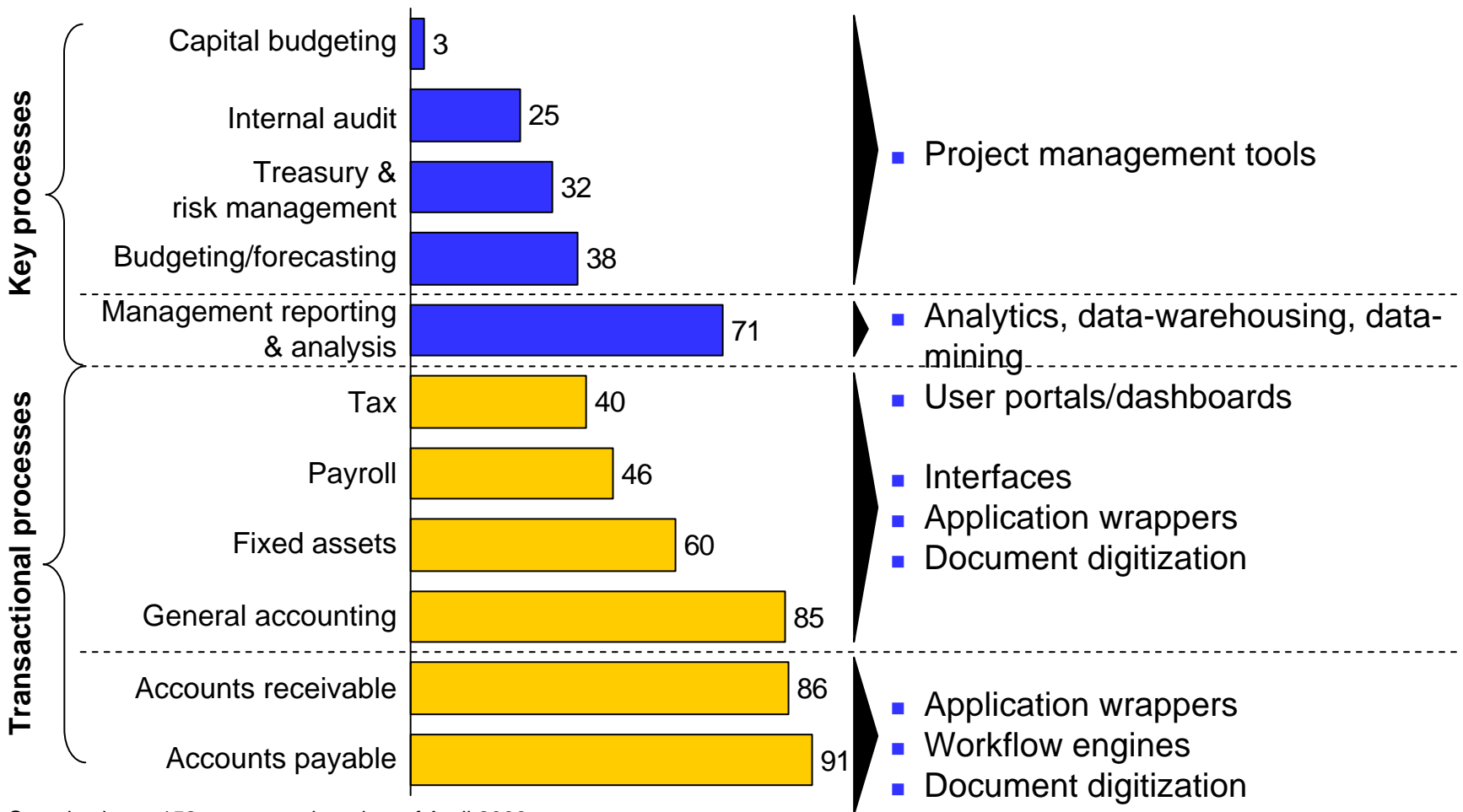
However, several factors contribute to buyers revisiting the rationale for retaining their F&A systems



Technology is becoming a solution lynchpin behind FAO deals

Frequency of inclusion of F&A processes in FAO contracts

Percentage



Sample size: 152 contracts signed as of April 2006

Source: Everest Research Institute (2007)

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