



Finance and Accounting Outsourcing (FAO) Annual Report 2015 – Generating Value through Innovation

Finance and Accounting Outsourcing (FAO)
Annual Report: July 2015 – Preview Deck

Our research offerings for global services

▶ Market Vista™

Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available

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▶ BFSI¹ Business Process

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▶ Finance & Accounting

▶ Procurement

▶ Human Resources

▶ Recruitment Process

▶ Contact Center

▶ Transaction Intelligence

Custom research capabilities

- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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 - **Finance & Accounting Outsourcing (FAO)**
- In addition to published research, a subscription may include analyst inquiry, data cuts, and other services
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¹ Banking, financial services, and insurance

Background and methodology of the research

Background of the research

The FAO market is approaching maturity with growth rates tapering to ~6%. This is also evident from the increasing share of renewals in the market activity. With maturity, the buyer expectations have become more value-centric instead of pure labor arbitrage-driver. As a result, the FAO contractual characteristics are evolving to include technologies such as Robotics Process Automation (RPA), predictive & prescriptive analytics, judgment-oriented processes, and hybrid pricing models.

In this study, we analyze the R2R BPO market across various dimensions:

- Market overview and buyer adoption trends
- Impact of changes in FAO value proposition on contractual characteristics
- Service provider landscape
- Future outlook for the FAO market

Scope of the study and methodology of this report include:

- Third-party FAO deals
- Over 900 multi-process FAO deals signed as of 2014 with a minimum of two F&A processes, over US\$1 million in ACV
- Coverage across 20+ FAO service providers with multi-process capability, including Accenture, Capgemini, Cognizant, Datamatics, Dell, EXL, Genpact, HCL, HP, IBM, IGATE, Infosys, IQ BackOffice, Minacs, Quattro, Serco, Sutherland Global Services, Tech Mahindra, TCS, Wipro, WNS, Xchanging, and Xerox
- Global survey and one-on-one executive-level buyer interviews to understand how organizations perceive their FAO engagements

Key exclusions

Shared services / Global In-house Centers (GICs)

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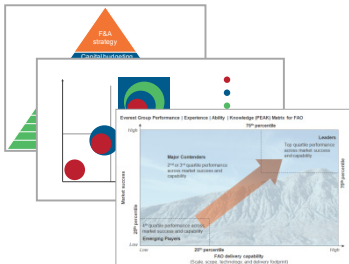
Our research methodology is based on four pillars of strength to produce actionable and insightful research for the industry

- Market thought leadership
- Actionable and insightful research
- Syndicated and custom research deliverables

1

Robust definitions and frameworks

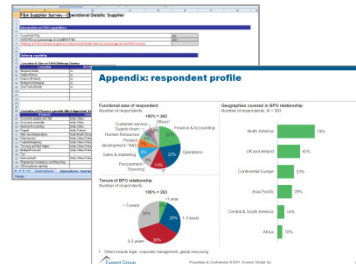
(F&A pyramid, multi-process FAO definition, TVE – Total Value Equation, PEAK Matrix, market maturity)



2

Primary sources of information

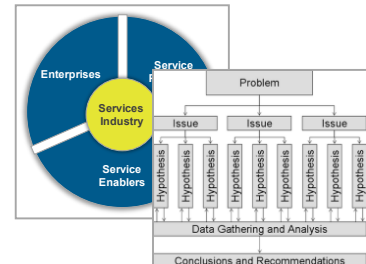
(Annual contractual and operational RFIs, service provider briefings and buyer interviews, Web-based surveys)



3

Diverse set of market touchpoints

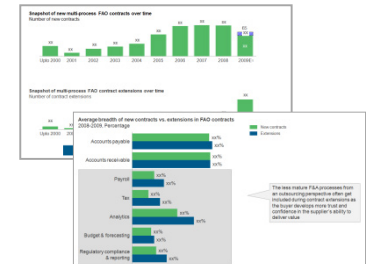
(Ongoing interactions across key stakeholders, input from a mix of perspectives and interests, supports both data analysis and thought leadership)



4

Fact-based research

(Data-driven analysis with expert perspectives, trend-analysis across market adoption, contracting, and service providers)



- Proprietary contractual database of over multi-process 900 FAO contracts (updated annually)
- Year-round tracking of 20+ FAO service providers
- Large repository of existing research in FAO
- Dedicated team for FAO research, spread over two continents
- Over 20 years of advising clients on FAO-related decisions
- Executive-level relationships with buyers, service providers, technology providers, and industry associations

This report is based on three key sources of proprietary information

- 1 • Proprietary database of **850+ active multi-process FAO contracts** (updated annually)
- The database tracks the following elements of each multi-process FAO contract:
 - Buyer details including industry, size, and signing region
 - Contract details including Total Cumulative Value (TCV), Annualized Contract Value (ACV), term, start date, service provider FTEs, and pricing structure
 - Scope including buyer geography and functional activities
 - Technology including core F&A technology and tools provided by the service providers (if any), ownership, and maintenance
 - Global sourcing including delivery locations and level of offshoring
 - Sourcing process including sole-sourced, competitive, advisor, or non-advisor led

- 2 • Proprietary database of the **operational capability of 20+ FAO service providers** (updated annually)
- The database tracks the following capability elements for each service provider
 - Key leaders
 - Major FAO clients and their recent wins
 - Overall revenue and F&A employees
 - Recent F&A-related developments
 - FAO delivery locations
 - FAO service suite
 - Quality certifications and credit rating
 - F&A-related technological capabilities

- 3 **Buyer surveys and interactions**
- Global survey and one-on-one executive-level interviews to understand how organizations perceive the performance of their FAO provider. The survey/interviews focused on different aspects of an outsourcing relationship, including:
 - Contract details (including process scope, contract signing year, and duration)
 - Overall performance of the service provider, including key strengths and improvement areas
 - Key objective of outsourcing F&A
 - Detailed assessment of service provider performance across different elements such as:
 - ♦ Performance against key FAO metrics
 - ♦ Performance in F&A processes
 - ♦ Performance during the implementation and transition phases
 - ♦ Governance and relationship management

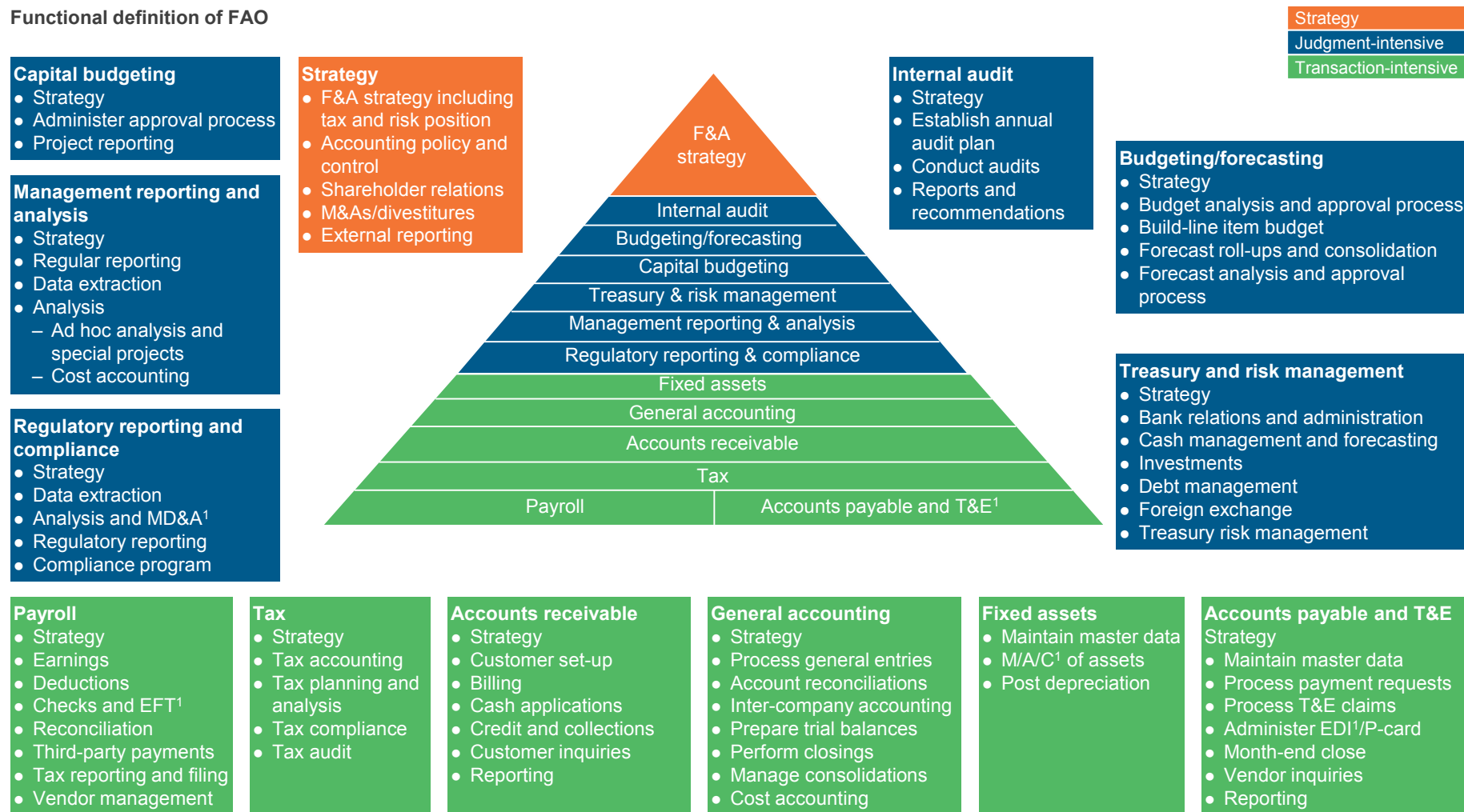
Service providers covered in the analysis



Confidentiality: Everest Group takes its confidentiality pledge very seriously. Any information we collect that is contract specific will only be presented back to the industry in an aggregated fashion

Traditionally, FAO has been primarily limited to a function-focused definition

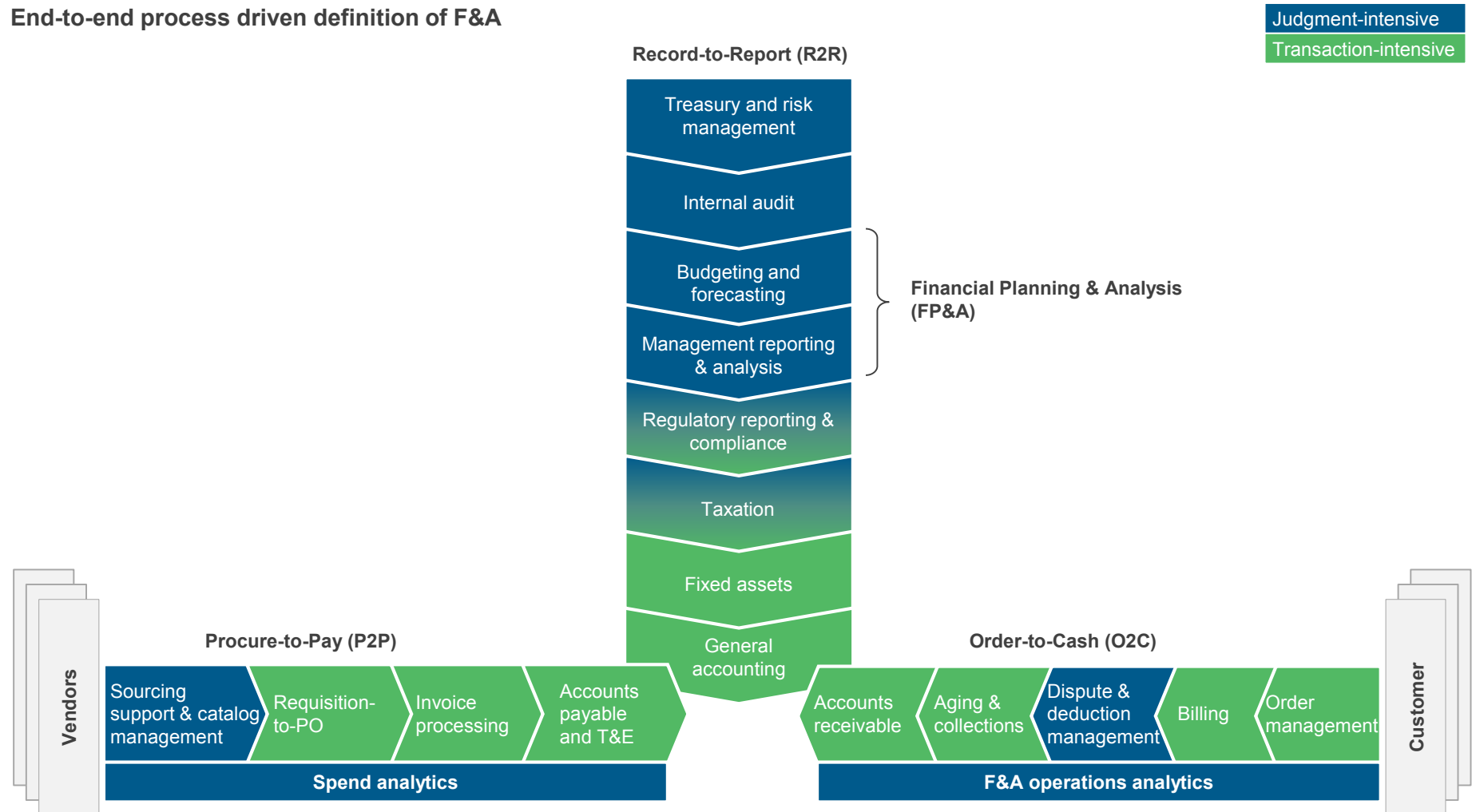
Functional definition of FAO



¹ Defined in appendix

However, an end-to-end process driven approach is emerging that focuses on consistency, delivery, and enterprise-wide integration

End-to-end process driven definition of F&A



Overview and abbreviated summary of key messages

(page 1 of 2)

This report is meant to provide FAO buyers, service providers, and third-party enablers (technology vendors, investment firms, etc.) a detailed view of the current state of affairs of the market. As part of this, the current report provides insights on market growth and activity, adoption trends, key changes in the contractual characteristics (in terms of technology, analytics, global sourcing, process scope, geographic scope, and pricing). It also throws light on the landscape in terms on service provider market share and investment trends.

Some findings of the report:

Market overview and buyer adoption trends

- The FAO market is reaching maturity with its growth tapering to ~6%, compared to double digit growth a just few years back
- Renewals now command a lion's share of the FAO market activity – another sign of increasing maturity
- After a spike in 2013, contract termination rate has moderated in 2014
- Growth is coming from new buyer segments:
 - Emerging markets, such as Asia Pacific and Middle East & Africa
 - Smaller organizations, i.e., Small-to-Medium Business (SMB), and mid-market
 - Industries such as healthcare, retail, and hi-tech & telecom

Overview and abbreviated summary of key messages

(page 2 of 2)

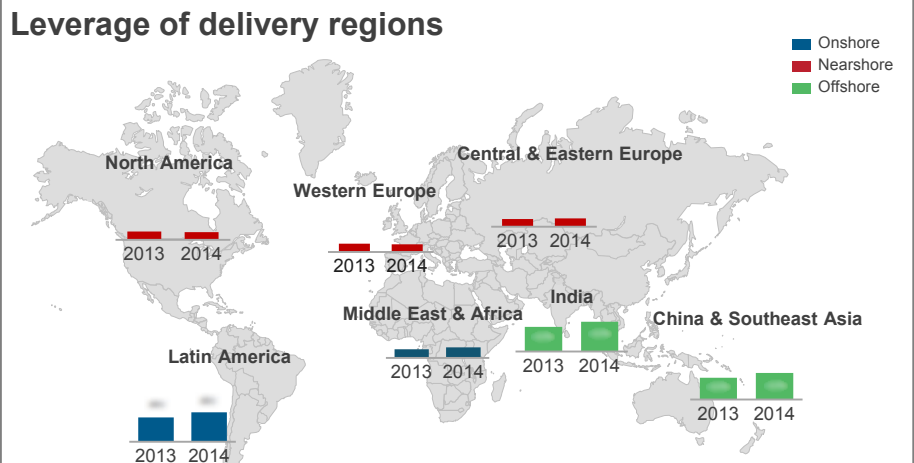
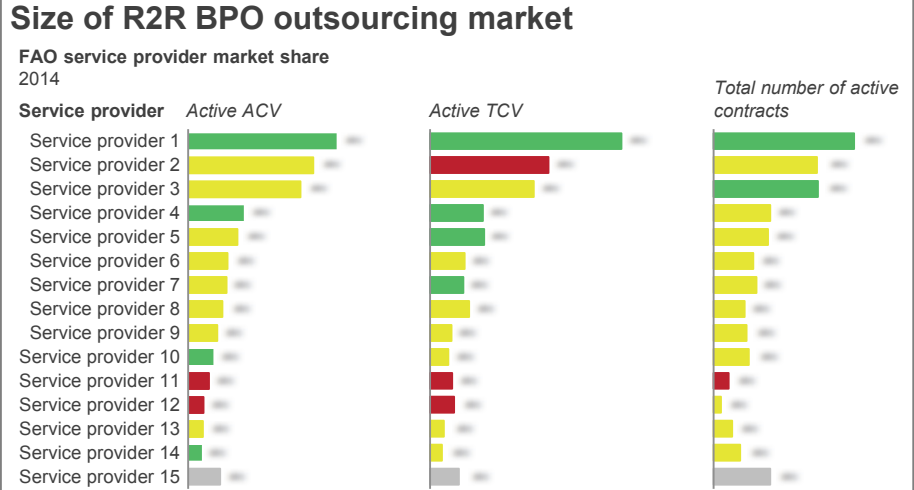
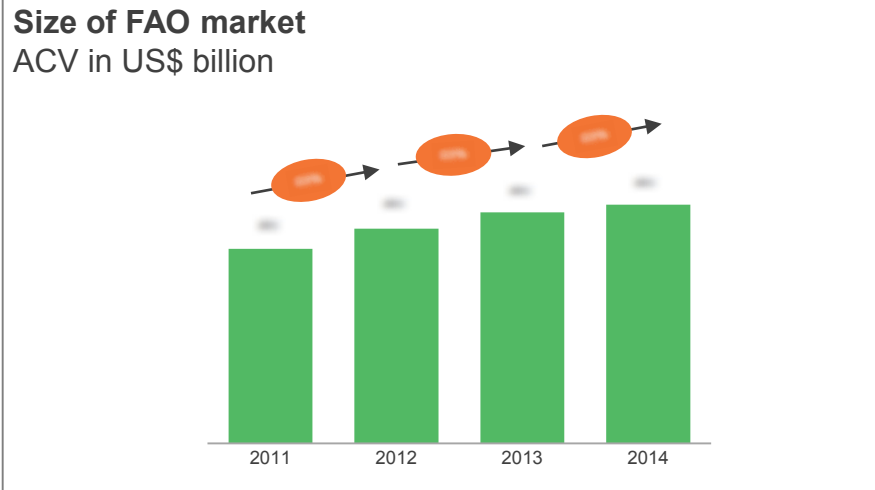
Impact of changes in FAO value proposition on contractual characteristics

- Value proposition of labor arbitrage is commoditized (though still important)
- New value levers are increasingly centered around technology, Robotic Process Automation (RPA), process transformation, and analytics
- Traditionally, a year-on-year productivity commitment has been a norm. However, buyers are increasingly asking and pushing for automation-related benefits to leap-frog on the productivity aspect
- Analytics beyond Financial Planning & Analysis (FP&A) is becoming an important component in the contracts for better monitoring and control
- The contractual scope is increasing in terms of both processes as well as geographies being served
- With increasing pricing pressure from the buyers, global sourcing is on a rise
- With an increased focus on output and outcome, hybrid pricing models are playing a more important role than they did in the past

Service provider landscape

- The top five service providers comprise nearly two-third of the FAO market
- The service providers are increasingly investing in technology solutions and process expertise in order to meet the evolved expectations of the buyers
- An increasingly larger proportion of these investments leverage partnerships, especially with the technology vendors

The report provides a detailed overview of the market including market activity, adoption trends, and changes in contractual characteristics



Source: Everest Group (2015)

FAO research calendar

Published Current

Topic	Release date
Augmenting the FAO Technology Landscape	November-2014
Finance and Accounting Outsourcing (FAO) – Service Provider Profile Compendium 2014	December-2014
Order-to-Cash (O2C) BPO – Service Provider Landscape with PEAK Matrix™ Assessment 2014	December-2014
Record-to-Report (R2R) BPO – Service Provider Landscape with PEAK Matrix™ Assessment 2015	January-2015
Creating a Leaner Accounts Payable (AP) Organization	February-2015
Convergence of Finance & Accounting, Procurement, and Supply Chain Management Functions	February-2015
Analytics Business Process Services (BPS) – Service Provider Landscape with PEAK Matrix™ Assessment 2015	February-2015
Reinventing Business Process Services (BPS) – Leveraging Technology to Deliver on New Expectations	March-2015
Service Delivery Automation (SDA) – The Business Case for Robotic Process Automation in Finance and Accounting	March-2015
Technology in BPS – Service Provider Profile Compendium 2015	June-2015
Finance and Accounting Outsourcing (FAO) Annual Report 2015 – Generating Value through Innovation	July-2015
Service Provider Technology Landscape – The Pecking Order	Q3-2015
FAO – Service Provider Landscape with PEAK Matrix Assessment 2015	Q3-2015
FAO – Service Provider Compendium 2014	Q3-2015
Service provider switching in FAO – a disruptive trend re-shaping the FAO market	Q4-2015
Technology innovation in FAO	Q4-2015

Additional FAO research references

The following documents are recommended for additional insight on the topic covered in this report. The recommended documents either provide additional details on the topic or complementary content that may be of interest

1. **Service Delivery Automation (SDA) – The Business Case for Robotics Process Automation (RPA) in Finance** ([EGR-2015-1-R-1402](#)); 2015. This report examines the market that is broadly referred to as “Service Delivery Automation” (SDA) and its subset, Robotics Process Automation (RPA). It covers overview of process automation technologies, market drivers for RPA adoption, and cost implications of RPA when applied to F&A
2. **Record-to-Report (R2R) R2R BPO – Service Provider Landscape with PEAK Matrix™ Assessment** ([EGR-2015-1-R-1365](#)); 2015. This report examines the dynamics of global R2R BPO service provider landscape and its impact on the R2R BPO market. We focus on the position of the 20 FAO service providers on the Everest Group PEAK Matrix™ for R2R BPO. Additionally, it provides details of the various solution characteristics of this market

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