



Finance and Accounting Outsourcing (FAO) Annual Report 2016 – Evolving from “Cost Center” to “Strategic Business Partner”

Finance and Accounting Outsourcing (FAO)
Annual Report: December 2016 – Preview Deck

Our research offerings for global services

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▶ PricePoint™

▶ BFSI¹ Business Process

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▶ Application & Digital

▶ Recruitment & Talent Acquisition

▶ Cloud & Infrastructure

▶ Contact Center

▶ Global Sourcing

▶ Service Optimization Technologies

▶ Locations Insider™

▶ 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

Subscription information

- The full report is included in the following subscription(s)
 - **Finance & Accounting Outsourcing (FAO)**
- In addition to published research, a subscription may include analyst inquiry, data cuts, and other services
- **If you want to learn whether your organization has a subscription agreement or request information on pricing and subscription options, please contact us**



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¹ Banking, financial services, and insurance

Background and methodology of the research

Background of the research

With stabilizing demand & market shares and a tapering down in yearly revenue growth, the FAO market has been exhibiting characteristics of a mature market. However, the year 2015 appears to be an exception to this general maturing trend, with the FAO market registering accelerated growth, supported both by new contractual activity as well as renewals. The value proposition continues to evolve, with high traction for automation and analytics-based insights and expectations from providers to address the major pain-points of the CFO's office. Moreover, the top FAO service providers have been successful in consolidating their positions and market shares.

In this study, we analyze the global multi-process FAO market in 2015 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 1,000+ multi-process FAO deals signed as of 2015, with a minimum of two F&A processes, and over US\$1 million in ACV
- Coverage across 25+ FAO service providers with multi-process capability including Accenture, Aegis, Arvato, Capgemini, Cognizant, Datamatics, Dell, EGS, EXL, Genpact, HCL, HPE, Hexaware, IBM, Infosys, IQ BackOffice, Minacs, Quattro, Serco, Sutherland Global Services, TMF Group, TCS, Wipro, WNS, Xchanging, and Xerox
- Global surveys 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)

Table of contents (page 1 of 2)

Topic	Page no.
Introduction and overview	6
Executive summary of the report	13
Section I: Market overview and buyer adoption trends	15
• Summary	16
• Market size and growth	17
• Contractual activity	18
• Growth drivers	19
• Adoption trends by:	
– Buyer industry	21
– Buyer size	22
– Buyer geography	23
• Buyer satisfaction results for FAO services	24
Section II: Impact of changes in FAO value proposition on contractual characteristics	26
• Summary	27
• Changes in FAO value proposition	29
• Impact on contractual characteristics:	31
– Technology	32
– Analytics	37
– Process scope	39
– Global sourcing	41
– Pricing	43

Table of contents (page 2 of 2)

Topic	Page no.
Section III: Service provider landscape	45
• Summary	46
• Service provider landscape and categorization	47
• Service provider market share	48
• FAO-focused investments	49
• Service provider market share by industry	51
• Service provider market share by geography	52
• Everest Group PEAK Matrix – 2016 FAO market standing	53
Section IV: Future outlook for the FAO market	55
Appendix	58
• Everest Group’s definitions of solution categories	59
• List of publicly-announced FAO contracts	63
• Glossary of terms	66
• FAO research calendar	68
• References	69

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 1,000+ multi-process FAO contracts (updated annually)
- Year-round tracking of 25+ 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 **1,000+ 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 Finance & Accounting (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 25+ 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 surveys and one-on-one executive-level interviews to understand how organizations perceive the performance of their FAO provider. The surveys/interviews focused on the 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

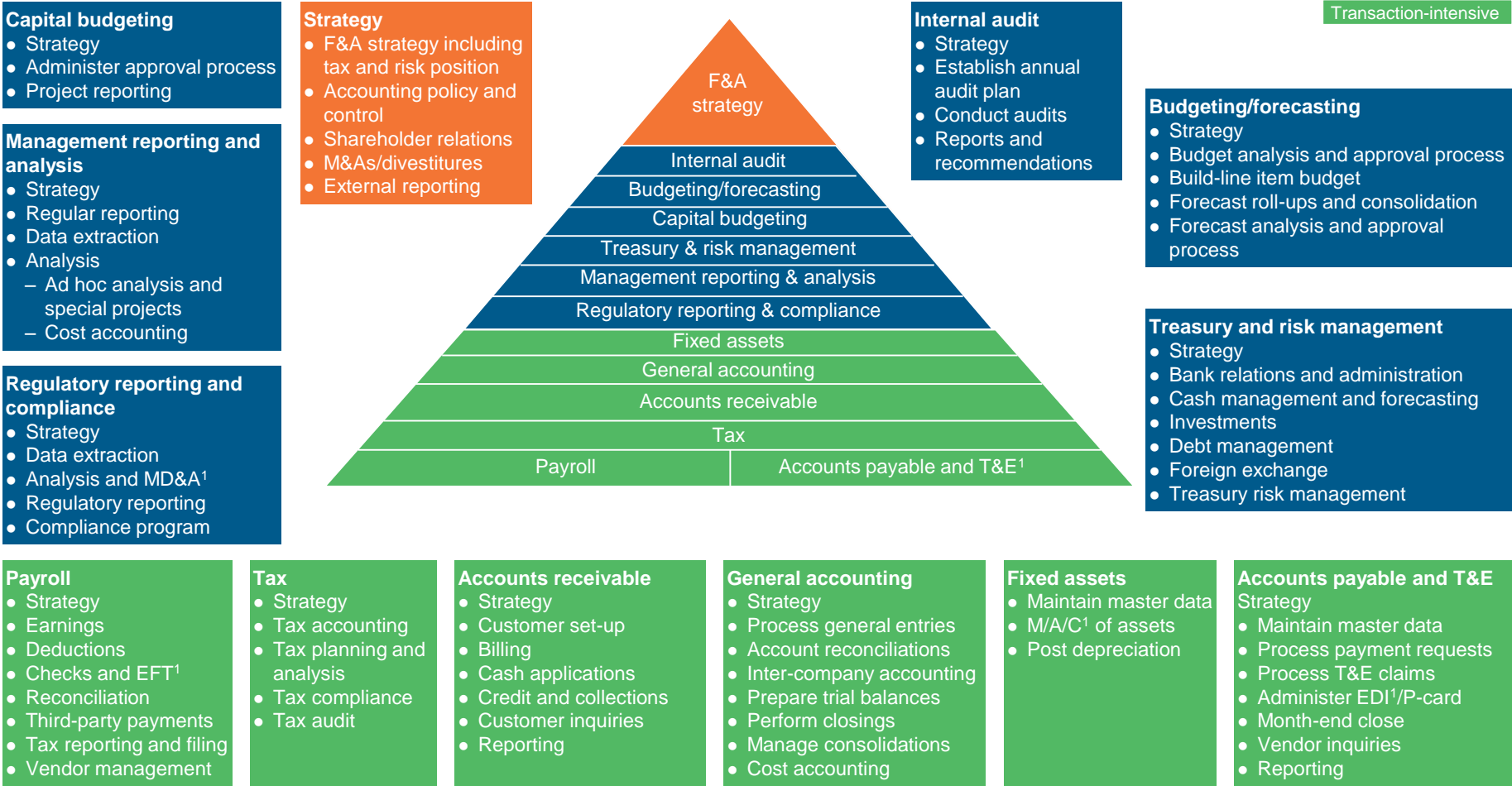


Confidentiality: Everest Group takes its confidentiality pledge very seriously. Any contract-specific information collected will only be presented back to the industry in an aggregated fashion

1 Based on data corresponding to pre-acquisition analysis by CSC

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

Functional definition of FAO

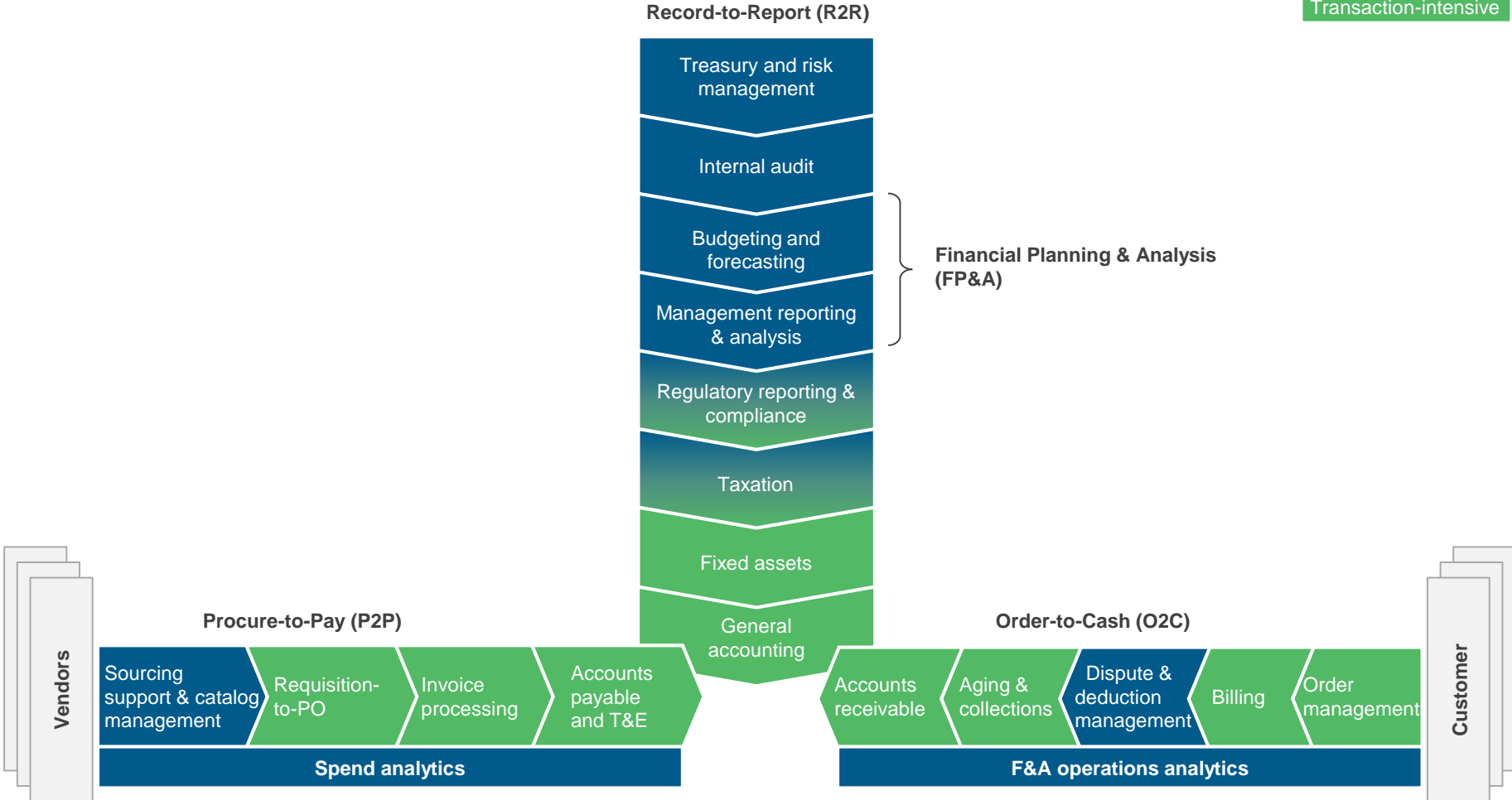


¹ Defined in appendix

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

Judgment-intensive
Transaction-intensive



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 into market growth & activity, adoption trends, buyer satisfaction results, and key changes in the contract characteristics (in terms of technology, analytics, global sourcing, process scope, and pricing). It also throws light on the landscape in terms of service provider market share and investment trends.

Some findings of the report:

Market overview and buyer adoption trends

- Though exhibiting characteristics of a maturing market, the FAO market grew at an accelerated pace of 7%+ in the year 2015
- Renewals continue to be the major driver of the FAO market growth, supported by a spurt in new contractual activity
- Contract terminations have stabilized over the last few years, driven by increased provider focus to retain existing clients
- The traditional sectors of manufacturing and financial services continue to register robust demand, though with an overall declining share
- SMB and mid-market buyer segments are driving the new contractual activity
- North America leads the FAO market growth, along with a spurt in demand from the UK market
- Besides cost reduction, buyers attach high importance to process improvement and business outcome-driven insights from their service providers

Overview and abbreviated summary of key messages

(page 2 of 2)

Impact of changes in FAO value proposition on contractual characteristics

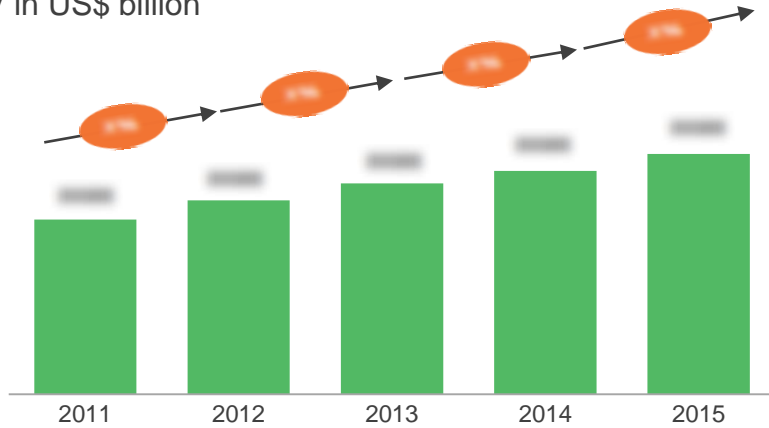
- Value proposition of labor arbitrage is commoditized (though still important)
- New value levers are increasingly centered around technology, RPA, process transformation, analytics-driven insights, and ability to address the pain-points of the CFO's office
- With high traction for RPA solutions, especially among mature buyers, some of the providers are now focused on developing the next-generation technologies with cognitive capabilities
- Operational analytics has registered steady demand across industries to help improve the core operations
- Inclusion of judgment-intensive processes, especially during the renewal phase, is resulting in contractual scope becoming highly end-to-end in nature
- Providers are striving to achieve a balanced onshore-nearshore-offshore delivery mix
- Output- and outcome-based pricing models are being leveraged in combination with FTE-based constructs, to better align buyer objectives with those of the service provider, and include appropriate incentives and penalties for each party

Service provider landscape

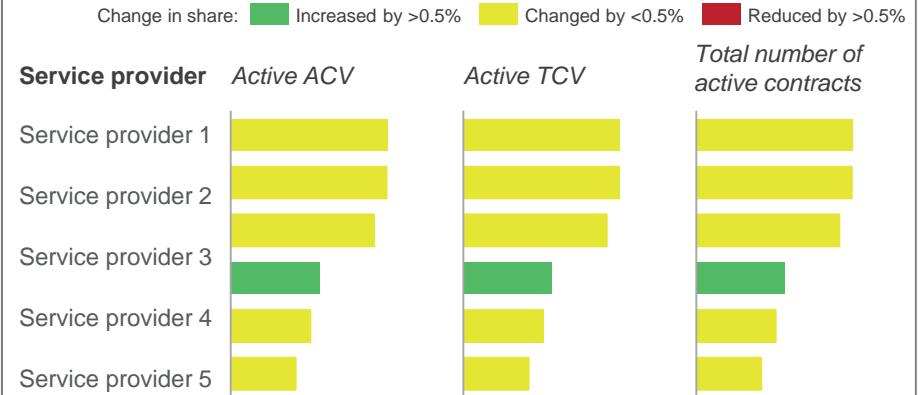
- The top five service providers have consolidated their position in the market and comprise nearly two-thirds of the FAO market
- The service providers' investments are primarily targeted towards developing/improving their capabilities related to technology, delivery presence, and domain- and process-expertise
- Partnership route to gaining new capabilities, especially related to technology/tools, is gaining share in the overall pie of investments

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

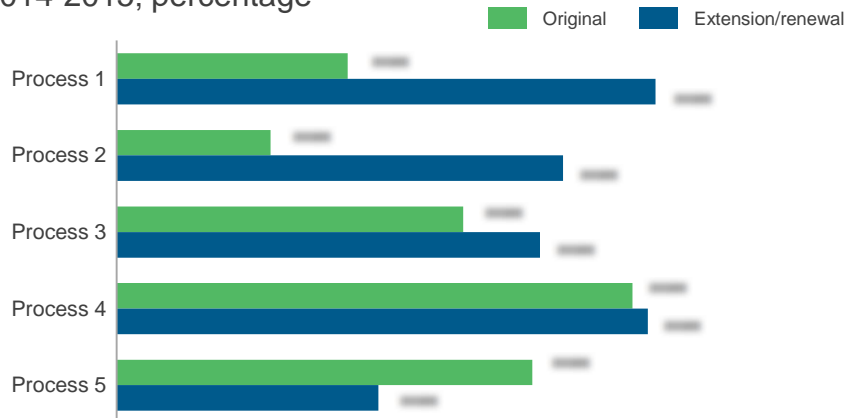
Size of FAO market
ACV in US\$ billion



FAO service provider market share 2015; percentage



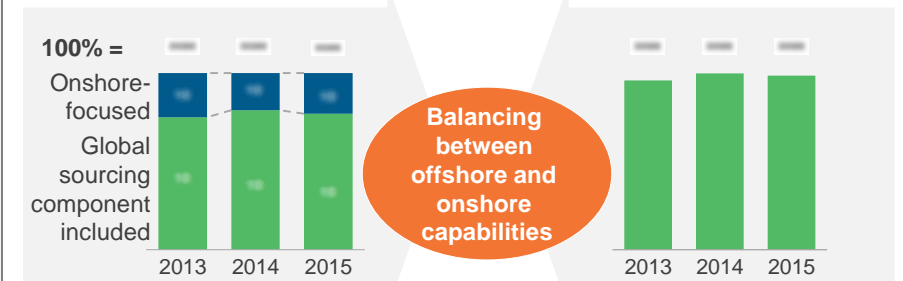
Frequency of inclusion of F&A process by contract type
2014-2015; percentage



Delivery mix in FAO contracts

Distribution of FAO contracts by delivery location
Number of new contracts

Average percentage of offshore delivery
Average percentage of new/renewed/extended contracts



Source: Everest Group (2016)

FAO research calendar

■ Published ■ Current

Topic	Release date
Finance and Accounting Outsourcing (FAO) – Service Provider Profile Compendium 2015	December 2015
Dual-pronged Technology Investments Emerging as the Key to Success in FAO	January 2016
Clever Machines at Your Service	February 2016
Pulling the Right Levers in a Hyper-Competitive FAO Market	March 2016
Analytics BPS – Analytics Goes Mainstream – Scope Expands Beyond Traditional Clients and Offerings	March 2016
Webinar Deck: Service Delivery and Demand Dynamics in Latin America	March 2016
Heralding a New Era of Transformative Business Process Services through Technology	April 2016
FAO – Service Provider Landscape with PEAK Matrix™ Assessment 2016	June 2016
Outsourcing Judgment-oriented processes - the new horizon?	December 2016
Finance and Accounting Outsourcing (FAO) Annual Report 2016 – Evolving from “Cost Center” to “Strategic Business Partner”	December 2016
Technology in BPS - Service Provider Compendium 2016	Q1 2017
FAO – Service Provider Compendium 2016	Q1 2017
Finance of the Future	Q1 2017
R2R Technology Landscape	Q1 2017

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. **Analytics Business Process Services (BPS) – Service Provider Landscape with PEAK Matrix™ Assessment 2016** ([EGR-2016-10-R-1751](#)); 2016. This report provides insights into the global analytics business process services (BPS) market and examines the service provider landscape and its impact on the market. It focuses on service provider position & growth in the market, changing market dynamics & emerging service provider trends, and assessment of service provider delivery capabilities
2. **Finance and Accounting Outsourcing (FAO) – Service Provider Landscape with PEAK Matrix™ Assessment 2016** ([EGR-2016-1-R-1814](#)); 2016. This report uses Everest Group's proprietary PEAK Matrix to assess and rate service providers on various dimensions of their capabilities. It also discusses key emerging trends of a maturing FAO market along with a concise and fact-based assessment of the strengths and areas of improvement of 26 major FAO service providers
3. **Outsourcing Judgment-Oriented Processes - the New Horizon?** ([EGR-2016-1-V-2011](#)); 2016. In this report we identify and analyze the major drivers of demand for judgment-oriented processes, and the investments service providers are making to drive growth in a maturing and hyper-competitive market. Multiple factors driving the growth in adoption of judgment-intensive processes include increasing buyer maturity levels, end-to-end process-driven approach towards FAO, advances in technology, and demands from the CFO's office

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About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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