



# **Finance and Accounting Outsourcing (FAO) Annual Report – 2018: Reimagining Finance through Technology**

Finance and Accounting Outsourcing (FAO)

Annual Report – December 2017: Complimentary Abstract / Table of Contents

# Our research offerings for global services

## ▶ Market Vista™

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

## ▶ Application Services

## ▶ BPS | Banking Financial Services

## ▶ BPS | Healthcare & Life Sciences

## ▶ BPS | Insurance

## ▶ Catalyst™

## ▶ Cloud & Infrastructure

## ▶ Contact Center

## ▶ Digital Services

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## ▶ Locations Insider™

## ▶ PricePoint™

## ▶ Procurement

## ▶ Recruitment & Talent Acquisition

## ▶ Service Optimization Technologies

## ▶ Transaction Intelligence

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\* Banking, financial services, and insurance

## 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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# This report is based on three key sources of proprietary information

1

- Proprietary database of **1,150+ 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 will only be presented back to the industry in an aggregated fashion

# Traditionally, FAO has been limited to transaction-intensive processes with labor arbitrage being the key driver behind outsourcing

## Functional definition of FAO

### Capital budgeting

- Strategy
- Administer approval process
- Project reporting

### Management reporting and analysis

- Strategy
- Regular reporting
- Data extraction
- Analysis
  - Ad hoc analysis and special projects
  - Cost accounting

### Regulatory reporting and compliance

- Strategy
- Data extraction
- Analysis and MD&A<sup>1</sup>
- Regulatory reporting
- Compliance program

### Strategy

- F&A strategy including tax and risk position
- Accounting policy and control
- Shareholder relations
- M&As/divestitures
- External reporting

### Internal audit

- Strategy
- Establish annual audit plan
- Conduct audits
- Reports and recommendations

Strategy

Judgment-intensive

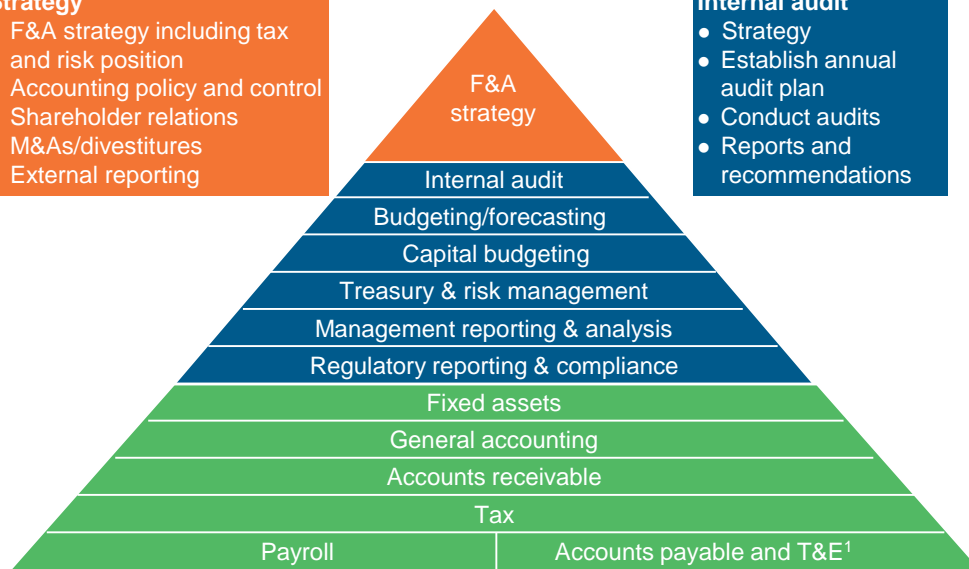
Transaction-intensive

### Budgeting/forecasting

- Strategy
- Budget analysis and approval process
- Build-line item budget
- Forecast roll-ups and consolidation
- Forecast analysis and approval process

### Treasury & risk management

- Strategy
- Bank relations and administration
- Cash management and forecasting
- Investments
- Debt management
- Foreign exchange
- Treasury risk management



### Payroll

- Strategy
- Earnings
- Deductions
- Checks and EFT<sup>1</sup>
- Reconciliation
- Third-party payments
- Tax reporting and filing
- Vendor management

### Tax

- Strategy
- Tax accounting
- Tax planning and analysis
- Tax compliance
- Tax audit

### Accounts receivable

- Strategy
- Customer set-up
- Billing
- Cash applications
- Credit and collections
- Customer inquiries
- Reporting

### General accounting

- Strategy
- Process general entries
- Account reconciliations
- Inter-company accounting
- Prepare trial balances
- Perform closings
- Manage consolidations
- Cost accounting

### Fixed assets

- Maintain master data
- M/A/C<sup>1</sup> of assets
- Post depreciation

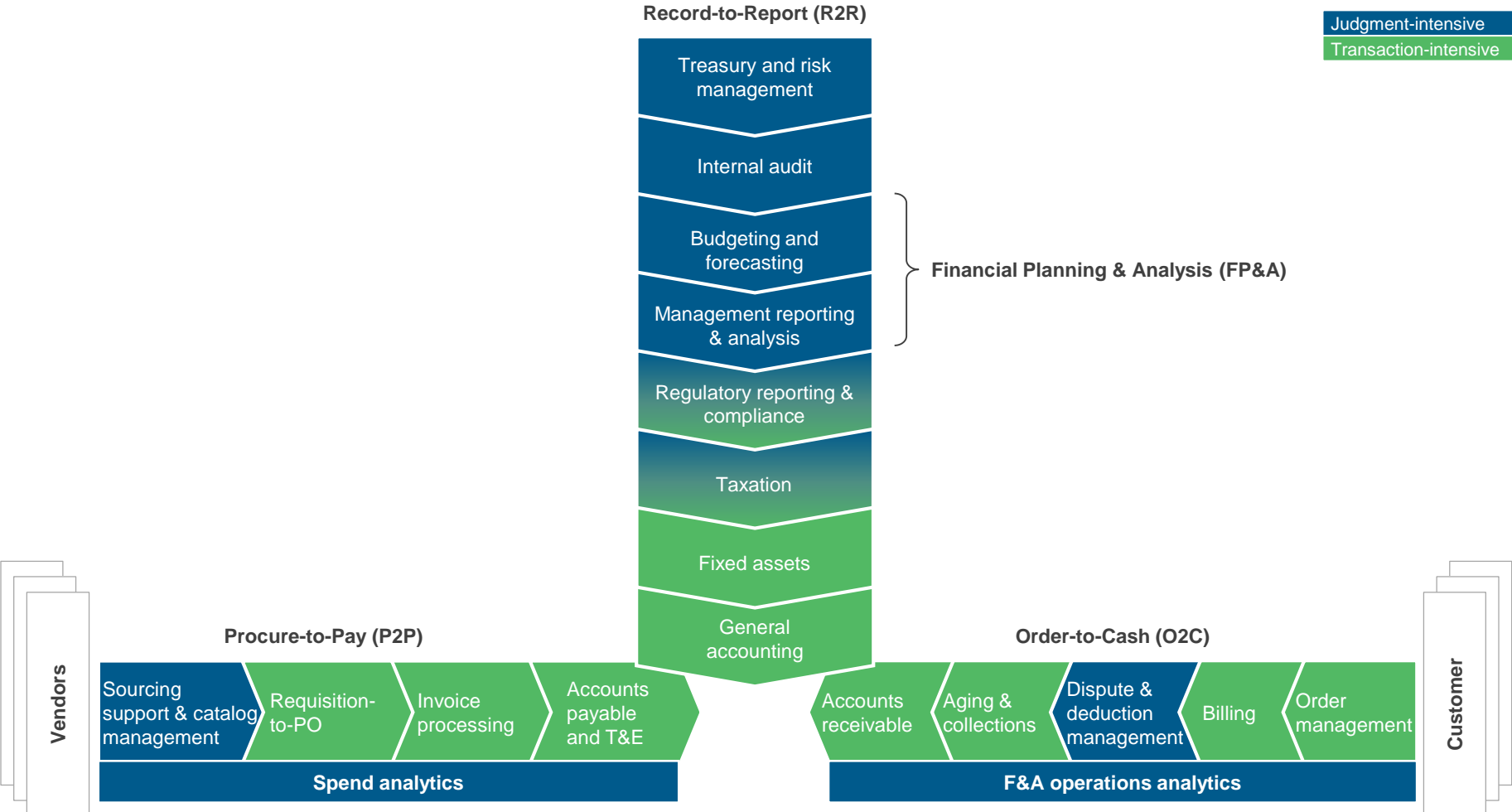
### Accounts payable and T&E

- Strategy
- Maintain master data
- Process payment requests
- Process T&E claims
- Administer EDI<sup>1</sup> /P-card
- Month-end close
- Vendor inquiries
- Reporting

<sup>1</sup> Defined in Appendix

# However, more judgment-intensive processes with end-to-end process driven approach has evolved with development in technologies and providers' capabilities

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 the market. As part of this, the current report provides insights into market growth, contractual activity trends, buyer adoption trends, insights from buyer satisfaction surveys. This report focuses on next-generation technology levers that service providers are investing in, to provide digital-led transformation solutions. It also addresses the changing service provider landscape in terms of mergers and acquisitions, spin-offs, and change in ownerships as the industry is going through a shift in era

**Some of the findings in this report, among others, are:**

## The FAO market overview

- The global FAO market witnessed strong growth of 8-10% in 2016 to reach US\$6.4 billion in annual size
- Expectation of immediate outcomes, unwillingness to commit for a longer term, and lower switching costs resulted in shorter engagements and increased service provider switching

## Buyer adoption trends

- Degree of offshoring witnessed a decline; onshore contracts saw an increase primarily due to demand for closer oversight, as more complex processes are being outsourced
- Buyers are comfortable in outsourcing end-to-end and more judgment-intensive processes right at the outset, because of visible success of peers and service providers' robust digital capabilities



## Value proposition and solution dynamics

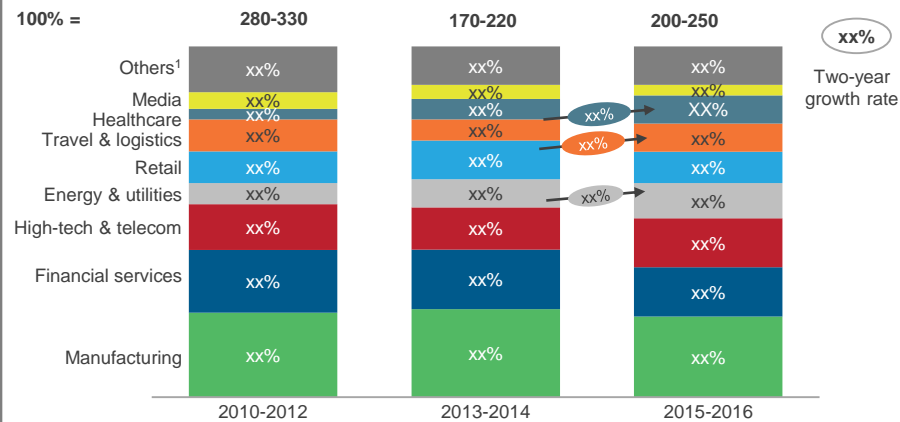
- Buyers, who are into their second-generation FAO relationships, have already achieved most of the traditional advantages of outsourcing and are looking for additional benefits through next-generation technologies
- Business Process as-a-Service (BPaaS) or cloud-based solutions are expected to grow gradually in the near-term and more rapidly in long-term through SMB and mid-market adoption
- With significant development in best-in-class third-party technologies and exponential increase in buyers' demands, service providers are going for partnership-based technology solutions
- Service providers have started to recognize the need to combine different digital levers such as AI, automation, and analytics to form a smart ecosystem of solutions to achieve digital transformation

## Service provider landscape

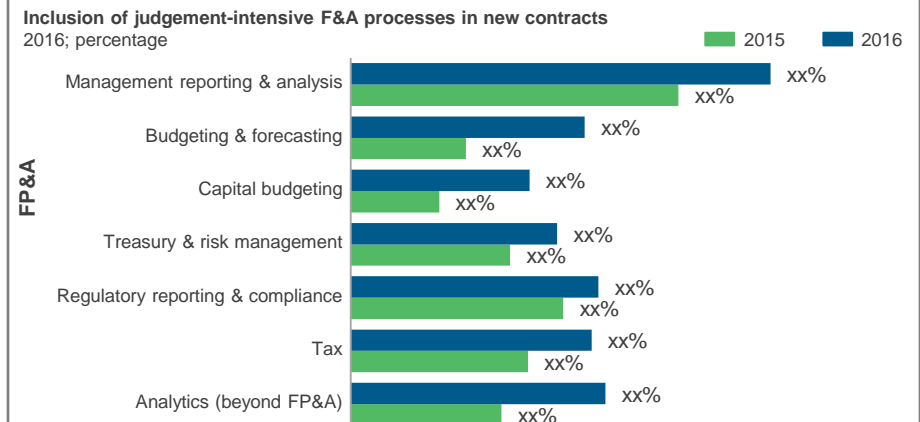
- Accenture, Arvato, Genpact, and IBM dominate the overall global FAO market with nearly 50% of the total market share
- While service providers with regional focus are dominating in their focused regions (e.g., Arvato, TMF Group), global leaders dominate in most of the geographies
- To survive the current evolution, service providers are adopting inorganic approach to fill capabilities gap and to reduce time-to-market

# The report provides a detailed overview of the FAO market including market activity, adoption trends, changes in value proposition, and next-generation F&A levers

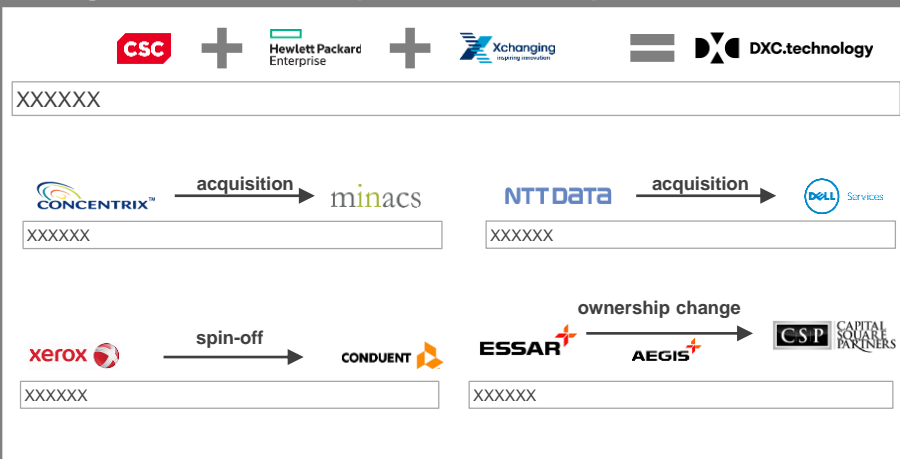
## FAO adoption by buyer industry



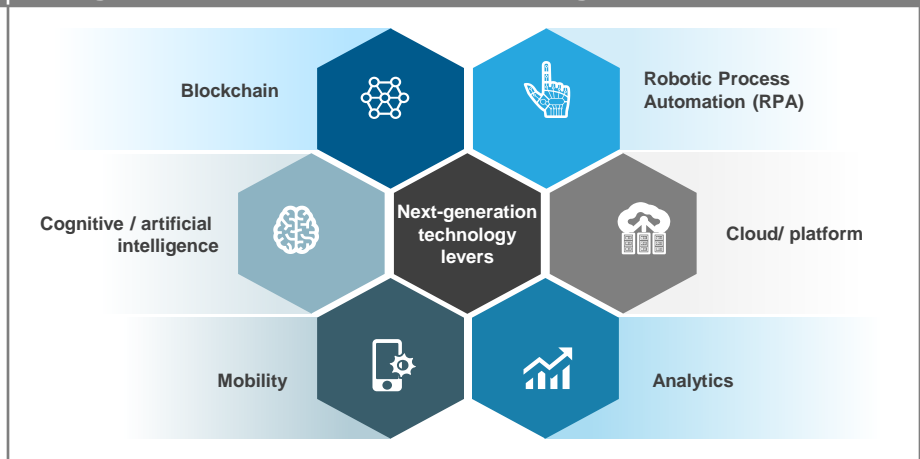
## Process scope



## Changes in FAO service provider landscape



## Next-generation F&A levers to enable digital-led transformation



Source: Everest Group (2017)

# FAO research calendar

Published
  Planned
  Current release

## Flagship FAO reports

Release date

Procurement Outsourcing (PO) Annual Report – 2017: Leap toward Digital Transformation .....	July 2017
BPS Delivery Automation (BPSDA) – State of the Market Report 2017 .....	November 2017
Finance and Accounting Outsourcing (FAO) – Service Provider Landscape with PEAK Matrix™ Assessment 2017.....	November 2017
<b>Finance &amp; Accounting Outsourcing (FAO) Annual Report 2018 – Reimagining Finance through Technology .....</b>	<b>December 2017</b>
Finance & Accounting Outsourcing (FAO) Service Provider Profile Compendium – 2018 .....	Q1 2018

## Thematic FAO reports

Finance of the Future: Driving Business Results Through a Finance & Accounting Orchestration (FAO) Model .....	May 2017
R2R Technology: Enabling a New Level of Effectiveness and Efficiency: The End of the Month-End Fire Drill .....	May 2017
3PL or 4PL: An Increasingly Complex Decision .....	June 2017
Delivering Business Outcomes via Smarter Order-to-Cash (O2C): Cash is Still King, but Put it to Work .....	July 2017
Blockchain in F&A – identifying possibilities and challenges .....	Q1 2018
FAO Viewpoint: Finance on the cloud .....	Q1 2018
Finance & Accounting Outsourcing (FAO) Buyer Report – Leading pain points and satisfaction level of FAO buyers .....	Q2 2018
Growth and Impact of Cognitive / Artificial Intelligence in Finance and Accounting Outsourcing (FAO) .....	Q3 2018
Fulfilling the Promise of RPA in Finance & Accounting – A Reality Check .....	Q3 2018

Note: For a list of all FAO reports published by us, please refer to our [website page](#)

# Additional FAO research references

The following documents are recommended for additional insight into 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. Finance and Accounting Outsourcing (FAO) – Service Provider Landscape with PEAK Matrix™ Assessment 2017**  
([EGR-2017-1-R-2412](#)); 2017. This report examines the dynamics of the global FAO service provider landscape and its impact on the FAO market. Based on the comprehensive Everest Group PEAK Matrix, each of the 25 FAO service providers are segmented into Leaders, Major Contenders, and Aspirants. The report also provides key insights into service provider position & growth in the market, changing market dynamics, and assessment of service provider delivery capabilities. It will assist key stakeholders (service providers, buyers, and technology vendors) understand the current state of the FAO service provider landscape
- 2. Finance of the Future: Driving Business Results Through a Finance & Accounting Orchestration (FAO) Model**  
([EGR-2017-1-V-2150](#)); 2017. In this report, we examine how organizations can leverage new value creation levers such as Service Delivery Automation (SDA), analytics, cognitive intelligence, cloud computing, and mobility to achieve “best-in-class” F&A processes
- 3. Delivering Business Outcomes via Smarter Order-to-Cash (O2C)**  
([EGR-2017-1-V-2246](#)); 2017. This report examines how organizations can leverage some of the key technological capabilities and best practices such as advanced analytics, data management, tools such as automation, reporting, mobility, cognitive, blockchain and BPaaS solutions, to transition towards an overall smarter O2C process

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