

Finance and Accounting Outsourcing (FAO) State of the Market Report 2022: Growth and Opportunity in the Digital Era

January 2022: Complimentary Abstract / Table of Contents



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Tracking: service providers, locations, risk, technologies

Locations: costs, skills, sustainability, portfolios

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Background of the research

While the COVID-19 pandemic disrupted the finance and accounting outsourcing market, the industry proved to be quite resilient and is, in fact, projected to grow significantly over the next few years. As the market is seeing increased openness among organizations to engage with third parties for new F&A initiatives and expanding scope, activity is expected to regain to pre-COVID-19 levels post 2020, especially as service providers start taking on the role of a strategic partner in buyers' transformation priorities.

Buyer expectations are also evolving, with rapid shifts in key focus areas and increasing investment in outsourcing judgment-intensive processes, ESG-related initiatives, and support services across GBSs and shared services operations. Service providers are also reevaluating their talent strategy and governance / delivery models to cater to newer demands. The need for developing robust talent management strategies, along with employee upskilling/reskilling and recruitment activities, is also rising. The digital ecosystem is also undergoing a significant evolution, with heightened demand for digital in F&A outsourcing contracts, and is likely to accelerate further in the next normal. Partnerships and M&As in this space, digital assets orchestration, and development of BPaaS offerings are on the rise.

This research provides comprehensive coverage of the FAO market in 2020 and analyzes it across various aspects including regional variations, buyer adoption trends, growth drivers, and digital trends in finance and accounting.

In this study, we investigate the state of the FAO market. We focus on:

- Key emerging F&A trends
- Evolving digital ecosystem in F&A
- FAO market overview
- FAO buyer trends
- Service provider landscape for the FAO market

Scope of this report:



Geography
Global



Service providers
Information about 28 leading FAO service providers across the globe has been leveraged for this study

Overview and abbreviated summary of key messages

This research provides comprehensive coverage of the FAO market in 2020 and analyzes it across various aspects including regional variations, service provider landscape, changing market dynamics, buyer adoption trends, and emerging growth drivers in finance and accounting. It also captures the pulse of the market on key themes shaping the FAO market in the future and the evolving digital ecosystem in finance. It identifies the key implications of the research findings for buyers and service providers.

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

Key emerging F&A trends that will impact the future of the FAO market

- Mature buyers are becoming more open to leveraging third-party support across judgment-intensive processes (such as FP&A and tax) and industry-specific processes (such as premium collections and claims accounting in insurance sector)
- A robust talent management strategy with a well differentiated techno-functional talent pool and a robust, agile, and secure workspace is increasingly becoming important for FAO services delivery in the new operating environment
- The pandemic has also forced service providers to reevaluate global services delivery and location models, define a robust governance framework aligned to organizational strategy, and enable implementation of ESG initiatives

Evolving digital ecosystem

- Digital adoption is increasing across all key digital levers including automation, advanced analytics, mobility, and AI/cognitive and is likely to accelerate further in the next normal with accelerated demand for BPaaS solutions
- Service providers are investing in enhancing their partnership ecosystem to cater to the rapidly growing demand, especially across cloud, D&A, and AI and are bringing all assets under a unified suite to create market differentiation and bring synergies across broader organization capabilities

FAO market overview and service provider landscape

- Despite short-term disruptions in 2020 due to COVID-19, the FAO market has been growing at a steady rate that is primarily driven by increasing openness among organizations to engage with third parties for F&A initiatives
- Demand from SMB and mid-market segments increased during 2018-20, which was fueled by demand for digital transformation and development of sophisticated, customized, and point solutions that minimize upfront capex

FAO buyer trends

- There has been increased adoption of hybrid commercial constructs in FAO; immediate priorities of organizations are operationally focused on realizing cost savings and improving liquidity through agile business models, such as flexible staffing and transaction-based pricing
- While process/domain expertise will continue to remain an important dimension to focus, service providers need to be more proactive and bring in innovative solutions to improve overall buyer satisfaction levels

This study offers four distinct chapters providing a deep dive into key aspects of FAO market; below are four charts to illustrate the depth of the report

Key emerging F&A trends that will impact the future of the FAO market

KEY EMERGING F&A TRENDS THAT WILL IMPACT THE FUTURE OF THE FAO MARKET



Increasing third-party support in complex and industry-specific processes



Growing focus on ESG-related initiatives



Increasing involvement of third-parties in GBS / shared services organizations



Increase in focus on organizational resourcing, governance, and delivery models



Greater focus on developing robust talent strategies

Evolving digital ecosystem

Current adoption and future potential of key technologies across F&A processes

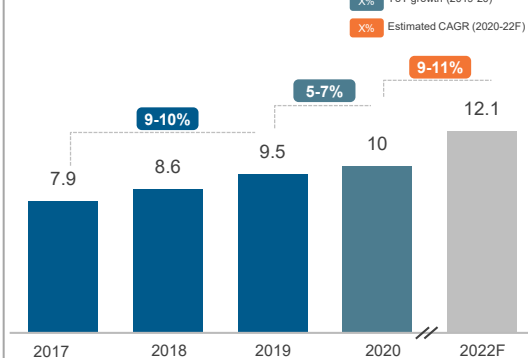
Relative adoption: ○ Very low ● Very high

Advanced technologies	Key F&A processes	Use cases (not exhaustive)	Current adoption	Future adoption potential
Automation ¹ (RPA/IDP)	P2P	Invoice processing, payment requests, and processing T&E claims	●	●
	O2C	Customer setup, cash applications, and credit & collections	●	●
	R2R ²	Processing journal entry (JE), building budget line-item, and preparing trial balances	●	●
Advanced analytics ¹	P2P	Overpayments, fraud detection across payments/T&E, and AP optimization	●	●
	O2C	Collections optimization and detecting revenue leakages and disputes	●	●
	R2R ²	Contract compliance, forecasting and scenario modeling, and risk profiling	●	●
Mobility ¹	P2P	Smart helpdesk leveraging intelligent virtual agents and mobile app for T&E	●	●
	O2C	Order capture portal with virtual agent and intelligent collections advisor	●	●
	R2R ²	CFO dashboards apps and prescriptive actions via email/app-based notifications	●	●
Blockchain	P2P	Trade financing and contracts management	○	●
	O2C	Enquiry management	○	●
	R2R ²	Intercompany accounting & reconciliation and internal audit	○	●

¹ AI/ML uses cases cut across automation, advanced analytics, and mobility
² The R2R processes are inclusive of FP&A

FAO market overview and service provider landscape

Multi-process FAO – active ACV US\$ billion



FAO market in 2020

- F&A transformation initiatives, especially in the areas of BCP, working capital optimization, and other cost- and efficiency-related initiatives, grew
- While North America and Europe still lead the market, the UK and APAC are gaining traction; healthcare, retail, and hi-tech & telecom have grown significantly
- Amplified interest among second- and third-generation outsourcers to engage with third parties in a more strategic manner
- Organizations with consolidated and/or centralized in-house delivery are exploring global delivery models with strong focus on reducing density in locations portfolios and minimizing risk

Contractual activity in 2020-21

- New contract signings in 2020 were subdued; growth has been led by renewals or expansion/extension
- Demand from start-ups, fast hypergrowth, and digital born companies, especially in the APAC region, is surging
- Increase in multi-tower and integrated deals in 2021
- Most of these multi-tower deals include IT, talent & HR, procurement, SCM, banking & insurance operations, ERP/core technology applications, and strategy & consulting transformation components in addition to F&A

¹ Includes sourcing, bidding, procure to pay, and accounts payable but does not include O2C and R2R processes. Considered in this group since this solution focuses on multiple processes cutting across F&A and procurement.

FAO buyer trends

Overall buyer satisfaction 4.2

Focus areas for service providers to improve overall buyer satisfaction: Proactiveness Innovation Driver of satisfaction: Low → High

Service provider capability	Average buyer satisfaction rating	Correlation with overall buyer satisfaction
Process/domain expertise	★★★★☆ 4.4	■■■■■
Traditional technology capability	★★★★☆ 4.1	■■■■■
Next-generation technology capability	★★★★☆ 3.9	■■■■■
Relationship management	★★★★☆ 4.6	■■■■■
Proactiveness	★★★★☆ 3.8	■■■■■
Innovation	★★★★☆ 3.7	■■■■■
Implementation/transition management	★★★★☆ 4.1	■■■■■
COVID-19 response	★★★★☆ 4.8	■■■■■

Generally, referenced clients have been extremely satisfied with service providers' performance during the COVID-19 disruption, which is reflected in very high satisfaction score in this dimension.

Sample size: AI/ML uses cases cut across automation, advanced analytics, and mobility
 Source: The R2R processes are inclusive of FP&A

Research calendar

Finance and Accounting Outsourcing (FAO)

Published
 Planned
 Current release

Flagship reports

	Release date
Finance and Accounting Outsourcing (FAO) – Service Provider Landscape with Services PEAK Matrix® Assessment 2020	September 2020
Finance and Accounting Outsourcing (FAO) Service Provider Compendium 2020	September 2020
Exploring Data & Analytics, Resilience, and the Next Normal in Finance: Finance and Accounting Outsourcing (FAO) State of the Market Report 2021	December 2020
Finance and Accounting Outsourcing (FAO) – Service Provider Landscape with PEAK Matrix® Assessment 2021	August 2021
Finance and Accounting Outsourcing (FAO) – Service Provider Compendium 2022	October 2021
Finance and Accounting Outsourcing (FAO) State of the Market Report 2022: Growth and Opportunity in the Digital Era	January 2022

Thematic reports

	Release date
Building Future-ready Finance in the New Normal – A Glimpse into the CFO Mindset	December 2020
Is Work From Home (WFH) the Future of Work? A Perspective on WFH, Locations, and Delivery Strategy Beyond COVID-19	December 2020
Business Process Services (BPS) 4.0: Heralding the Start of a New Era	February 2021
Getting Your Business in Order through Integrated Order Management	June 2021
A View of the Evolving Record-to-Report Technology Ecosystem	August 2021
Finance a Cornerstone of ESG Strategy	October 2021
Cash is King	Q1 2022

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