



Finance and Accounting Outsourcing (FAO) Market Update: October 2008 – Preview Deck

**Topic: Understanding the Waking Giant: The Mid-Market
and FAO**

Over the last few years, Finance and Accounting Outsourcing (FAO) has seen a spurt in adoption by mid-market buyers. The segment has seen high levels of interest from both buyers and suppliers and has grown at almost 40% compound annual growth rate (CAGR) since 2002. The present penetration level in mid-market is low at less than 1% implying significant growth potential. The Everest Research Institute estimates that the mid-market represents nearly US\$9 billion opportunity at 15% penetration level.

The emerging mid-market in FAO presents a new set of challenges and opportunities for both buyers and suppliers. The objective of this report is to assist key stakeholders in understanding the changing dynamics of the mid-market for FAO and help them identify value creation opportunities as well as identify potential risks involved. We focus on the following dimensions:

- Mid-market FAO adoption patterns and trends
- Mid-market solution and delivery models
- FAO mid-market supplier landscape

Scope of the research:

- Third-party FAO contracts and not shared services or captives
- Multi-process FAO contracts with a minimum of two F&A processes in outsourcing scope, over US\$1 million in Annual Contract Value (ACV), and a minimum contract term of three years
- 290+ multi-process FAO contracts signed as of November 2007
- Focused interviews with key FAO suppliers including Accenture, CompassBPO, Cognizant, EXL services, Genpact, HOV Services, IBM, Infosys BPO, OPI, RMS, Softtek, TCS, VWA, and WNS

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Overview and abbreviated summary of key messages

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This report examines the demand-side and the supply-side forces that are enabling the adoption of FAO by mid-market buyers, and provides insights, detailed analyses and implications for stakeholders along three key dimensions: mid-market FAO adoption patterns and trends, FAO solutions and delivery models for mid-market, and FAO mid-market supplier landscape. Each dimension is discussed in detail (and illustrated with supporting data and analysis) to provide the reader an in-depth and accurate overview with clear identification of the trends observed.

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

Mid-market FAO adoption patterns and trends

- As the FAO market has evolved, several new dynamics are driving broader adoption – rising cost pressures on mid-market companies, increasing levels of FAO solution maturity, rising economies of scope, increasing levels of supply-side competition, and increasing leveragability of technology
- With less than 1% worldwide penetration, the mid-market represents significant growth opportunity. It is estimated to grow to nearly US\$9 billion at a penetration of 15%

Mid-market solutions and delivery models

- Despite smaller average deal sizes, the process scope for mid-market deals is generally the same or more as that for large buyers, creating opportunities for generating economies of scale for suppliers
- The average price point today for mid-market clients is generally higher than for larger buyers because of lack of economies of scale, broader scope, and lower levels of offshoring

Overview and abbreviated summary of key messages

(page 2 of 2)

FAO mid-market supplier landscape

- Buyers are using either a technology-driven approach of a scaled-down FTE-based approach to serve the mid-market
- The mid-market FAO space is much more hotly contested than the large buyer market. The mid-market has emerged as a significant opportunity for emerging and growing suppliers to establish their presence in the FAO market

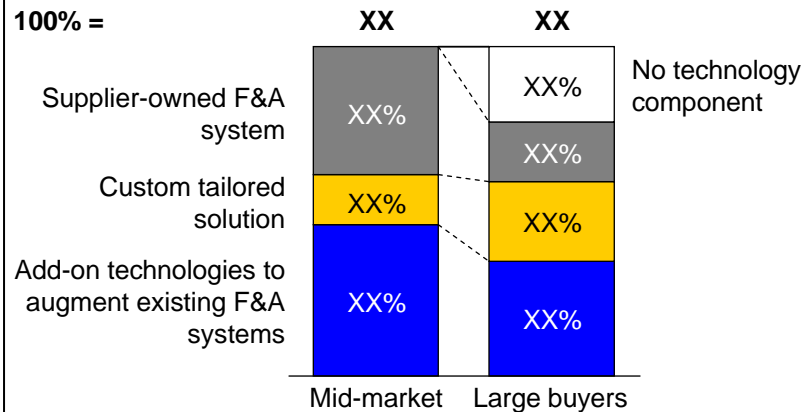
The mid-market report has over 40 pages of relevant information; below are four charts to illustrate the depth of the report



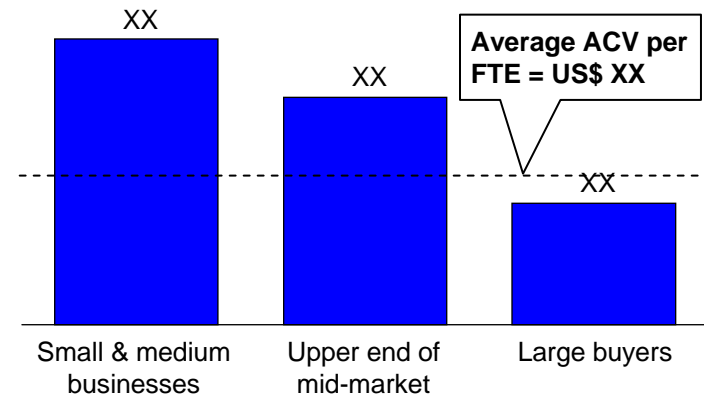
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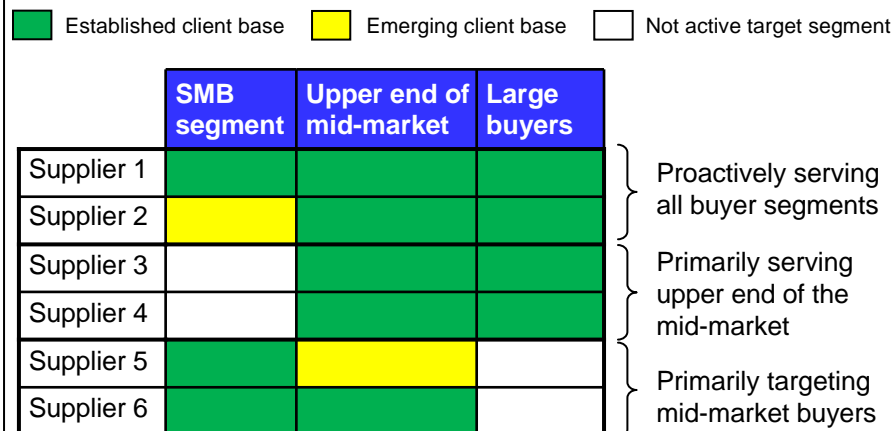
Technology choices in mid-market and large buyers



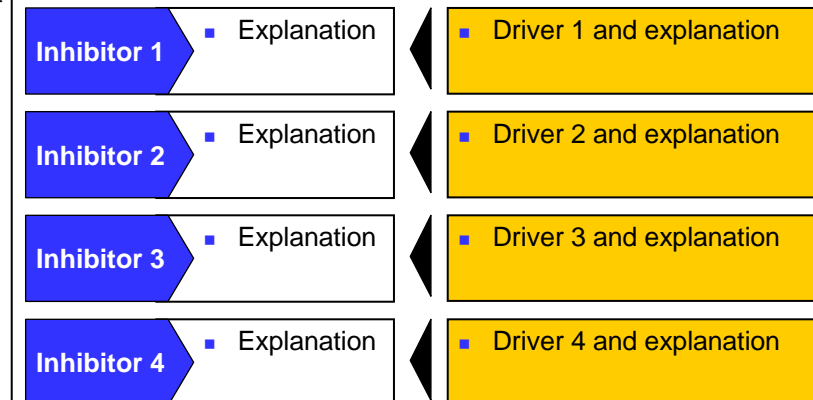
Comparison of ACV per FTE of new contracts by buyer size



Supplier presence across buyer segments



Inhibitors and drivers of adoption of FAO in mid-market



Source: Everest Research Institute (2008)

Appendix: Additional FAO research recommendations



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The following documents are recommended for additional insight on the topic covered in this Research Report.

The recommended documents either provide additional details on the topic or complementary content which may be of interest

1. **FAO Market Growth Targets a Broader Value Proposition – A mid year review** (ERI-2008-1-W-0278); 2008. Over the past several years we have seen the market expand its circle of appeal to include a wide-range of industries, geographies, and buyer sizes. Driven by evolving market circumstances, the FAO curve has lasted longer than expected. This whitepaper summarizes the highlights of the FAO market in the first half of 2008 and offers some guidance on what to expect in 2009
2. **Finance & Accounting Outsourcing (FAO) Contract Characteristics** (ERI-2008-1-R-0259); 2008. This research provides a comprehensive coverage of the characteristics of FAO contracts. The report includes detailed analyses of FAO market size and buyer adoption, FAO contract profiles and FAO solution design. Finally, the report discusses key implications for buyers and suppliers
3. **Finance & Accounting Outsourcing (FAO) Annual Report** (ERI-2008-1-R-0245); 2008. This research includes comprehensive coverage of the 2007 FAO market including market size and buyer adoption, current contracts characteristics, supplier landscape, emerging growth drivers. The report also summarizes the key insights and implications for the stakeholders
4. **Optimizing the FAO Retained Organization** (ERI-2008-1-W-0242); 2008. This whitepaper takes a close look at how to optimize the retained organization as a key contributor to the success of the overall finance and accounting outsourcing (FAO) service model and as a mechanism for driving enhanced value
5. **Outsourcing Order-To-Cash and Procure-To-Pay – Opportunity to Create Business Impact** (ERI-2007-1-R-0201); 2007. This research study, investigates the business value and the market state of outsourcing O2C and P2P processes. The objective of the study was to identify the opportunity and the constituents of the business case for outsourcing, and analyze the solution components required to offer end-to-end O2C and P2P outsourcing offerings

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