



Finance & Accounting Outsourcing (FAO) Annual Report: February 2010 – Preview Deck

FAO in 2010: Exiting the Twilight Zone and Poised for Growth

Background of the research

The multi-process FAO market slowed down from the 20%+ growth levels experienced in 2006-08 to 11% ACV growth in 2009 to reach an ACV of US\$3.1 billion, representing a total portfolio of US\$24 billion in TCV. However, 2010 promises be a stronger year for FAO than 2009. As the global economy revives, most suppliers are reporting stronger sales pipelines. Everest expects growth in excess of 20% for 2010 and expects the multi-process FAO market to reach nearly US\$3.7 billion in ACV

In this research study, we analyze the global multi process FAO market in 2009. We focus on:

- Market size and buyer adoption trends
- FAO Value proposition
- Contract characteristics across process scope, technology, global sourcing and pricing structures
- Supplier evaluation and relative position on the Everest PEAK matrix
- 2009 FAO Market Star performers based on performance and capability building in 2009

The scope and methodology of this report includes:

- Third-party FAO deals; it does not include shared services or captives
- 470+ multi-process FAO deals signed as of November 2009 with a minimum of two F&A processes, over US\$1 million in ACV, and a minimum contract term of three years
- Coverage across 20+ FAO suppliers with multi-process capability including Accenture, ACS, Capgemini, Cognizant, Compass BPO, EXL services, Genpact, HCL, HP, IBM, iGate, Infosys BPO, Intelenet, KPIT Cummins, OPI, Patni, Steria, TCS, VWA, Wipro and WNS

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Overview and abbreviated summary of key messages

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This report will assist key stakeholders (buyers, suppliers, technology providers) understand the changing dynamics of the FAO market and help them identify the trends and outlook for 2010. In this backdrop, this report provides comprehensive coverage of the global FAO market including detailed analysis on market size and growth, buyer adoption trends, FAO value proposition, contract characteristics and supplier landscape.

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

Market size and buyer adoption

- The FAO market reached US\$3.1 billion in ACV, representing roughly US\$24 billion in booked FAO business globally
- The prevailing uncertain economic conditions had an adverse impact on FAO market as the annual ACV growth in 2009 slowed to 11%

Value proposition and contract characteristics

- The FAO market has demonstrated proven value on cost impact and has made significant movement into process impact. Impact on strategic considerations most often involves more mature FAO clients
- Phased adoption of FAO scope has become the dominant model as clients balance near-term benefits realization with longer-term strategies
- In 2009 platform-based FAO captured its first clients as it pioneered solutions to serve specific buyer situations
- Nearly 60% of the contracts signed in 2009 had a hybrid pricing structure. It is becoming increasingly important to build an incentive-structure targeting supplier interests

Overview and abbreviated summary of key messages

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Supplier landscape

- Everest updated its classification of 20+ FAO suppliers on the Everest Performance| Experience| Ability| Knowledge (PEAK) Matrix for FAO into leaders, major contenders, and emerging players
- Established leaders continue to account for nearly 65 percent of the FAO market's ACV. Accenture, Capgemini, Genpact, and IBM witnessed growth levels higher than the market average
- 2009 saw both Infosys BPO and HP cross over from the major contenders to the leaders category. TCS, Wipro, and WNS also had strong 2009 performance and were able to further close the gap with leading suppliers
- Additionally, Cognizant, EXL, and Intelenet moved from the emerging players tier to that of major contenders
- Beyond new contract signings, organic growth played a significant role in the growth experienced by all categories of suppliers
- Successful suppliers across all segments used the 2009 context to fine tune their capability mix and poise their offerings for anticipated growth in 2010
- Everest identified five suppliers as the "2009 FAO Market Star Performers" – Genpact, IBM, Infosys, Wipro, and WNS. These five suppliers were chosen based on the relative movement on the Everest PEAK matrix from 2008 to 2009 of 20+ FAO suppliers

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

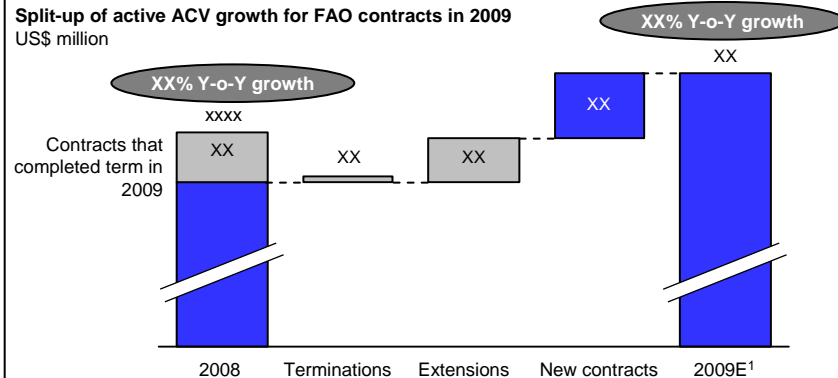


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ILLUSTRATIVE

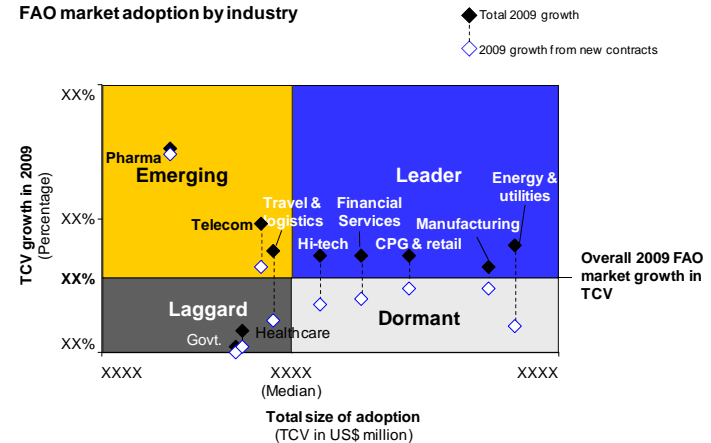
Both organic and inorganic factors contributed to the growth in 2009

Split-up of active ACV growth for FAO contracts in 2009
US\$ million

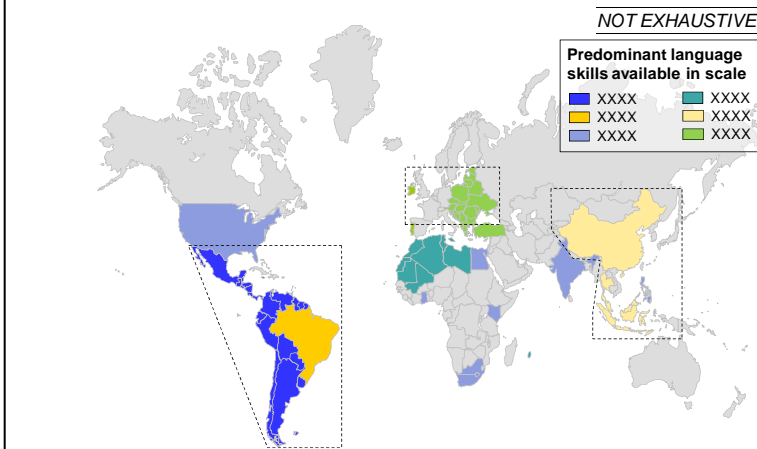


FAO adoption by buyer industry

FAO market adoption by industry

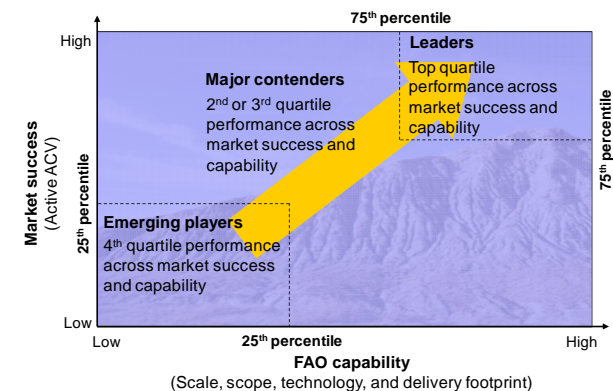


Multi-language support across delivery locations



Everest Performance | Experience | Ability | Knowledge (PEAK) Matrix for FAO

Everest Performance | Experience | Ability | Knowledge (PEAK) Matrix for FAO



Source: Everest Research Institute (2010)

Major upcoming research

Q1-Q2 2010 FAO research plan



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TENTATIVE

Title	Goals of the research
1. FAO Savings – Benefits Beyond Arbitrage	<ul style="list-style-type: none"> ■ Direct-cost reduction is now a hygiene factor in FAO. This research focuses on benefits that buyers have received by outsourcing F&A processes. The research profiles several buyer engagements where the suppliers have been able to create a tangible business impact
2. Transaction-based pricing – Is it the “Nirvana” for FAO Woes?	<ul style="list-style-type: none"> ■ The interest in the market around transaction-based pricing is increasing. This study describes the transaction pricing model and the pros and cons of the pricing structure vis-à-vis the traditional FTE pricing model ■ The study also describes the key considerations that buyers and suppliers need to keep in mind to move into a transaction based pricing environment
3. Global FAO Supplier Landscape	<ul style="list-style-type: none"> ■ In this research study, we analyze the fast-changing global FAO supplier landscape and its impact on the FAO market. We focus on supplier position and market shares, delivery capability assessment, and modes of differentiation
4. FAO Supplier Profile Compendium	<ul style="list-style-type: none"> ■ Profiles of 20+ established FAO suppliers across various dimensions including overall revenues, FTEs strength, key delivery locations, FAO service suite, market positioning, overall FAO delivery capability assessment, and Everest Research perspective on supplier
5. Importance of Scale in FAO – How Low Can you Get?	<ul style="list-style-type: none"> ■ Our research indicates that deals are getting smaller, but how small can they really get to make a viable business case. This study focuses on the importance of scale in FAO and how it is changing with market maturity
6. Role of SaaS Providers in BPO	<ul style="list-style-type: none"> ■ Our research indicates that the combination of BPO with SaaS can drive organizations to the next level of optimization. However, this model is still very nascent. This study showcases leading SaaS providers and educates buyers and suppliers on the growing success and importance of SaaS in BPO

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. **Global FAO Supplier Landscape – Differentiate to Get Noticed** (ERI-2009-1-R-0335), 2009. In this research study, we analyze the fast-changing global FAO supplier landscape and its impact on the FAO market. We focus on supplier position and market shares, delivery capability assessment, and modes of differentiation
2. **FAO Supplier Profile Compendium** (ERI-2009-1-R-0336), 2009. In this research study, we profile 24 established FAO suppliers across various dimensions including overall revenues, FTEs strength, key delivery locations, FAO service suite, market positioning, overall FAO delivery capability assessment, and Everest Research perspective on supplier
3. **Technology Flavors in FAO – From Tools to Platforms** (ERI-2009-1-R-0362), 2009. In this research study, we focus on the different flavors of technology in FAO, add-on tools and solutions that are enabling technology augmentation, and the current landscape of platform-based FAO offerings
4. **Technology-led Solutions in FAO – Supplier Profile Compendium** (ERI-2009-1-R-0364), 2009. In this research study, we profile the technology-led FAO solutions of established FAO suppliers including Capgemini, Genpact, HP, Infosys BPO, TCS, Wipro, WNS, and Xchanging
5. **Industry-Specific FAO Solutions – Moving Beyond the Bottom-Line** (ERI-2009-1-R-0322); 2009. This research study tracks and analyzes this new development in the FAO market. As the market matures and evolves further, the Everest Research Institute predicts that the industry specificity in FAO offerings will increase especially in the services sector and the Order-to-Cash (O2C) process. Also, industry-specific FAO will emerge as an opportunity for FAO suppliers to create distinctive positioning in an increasingly competitive market

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