Finance and Accounting Outsourcing (FAO) Market Update: May 2010 – Preview Deck

Topic: Global FAO Supplier Landscape – Leaders, Contenders, Emerging Players, and the 2009 Star Performers

ERI-2010-1-PD-0414

Background and methodology of the research

Background of the research

While the year 2009 was witness to a tough business environment and reduced spending overall, the market for FAO services registered a reasonable amount of growth (considering both inorganic and organic growth). Though there was a dip in new contract signings, the year saw a spike in end-of-term contract extensions thus enabling the market to grow at an average of 11% in terms of YoY ACV growth. The 2009 business context also gave suppliers an opportunity for introspection, revaluate service offerings, and build capability (both in-house and through acquisitions as valuations remained attractive) for an anticipated growth in 2010

In this study, we analyze the global multi-process FAO supplier landscape in 2009. We focus on:

- Supplier evaluation and relative position on the Everest PEAK matrix
- Comparison of relative market success and capability development of suppliers
- Changes to global supplier landscape in 2009
- Market success and capability development of suppliers YoY from 2008 to 2009
- Trends in supplier landscape for different buyer segments based on buyer industry, buyer geography, and buyer size
- Key areas of investments by suppliers

The scope and methodology of this report includes:

- Third-party FAO deals; it does not include shared services or captives
- 470+ multi-process FAO contracts 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[1], EXL service, Genpact, HCL, HP, IBM, iGATE, Infosys BPO, Intelenet, KPIT Cummins, OPI, Patni, Steria, TCS, VWA, Wipro, and WNS

1 Aditya Birla Minacs, an arm of Aditya Birla Group, announced the acquisition of Compass BPO as of March 2010

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Overview and abbreviated summary of key messages (page 1 of 2)

This report will assist key stakeholders (buyers, suppliers, technology providers) understand the changing dynamics of FAO market supplier landscape and help them identify market leaders, major contenders, emerging players, and the star performers coming out of 2009. In this backdrop, this report provides comprehensive coverage of the global FAO supplier landscape including detailed analysis on market shares, capability assessment, landscape movement in 2009, and supplier landscape by buyer segments (buyer industry, geography, and size).

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

Global FAO supplier landscape

- There are 20+ suppliers with established multi-process FAO capability. Everest classifies the FAO supplier landscape into leaders, major contenders, and emerging players on the Everest Performance| Experience| Ability| Knowledge (PEAK) Matrix. The PEAK Matrix is a framework to assess the absolute market success and capability (across scale, scope, technology, and delivery footprint) of suppliers
- IBM, Accenture, and Genpact are the dominant leaders, but a number of other suppliers (in the leaders and major contenders groups on PEAK matrix) are closing the gap. Capgemini strengthened its leadership position in 2009 and witnessed growth levels higher than the market average. Infosys BPO crossed over from the major contenders group to the leaders group in 2009. TCS, Wipro, and WNS further closed the gap on PEAK leaders. Cognizant, EXL, and Intelenet also moved from emerging players to major contenders
- While there exist capability gaps between the different groups of suppliers on the PEAK matrix, intra-group differentiation is becoming increasingly difficult

Overview and abbreviated summary of key messages (page 2 of 2)

FAO supplier landscape movement in 2009

- The movement of different supplier categories on the Everest PEAK Matrix from 2008 to 2009 reveals several market insights. Several suppliers noticeably enhanced their market standing, effectively intensifying competitive forces in the FAO market
- 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
- Beyond the 2009 FAO Market Star Performers, several other suppliers including Accenture, Capgemini, and TCS noticeably enhanced their positioning on the PEAK matrix in 2009

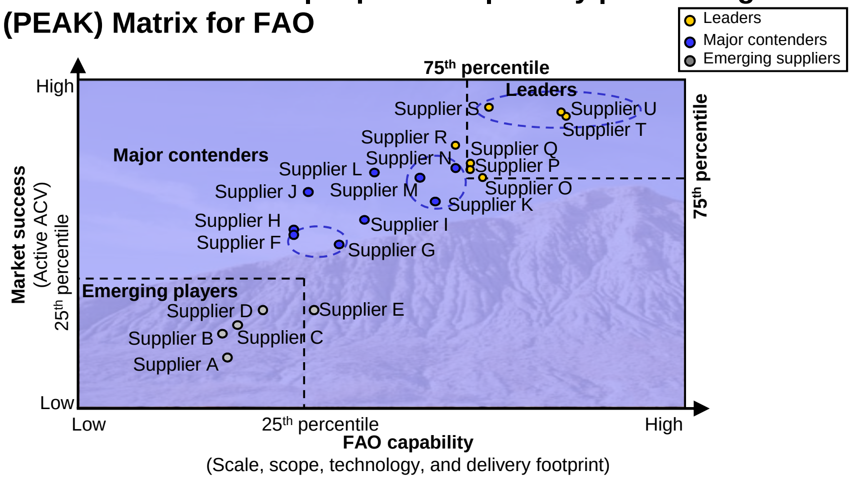
FAO supplier landscape by buyer segments

- We assess the supplier landscape across three buyer segments – buyer industry, signing region, and buyer organization size
- While FAO is considered a horizontal BPO, the supplier market shares change by buyer industry
- The FAO supplier landscape also varies by signing region. The U.S. and UK are most competitive. Accenture dominates Rest of Europe while IBM leads in Asia Pacific
- More suppliers are now willing to provide services to the mid-market, but there are only a few suppliers such as OPI that focus exclusively on the mid-market

This study offers three distinct chapters providing a deep dive into the global FAO supplier landscape; below are four charts to illustrate depth of the report

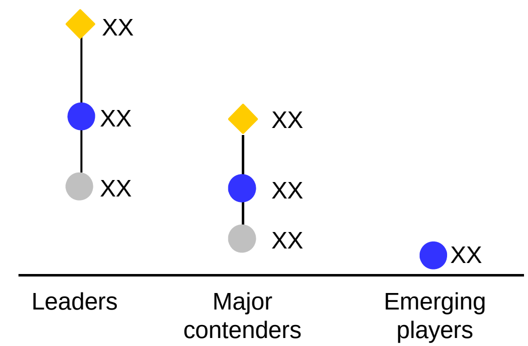
ILLUSTRATIVE

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



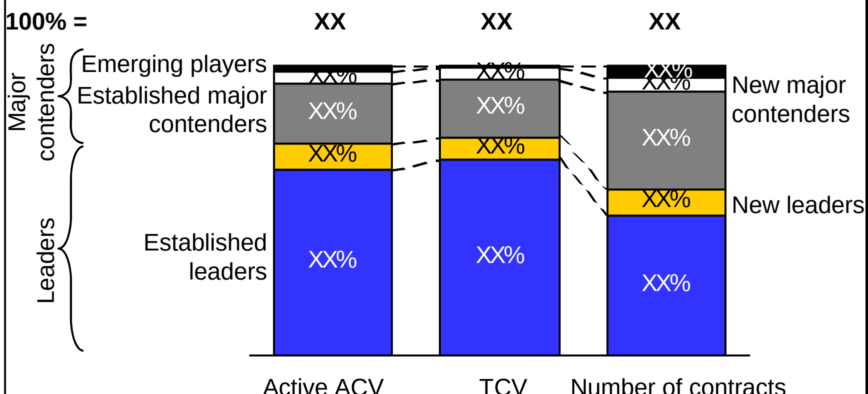
FAO number of contracts across supplier groups

FAO contracts across supplier groups on PEAK matrix
Number of multi-process FAO contracts



FAO supplier market shares

Global FAO supplier market share as of 2009
Active ACV and TCV[1] in US$ billion, Number of contracts



FAO delivery capability assessment

High / Medium-high / Medium

Group	Supplier	Scale	Scope	Technology capability	Delivery footprint	Overall assessment
Leaders	Supplier A	High	High	High	High	High
Leaders	Supplier B	High	Medium-high	Medium-high	High	High
Leaders	Supplier C	High	Medium-high	High	High	High
Major contenders	Supplier D	High	High	Medium-high	High	High
Major contenders	Supplier E	High	Medium-high	Medium-high	High	High
Major contenders	Supplier F	High	High	High	High	High
Emerging players	Supplier G	High	Medium-high	High	Medium-high	High
Emerging players	Supplier H	Medium	Medium	Medium-high	Medium-high	Medium-high
Emerging players	Supplier I	Medium	Medium	Medium	Medium	Medium

Source: Everest Research Institute (2010)

2010 FAO research plan

Published

TENTATIVE

EVEREST RESEARCH INSTITUTE

Title	Goals of the research
1. FAO Annual Report – Exiting the Twilight Zone and Poised for Growth	▪ In this research report, we analyze the global multi process FAO market in 2009. We focus on the FAO market size, buyer adoption trends, FAO value proposition, contract characteristics and supplier evaluation and relative position on the Everest PEAK matrix. This report also indentifies the "2009 FAO Market Star Performers" based on performance and capability building in 2009
2. FAO Supplier Profile Compendium	▪ 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
3. FAO Savings – Benefits Beyond Arbitrage	▪ Direct-cost reduction is now a hygiene factor in FAO. This research focuses on benefits that buyers received by outsourcing F&A processes. The research profiles several buyer engagements where the suppliers have been able to create a tangible business impact
4. Transaction-based pricing – Is it the “Nirvana" for FAO Woes?	▪ 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
5. Importance of Scale in FAO – How Low Can you Get?	▪ 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	▪ 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

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 Annual Report – Exiting the Twilight Zone and Poised for Growth** (ERI-2010-1-R-0393), 2010. In this research report, we analyze the global multi process FAO market in 2009. We focus on the FAO market size, buyer adoption trends, FAO value proposition, contract characteristics and supplier evaluation and relative position on the Everest PEAK matrix. This report also indentifies the "2009 FAO Market Star Performers" based on performance and capability building in 2009
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

For more information on this and other research published by the Everest Research Institute, please contact us:

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