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Finance & Accounting Outsourcing (FAO) Annual Report: March 2011 – Preview Deck

FAO is Back!!

Background of the research

- The global multi-process FAO market bounced back with a strong 2010. As the global economy revived, the FAO market experienced 15% ACV growth in 2010 compared to 10% growth rate witnessed in 2008-2009. However, 2011 promises to witness a strong activity – most service providers are reporting a robust pipeline. Everest estimates that the FAO market will see a healthy Y-o-Y growth of 15-20% in terms of market ACV (as seen in pre-recessionary years). The ACV will reach in excess of US\$4 billion in 2011
- In this research study, we analyze the global multi process FAO market in 2010. We focus on:
 - Market size and buyer adoption trends
 - FAO value proposition
 - Contract characteristics across process scope, technology, global sourcing, and pricing structures
 - Service provider evaluation and relative position on the Everest PEAK Matrix
 - 2010 FAO Market Star Performers based on performance and capability building in 2010

The scope of analysis includes:

- Third-party FAO deals; it does not include shared services or captives
- 580+ multi-process FAO deals signed as of 2010 with a minimum of two F&A processes, over US\$1 million in ACV, and a minimum contract term of three years
- Coverage across 25+ FAO service providers with multi-process capability including Aditya Birla Minacs, Accenture, Capgemini, Cognizant, EXL Services, Genpact, HCL, HP, IBM, iGate-Patni, Infosys BPO, Intelenet, KPIT Cummins, OPI, Steria, Sutherland Global Services, TCS, VWA, Wipro, WNS, and Xerox-ACS

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Overview and abbreviated summary of key messages

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This report will assist key stakeholders (buyers, service providers, 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 service provider landscape

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

Market size and buyer adoption

- The global multi-process FAO market bounced back with a strong 2010
 - Nearly 15% growth in active ACV was witnessed in 2010 compared to ~10% growth in 2009. The current FAO market size is US\$3.6 billion
 - 2010 witnessed signings of 87 new contracts compared to 63 in 2009

Value proposition and contract characteristics

- Buyers continue to be cautious. The big-bang approach has given way to a phased approach
- Though cost reduction continues to be of paramount importance when outsourcing F&A services, buyers are now increasingly looking at a cost+ value proposition
- An end-to-end process-driven approach to FAO is also emerging as opposed to a traditional functional and piecemeal approach
- The technology augmentation approach has outpaced the traditional tie-and-run model and emerged as the new “normal”
- FTE-based pricing continues to be the prevalent pricing model; however, the hybrid pricing structure is gaining ground

Overview and abbreviated summary of key messages

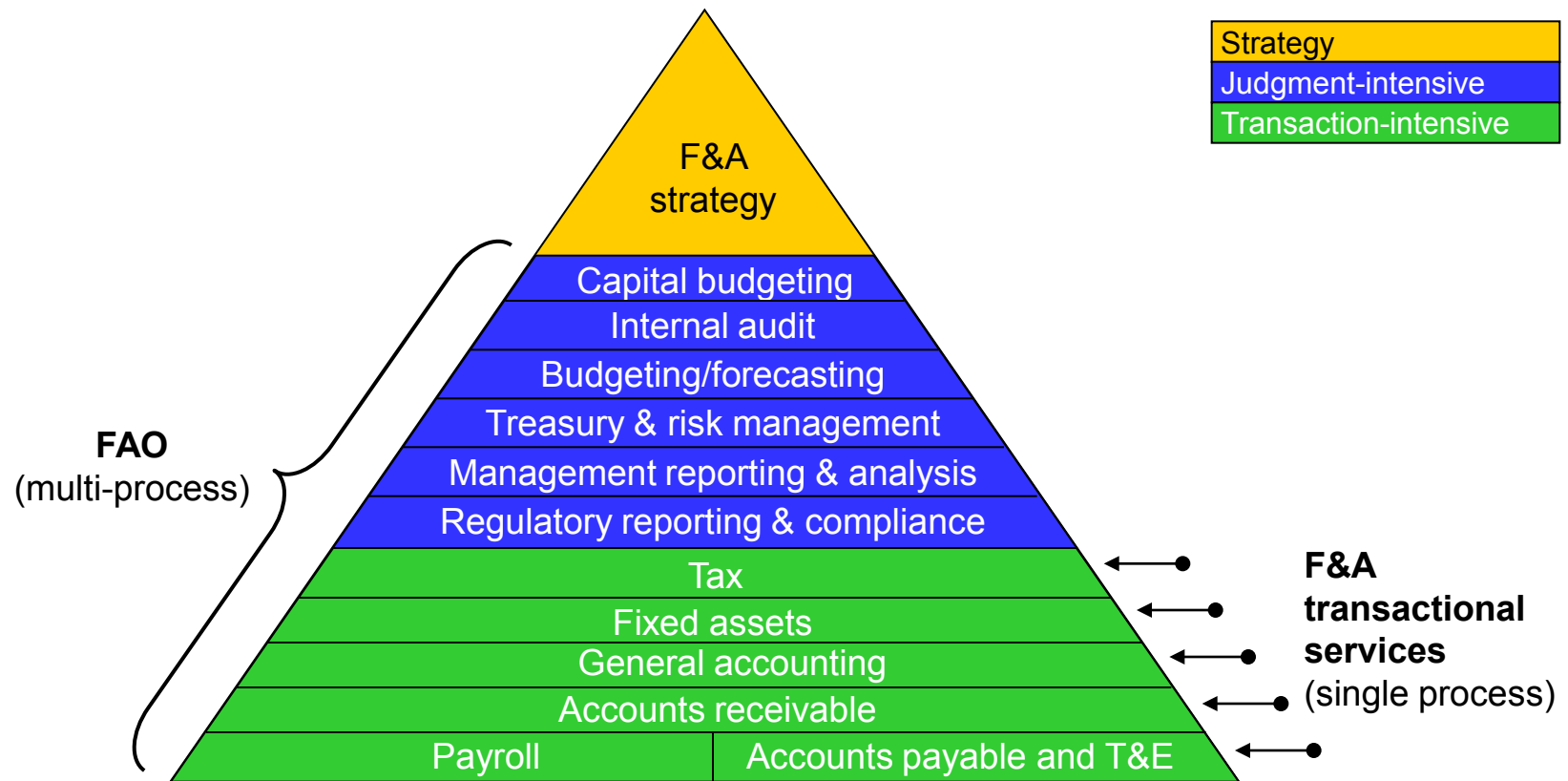
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Service provider landscape

- Everest updated its classification of 20+ FAO service providers on the Everest Performance| Experience| Ability| Knowledge (PEAK) Matrix for FAO into Leaders, Major Contenders, and Emerging Players
- There are now six service providers in the Leaders category. Along with the established FAO leaders (namely Accenture, IBM, and Genpact), Capgemini, Infosys BPO, and HP make up the Leaders quadrant on the Everest PEAK Matrix for FAO
- This increasing competitive intensity is driving innovation in the go-to-market approach for FAO. These include driving non-linear growth through investments in intellectual property, creating differentiated offerings, and targeting new buyer segments (like mid-market and emerging markets)
- While the competition is intensifying, market leaders continue to strengthen their leadership positions
- Everest identified five service providers as the “2010 FAO Market Star Performers” based on their relative movement on PEAK – Accenture, IBM, Genpact, TCS, and WNS

The Institute's research is guided by a framework that distinguishes multi-process FAO from single process finance and accounting (F&A) transactional services



- Everest's analyses include multi-process FAO contracts with a minimum of two F&A processes, over US\$1 million in Annualized Contract Value¹ (ACV), and a minimum contract term of three years
- Everest analyses include 580 FAO contracts signed as of 2010

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

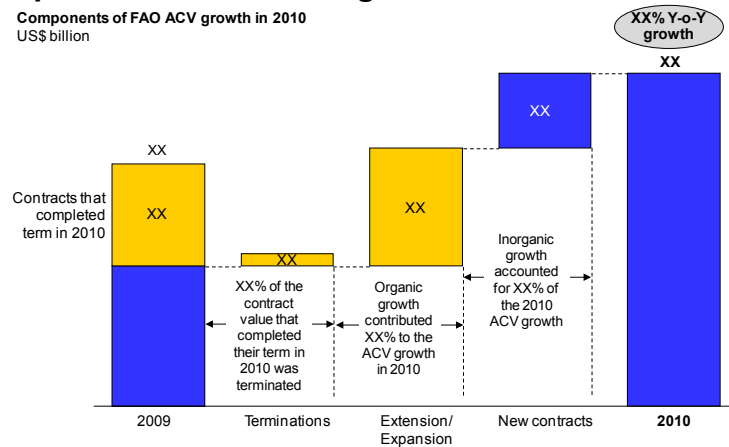


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ILLUSTRATIVE

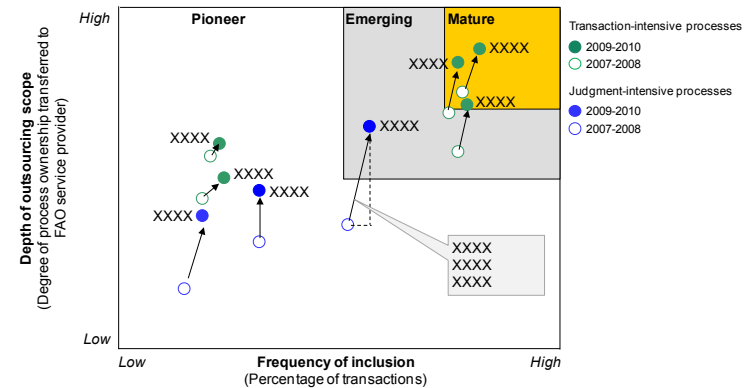
Components of FAO ACV growth in 2010

Components of FAO ACV growth in 2010
US\$ billion



Scope of FAO contracts

Degree of outsourcing of F&A processes over time
2007-2008 vs. 2009-2010

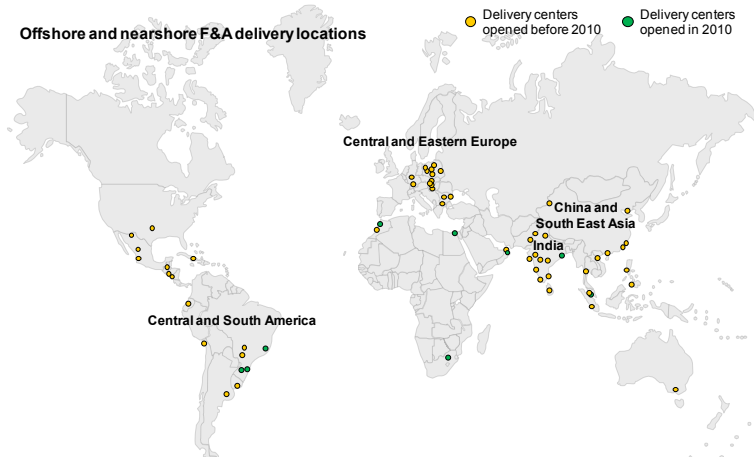


Offshore and nearshore F&A delivery locations

Offshore and nearshore F&A delivery locations

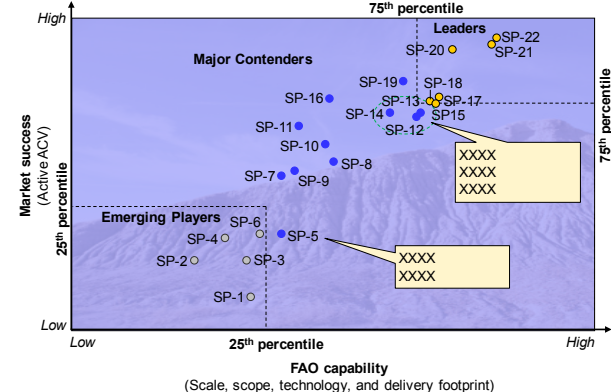
Delivery centers opened before 2010

Delivery centers opened in 2010



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

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



Source: Everest Research Institute (2011)

Major upcoming research

Q1-Q2 2011 FAO research plan



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TENTATIVE

Title	Goals of the research
1 Global FAO Service Provider Landscape	In this research study, we analyze the fast-changing global FAO service provider landscape and its impact on the FAO market. We focus on service provider position and market shares, delivery capability assessment, and modes of differentiation
2 FAO Service Provider Profile Compendium	Profiles of 20+ established FAO service providers 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 service providers
3 Top Five Emerging Locations in FAO	Beyond the established locations that feature in most leading FAO service providers' global delivery network, newer locations are making their presence felt on the FAO delivery map. This study evaluates the top five such locations and highlights the market state therein
4 Process Maturity Models in FAO – Can it be a Differentiator for Service Providers?	The FAO value proposition has evolved from pure cost arbitrage to a cost+ value add. In a bid to continue growing in a competitive market, service providers are looking for ways to generate business impact beyond just labor arbitrage. Few FAO service providers have developed models to optimize the outsourced processes and shift them towards best-in-class performance benchmarks. This report investigates such models and their potential to create differentiation in the FAO market

Appendix: Additional FAO research references



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 that may be of interest

1. **FAO Annual Report** (ERI-2010-1-R-0393); 2010. This research includes comprehensive coverage of the FAO market including market size and trends, buyer adoption, transaction mechanics, service provider capabilities and position, and comparison of FAO with other BPOs
2. **Value Creation through FAO – Perspectives of Mature Buyers** (ERI-2010-1-R-0465); 2010. Cost arbitrage continues to be an important value-creation lever in FAO. However, companies increasingly evaluate value created by FAO at three levels – direct-cost impact, process impact, and strategic impact. This research highlights drivers, challenges, and benefits of FAO. It also provides details around criteria for service provider selection
3. **Moving beyond Transactional FAO: The Rise of FP&A Outsourcing** (ERI-2010-1-R-0490); 2010. The multi-process FAO market constitutes various F&A processes that differ in their degree of outsourcing, with some processes outsourced less often than others. FP&A is one segment that is outsourced less than others. This report will assist key stakeholders in understanding the trends in outsourcing FP&A processes within the FAO market
4. **Global FAO Service Provider Landscape – Leaders, Contenders, Emerging Players, and the 2009 Star Performers** (ERI-2010-1-R-0414); 2010. The 2009 FAO market context gave service providers an opportunity for introspection, reevaluating service offerings, and building capability (both in-house and through acquisitions) for anticipated growth in 2010. In this study, we analyze the global multi-process FAO service provider landscape and focus on service provider evaluation and relative position on the Everest PEAK Matrix.

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

Saurabh Gupta, Vice President:

saurabh.gupta@everestgrp.com

Abhishek Menon, Senior Research Analyst:

abhishek.menon@everestgrp.com

Kuldeep Lulla, Senior Research Analyst:

kuldeep.lulla@everestgrp.com

Arpita Bansal, Research Analyst:

arpita.bansal@everestgrp.com

FAO Team:

FAOresearch@everestgrp.com

Everest Research Institute

Two Galleria Tower

13455 Noel Road, Suite 2100

Dallas, TX 75240

Phone: +1-214-451-3110

Email: info@everestresearchinstitute.com

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Contact us for more information about our consulting, research, and industry resources.

Dallas (Corporate Headquarters)

info@everestgrp.com
info@everestresearchinstitute.com
+1-214-451-3000
+1-214-451-3110

Canada

canada@everestgrp.com
+1-416-865-2033

New York

info@everestgrp.com
+1-646-805-4000



India/Middle East

india@everestgrp.com
+91-124-496-1000
+91-124-496-1100

UK

unitedkingdom@everestgrp.com
+44-870-770-0270

Netherlands & Continental Europe

benelux@everestgrp.com
+31-20-301-2138

www.everestgrp.com | www.everestresearchinstitute.com | www.sherpasinblueshirts.com