The Financial Offshoring Imperative

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The financial offshoring imperative
Moving transaction processing overseas can achieve significant savings, but organisations can achieve greater value by offshoring their strategic financial activities.

By Rod Newing

- Specialist providers can handle high level analysis and financial management tasks.
- Combining process improvements with offshoring can create savings of up to 50%
- Make a detailed analysis of the tasks that can be offshore.
- Choose a supplier with the resource to improve processes.

Some organisations are now outsourcing critical financial functions as well as their transaction processing. This reflects not just cost cutting, but a recognition of value that a third party can bring as part of a strategy to concentrate resources on the key areas that create shareholder value.

In a business climate built on intense competition, there is no competitive advantage in recording transactions, so passing them to a third party, known as business process outsourcing (BPO) makes sense, allowing the organisation to concentrate its internal resources on strategic financial activities. However, the specialist skills of outsourcing providers means that they are capable of taking over much of the higher-level value creation work such as data analytics, decision support and financial management tasks, including planning, budgeting, treasury management, performance management and risk evaluation and assessment.

Reducing cost and improving performance
The traditional driver for outsourcing has been to reduce labour costs, called ‘arbitrage,’ by moving routine work overseas, referred to as ‘offshoring’. NelsonHall, a BPO analyst, says that organisations can save 20-40% by moving work to a country with lower labour costs, but this saving rises to 30 - 50% if it is combined with process improvements.

The company estimates the United Kingdom finance and accounting outsourcing market as $2.945 billion in 2008, rising to $4.66bn in 2012, a compound growth rate of 11%. Only 15% of this is value-added work, but the proportion is growing fast.

The Chartered Institute of Management Accounting (CIMA) points out that in the last 15 years the cost of the finance function has been halved. This has been achieved through business process improvement, automation and combining back-office functions into shared service centres. In world class organisations, the cost of the finance function is now less than 1% of turnover. Its research shows that 29% of organisations have already outsourced routine transaction processing and 5% have outsourced higher value processes.

Tapping into high value skills
The Hackett Group, a best practice advisory firm, says that finance jobs are going offshore faster than any other back-office function. Ten percent of global finance jobs have already gone to countries with low labour costs, which is expected to rise to 20% in two years.

“Cost savings are clearly important for clients in today’s economic environment,” says Rick Sturge, Deputy Managing Director at WNS Europe, a BPO specialist. “More importantly, third party partners can help to re-engineer processes to deliver greater value for the business.”

One global client was losing $16m a year to fraud, so WNS created a business strategy team composed of finance, accounting, analytics and customer care professionals. The work of this team detected fraudulent activity that halved the losses, saving the client $8m which went directly to its bottom line.

The skills needed to provide these are very hard to develop internally, but are increasingly becoming available through offshoring contractors, who are working hard to increase the skills of their staff in order to provide higher value services. WNS was the first Indian based BPO provider to enter into a strategic partnership with CIMA, aimed at providing comprehensive management accounting certification training for its employees.

Getting it right first time
Professor Robert Kennedy, author of “The Services Shift”, says that organisations are analysing all the tasks that they carry out. If a person is primarily working with information through a computer and making telephone calls, their task is not rooted in a particular geography and their tasks are being transferred offshore.

Organisations usually start by offshoring transaction processing, but within a shortening time period they are starting to hand over higher value work. Early offshoring contracts were driven purely by cost and tended to be very adversarial, but sustainable value can only be created through a collaborative and trusting relationship between the client and its BPO provider.

Dr. Katharina Grimm, research director for finance and accounting at NelsonHall, warns against allowing the procurement department to select the lowest cost contractor, as it won’t have the resources to continually improve processes. The decision is best left to finance directors, who
tend to choose a provider they can work with over time to deliver quality and service in the long term.

The offshoring providers are increasingly being seen as a source of talent. Over 100 of the Hackett Group’s 700 staff are based offshore. Michel Janssen, its chief research officer, hires MBAs for $5,000 a year, which is a living wage in Hyderabad. He says the real benefit is not labour cost savings, but being able to hire more people to do more sophisticated analysis. This improves strategic understanding of what is going on in the business, especially its sources of revenue and profits.

Improving access to cash & compliance

According to John Willmott, managing director at NelsonHall, other priorities for organisations in 2009 include ensuring enhanced compliance of their operations and in tightly managing cash flow through control of the number of days sales outstanding. “BPO can certainly address these sorts of challenges,” says Sturge. “It can help optimise the finance functions and in particular the end to end processes, including payment cycle, revenue cycle and financial supply chain functions.”

As examples of better management of cash, WNS helped a major car manufacturer to reduce the number of days’ sales outstanding by 50%; increased collections by £1.4 million a month for another client; and recovered duplicate payments of $4 million for a third. In the ever more important compliance arena, WNS re-evaluated and strengthened process controls for a global consumer products manufacturer. As a result, the client experienced no Sarbanes-Oxley non-conformities, which was an improvement on its previous performance.

‘The Services Shift’ describes a pharmaceutical company that offshored its payables system, saving $1.7 million in labour and another $1.8 million through re-engineering. However, faster and more reliable payment processes enabled it to negotiate a 2% early payment discount with suppliers, increasing its working capital by $20 million a year.

Professor Kennedy says that the catalyst for moving offshore has often been labour cost savings, but although it is good for grabbing attention, organisations have only achieved 20-30% of the benefits. Benefits are overwhelmingly from process improvements, better quality and access to better talent.

CIMA says that the providers have established a track record and credibility in offshoring finance and accounting activities. “In the current economic turbulence,” says Sturge, “the BPO model is not just an imperative for organisations to reduce costs. It is also a powerful tool to give finance functions greater agility in today’s volatile markets and drive higher value for the business when growth returns. In addition it continues to allow the CFO and his core strategic team to focus on supporting the core business.”

Unlocking Value in the Finance Function: BPO Examples

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<thead>
<tr>
<th>Rationalisation and Cost Reduction</th>
<th>Process re-design conducted to rationalise financial systems - eliminated more than 100 systems for a major financial services company. Centralised shared services operation by migrating 50% of CFO’s office over time. Delivered a cost saving in excess of £50 million for the wider services contract.</th>
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<tr>
<td>Standardisation and Global Compliance</td>
<td>Consolidated finance &amp; accounting operations across 80 locations, 25 systems and 35 operating companies. Revaluated and strengthened process controls globally to ensure compliance with stringent statutory and regulatory requirements for a professional services firm.</td>
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<td>Improved Cycle Times</td>
<td>Innovation and improvement initiatives for a major UK retailer has helped reduce the cycle time (turn around time) of processing invoices and queries by 30% and 80% respectively.</td>
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<td>Reduction of DSO</td>
<td>Reduced DSO by 50% for a major global car manufacturer.</td>
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<td>Recovery of Duplicate Payments</td>
<td>Recovered over $4 million in duplicate payments for a major retailer.</td>
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<td>Improved Debt Recovery</td>
<td>Saved £2.3 million through debt recovery for a major insurer.</td>
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<td>Increased Collections</td>
<td>Initiated a Black Belt Six Sigma project that increased collections by £1.4 million per month and reduced age of claims by 65 days.</td>
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