

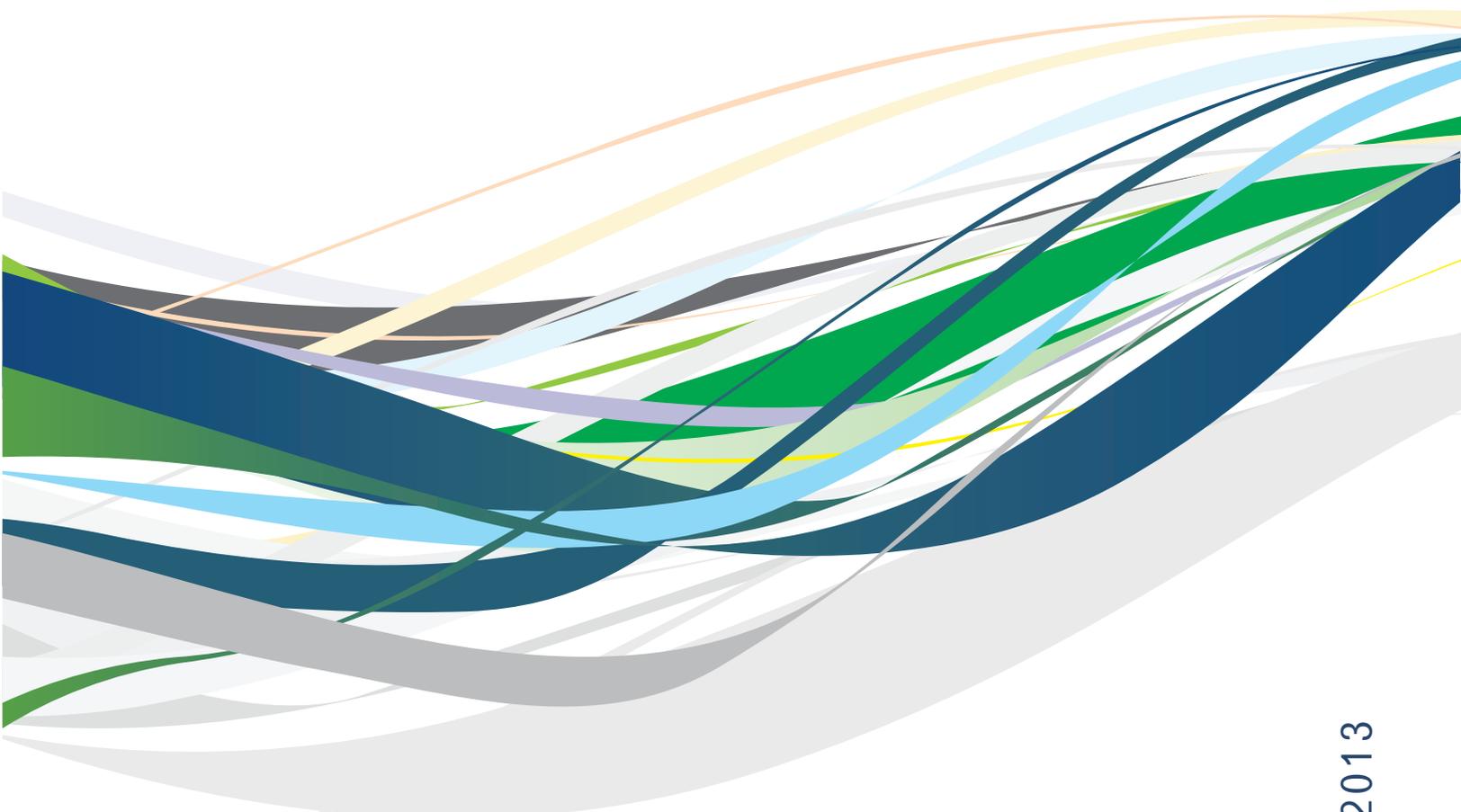
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# F&A OUTSOURCING DRIVERS:

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Today and Beyond



2013

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## INTRODUCTION

As the economy survives extraordinary challenges, enterprises of all sizes are exploring options they had previously ignored. Outsourcing of finance and accounting functions is one such option.

The scenario is rapidly changing, as cautious CFOs turn enthusiastic outsourcing converts driven by finance and accounting needs that are very specific to industry demands and challenges. Some of these emerging F&A needs across various industries include\*:

- Credit analysis and loan accounting requirements in banking and financial services
- Actuarial, fiduciary and premium accounting needs in insurance
- Royalty accounting requirements in media and entertainment
- Franchisee and inventory accounting needs in retail and CPG
- Cargo revenue accounting & management and freight accounting needs in shipping and logistics
- Passenger revenue accounting, revenue recovery and fraud prevention requirements in travel and hospitality
- Meter billing needs in utilities

*\*The list of F&A needs is not an all-inclusive one. It is an indicative list.*

In addition to the specialized F&A demands, there is increased focus on regulations, risk and compliance measures with special emphasis on good corporate governance. These are key imperatives for any CFO today and spell out a new set of challenges for most FAO providers because the majority of current FAO solutions are tailored more towards achieving the benefits of cost reduction and improved process efficiencies.

## CHALLENGES ARE USUALLY THE CAUSE OF INNOVATION

Some FAO providers are however converting the challenges into opportunities by innovating intelligently through:

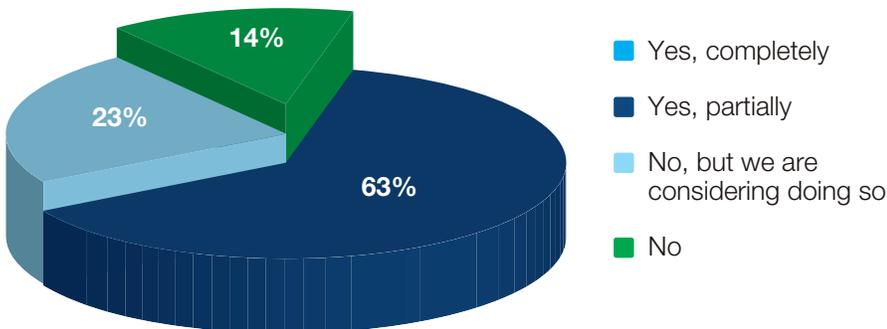
- Building industry-specific and domain-specific expertise in resource pools to be able to offer verticalized F&A solutions
- Sharpening abilities (people, process and technology) to address enhanced regulatory, risk and compliance needs

As the F&A landscape becomes more complex, what do companies perceive as challenges, and what is their orientation and expectation from FAO providers?

Outsourcing Center and WNS conducted a survey targeted at the 'major stakeholders of F&A' — CXOs, EVPs and Directors of Finance from companies across Americas, Europe, Middle East, Africa and Asia Pacific — to gauge what their biggest challenges in the FAO sector were and how they saw it evolving. The survey also throws light on the orientation of businesses towards FAO and expectations from FAO providers.

## 63% ARE INTO FAO; MORE BUYERS TO JOIN THE LEAGUE; P2P REMAINS THE TOP-CHOICE FOR FAO

### Have you outsourced your Finance and Accounting Process?



The Outsourcing Center and WNS survey found that **63% of organizations participating in the survey have partially outsourced their F&A processes and as many as 23% are considering doing so.**

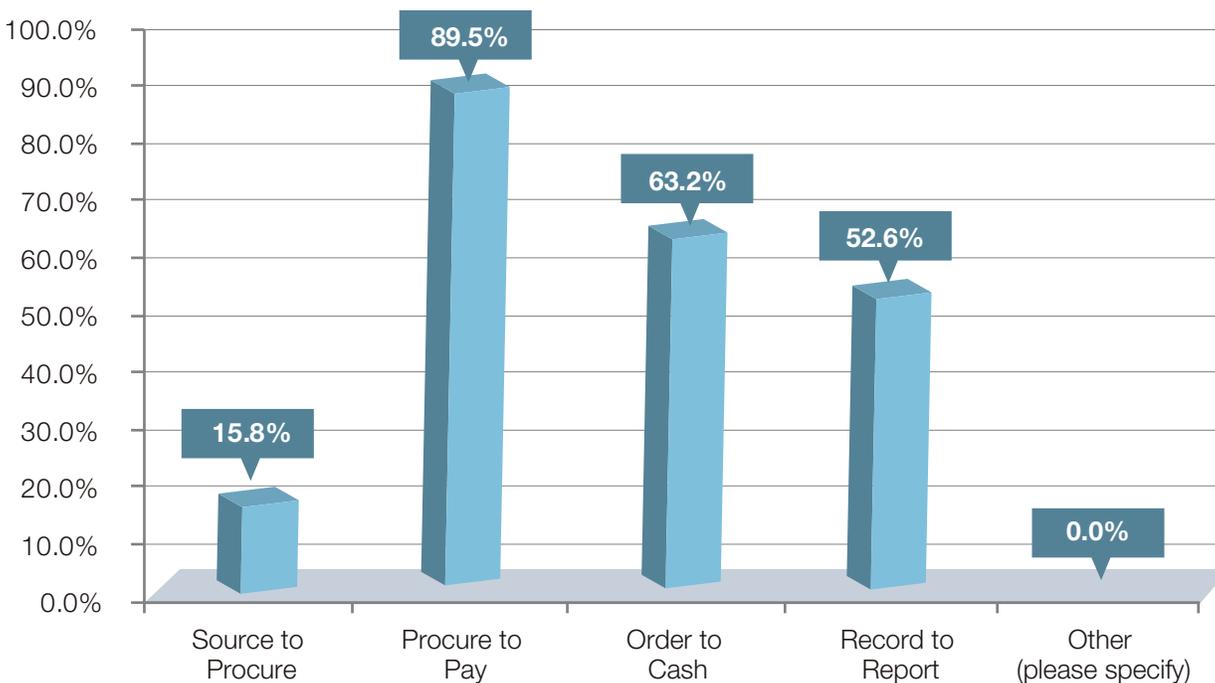
About 14% of those surveyed said they would not outsource their entire F&A processes while the rest said they would outsource a few. When asked what had prevented them from outsourcing until now, 36% expressed fears of losing control over an important function such as finance, while about 27% said they were not sure how adept the service provider would be at supporting their organization’s needs. In terms of which processes they were considering outsourcing, an overwhelming majority (71%) mentioned Procure-to-Pay, while 14% (each) said Source-to-Procure and Order-to-Cash. The scenario for the future matches the prevailing trend — where nearly 90% of those already using service providers said that the function they outsourced was Procure-to-Pay. Over 63% had outsourced Order-to-Cash, 53% Record-to-Report and close to 16% Source-to-Procure.

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“Finance transformation is the number one priority for most CFOs. Today there are compelling reasons for organizations to bring about transformation in processes with the objective to drive a significant and positive change within the Finance & Accounting function; manage operations effectively and efficiently, and to innovate and create value beyond cost savings,” says Sanjay Jain, Chief Capability Officer, WNS Group.

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**Which F&A processes have you outsourced?**



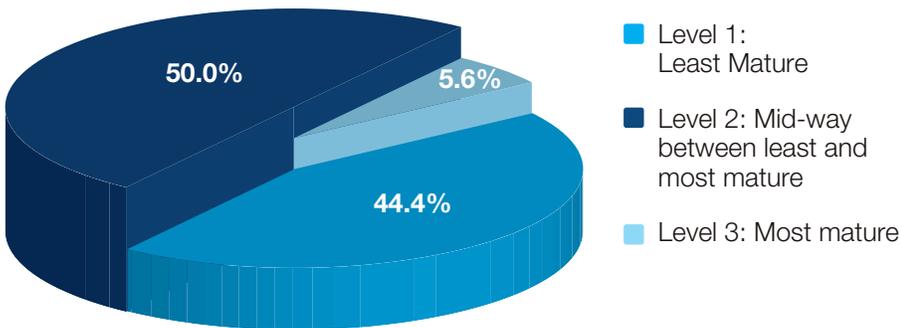
The key reasons for the buyer's willingness to outsource P2P and O2C are closely linked to impact these processes have on important business outcomes and metrics like reduced DSOs, reduced working capital, improved SOX compliance, improved procurement compliance and fixing of bad debts. Providers have also diligently strengthened their capabilities in P2P and O2C to achieve improved levels of accuracy, visibility, standardization and reliability.

Challenges in the business environment necessitate that organizations hasten their decision to opt for FAO. Some of the key considerations that companies need to make in order to speed up the decision to outsource their F&A processes are:

- Centralizing management of resources – both people and technology
- Improving business process maturity by standardizing and deploying good business practices that can be applied across the organization
- Improving strategic focus of the company by allowing an outsourcing service partner to manage operational functions, thereby permitting companies to focus more strategically on their core business

## COLLABORATION AND STRATEGIC PARTNERSHIP, NOT JUST OUTSOURCING

**How would you define the maturity level of your relationship with your service provider?**



**As many as half of the Outsourcing Center and WNS survey respondents described the maturity level of their relationship with their service provider as “mid-way between least and most mature.”**

Over 44% said it was “least mature” while just 5.6% said it was “most mature.” Clearly, there is a need to reverse these numbers, and the onus of making it happen hinges on both the client and the provider.

Recent years have seen service providers striving to take the leap from the service provider approach to that of being a partner, especially when it involves strategic planning and helping CFOs map their F&A goals to the overall corporate agenda. About 14% of our respondents said that they had achieved best-in-class performance for the processes that they outsourced, 11% revealed that they had transformed and enhanced the process through their service provider and 14% said they had saved costs in the process.

On being asked to state what would likely take their relationship with the service provider to the next level of maturity, nearly 50% of the respondents regarded “capability to transform and enhance the F&A process” as the most important criteria. “Process ownership and commitment from service” came second on the list for another 50% of the respondents.

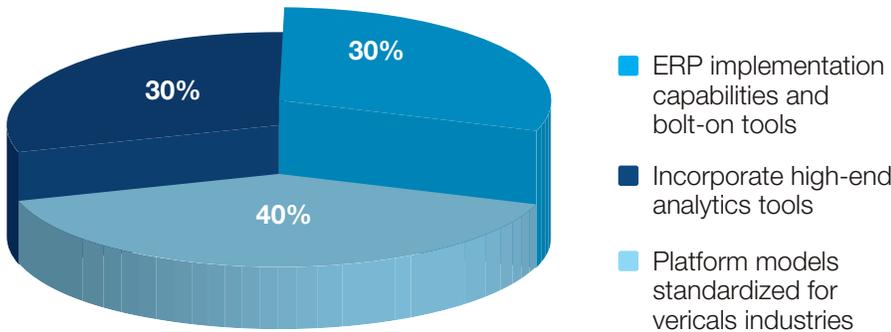
In addition, those providers that have the ability to bring in expertise to meet regulatory compliance (like IFRS, implementation of XBRL and so on) are prized above others.

Regulatory compliance is one area that has been an early adopter of outsourcing. Over the years, companies have typically outsourced such complex functions as regulatory compliance to subject matter experts or companies with specific domain and technical expertise.

The trend continues even today but at a much more enhanced pace with the ever changing, tight deadline- and rule-based compliance requirements becoming a norm across most industries. Companies nowadays are extensively using the services of specialists to be able to meet these requirements.

## CUSTOMERS WANT A STRONG TECHNOLOGY & ANALYTICS BACKBONE

**What are the factors to take FAO to a new level?**



**Nearly 30% of the respondents stated that FAO would rise to a new level if their service provider incorporated high-end analytics tools for insightful data analysis within their offerings. About 40% put their bet on platform models that can be standardized for specific verticals/industries.**

Currently, leading providers are building and strengthening capabilities in technology, analytics and resource pools for superior value creation beyond the ordinary and obvious. More and more service providers are expected to adopt this approach over the next three to six years. Part of this involves building platforms and simplifying processes. It also requires that providers gain deeper knowledge of a customer’s industry. Domain expertise in an industry will play an important role in achieving business outcomes. Also the capability for delivering more value outcomes necessitates that providers are not tied to a linear group. It will call for a change in the mix of the consulting and technical teams. Some of these advanced technology interventions that a few providers are adopting include Optical Character Recognition (OCR) / Digitized Workflow tools, e-Invoicing tools, Vendor Portals and so on.

Many providers will have to change their own strategy in order to help their customers achieve those outcomes. Says Jain, “We at WNS have been investing heavily in strategic partnerships to help us strengthen domain expertise and get access to tools and technology to be able to support innovation and process excellence. We are a technology-led BPO and have been investing heavily in industry platforms to incorporate the best practices applicable within the industry—and these have been developed to specifically address business issues identified within our clients’ processes.”

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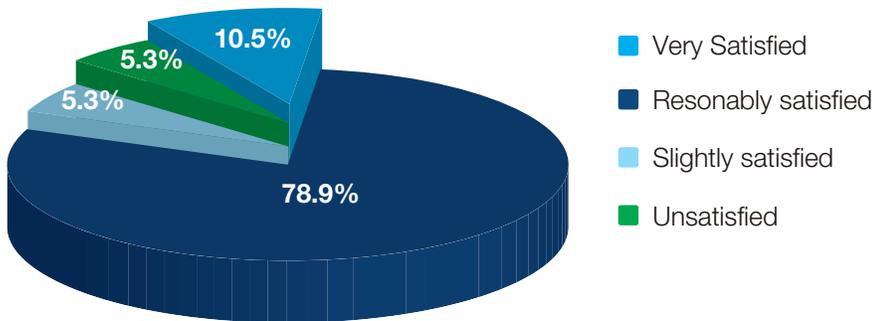
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“These platforms enhance process performance by filling in the gaps in the enterprise applications implemented at client locations and provide for complete automation of the processes. These tools and platforms are easy to implement and provide quick ROI for our clients, thereby delivering significant value proposition and enhancing competitive advantage,” he adds.

## OUTCOME-BASED APPROACH IS THE ORDER OF THE DAY

**Are you satisfied with your outsourcing service provider?**



**Only about 11% of the respondents said they were completely satisfied with their current service provider, but almost 80% were reasonably satisfied. Approximately 5% each were slightly unsatisfied or totally unsatisfied with their service provider.**

One of the big keys to providing satisfaction is changing the pricing mechanism. Customers are increasingly looking at the true cost of outsourcing. A large majority of companies are weighing the final outcome against the cost rather than the cost per transaction. Such an approach directly translates into a changed relationship between customer and service provider.

“FAO relationships are many times shadowed by challenges pertaining to confusion in costing, cultural readiness of the client, setting of wrong expectations and miscommunication between the outsourcing service provider and the client. These challenges can be overcome to a large extent by moving from the unit-cost / transaction-cost approach to outcome-based approach,” says Jitender Mohan, Senior Director, Quality, WNS Global Services.

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“This is more pronounced in areas where the buyer has a significant fixed cost. The value in an outcome-based approach depends on transformation through new innovations that a provider needs to bring to a specific function, not through labor arbitrage. Bringing in such innovative and transformational shifts will depend on the domain expertise of the service provider and in its ability to understand the clients business, needs and requirements,” he adds.

It is no secret that the CFO is under tremendous pressure today to contain costs while aiming for growth. An effective outsourcing partner can help him or her achieve these goals. In the past decade or so, the scale and scope of work outsourced to partners has multiplied several times over while getting more sophisticated as customers ask them to support more strategic F&A activities (for example, planning, analytics and compliance).

## COLLABORATE, NOT JUST COOPERATE, FOR A LONG-LASTING RELATIONSHIP

It is clear that only a collaborative relationship with the buyer will drive growth in FAO. A partnership or collaborative approach for outsourcing relationships will deepen the service provider’s understanding of the client’s business and its overall agenda.

On the other hand, outcome-based sourcing creates a greater level of dependency on the service provider, and it is extremely important that the buyer understands the level of risk the provider must take to help customer achieve the desired business outcome.

“This mutual dependency will work smoothly only if the relationship is that of partners; if there is strong governance and relationship management, and if senior leaders on both sides work together,” emphasizes Mohan.

Outcome-based sourcing will involve a longer contract life and will definitely involve a deeper level of collaboration as well as the buyer’s willingness for the provider to take on a trusted advisor’s role. Mohan stresses that the success of a collaborative relationship will depend upon the following:

- Both buyer and provider need to remain committed to working together—collaboration requires emotional engagement

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- Both buyer and provider need to have high respect for each other's competence on the topic of the collaboration or a natural first-among-equals amongst the participants because of technical knowledge or experience
- Both buyer and provider must have the skills and permission to creatively bargain with each other over costs and benefits

## OTHER BASIC ELEMENTS THAT WILL INFLUENCE THE INDUSTRY'S PROGRESS

Other than the previously discussed factors that will drive trends in the FAO industry, there are some basic elements that influence the industry's progress. So while political stability in certain geographies helps the service provider in running its operations without interruption, there are two more important factors: business and finance.

The current BPO offshore delivery locations for F&A are Brazil, Canada, the Czech Republic, Hungary, India, Ireland, the Philippines, Poland and Romania. The year 2010 recorded high offshore activity, with a large number of service centers being set up in China, India and the Philippines.

Based on current trends and market activity, analysts expect China, Costa Rica, Jamaica, Malaysia, Mexico and Vietnam to come to the forefront as strong FAO providers.

What should be noted is that low-value transactional processes, requiring limited language skills, are being located offshore while processes requiring customer contact and specialist language skills tend to stay near shore for a combined delivery model.

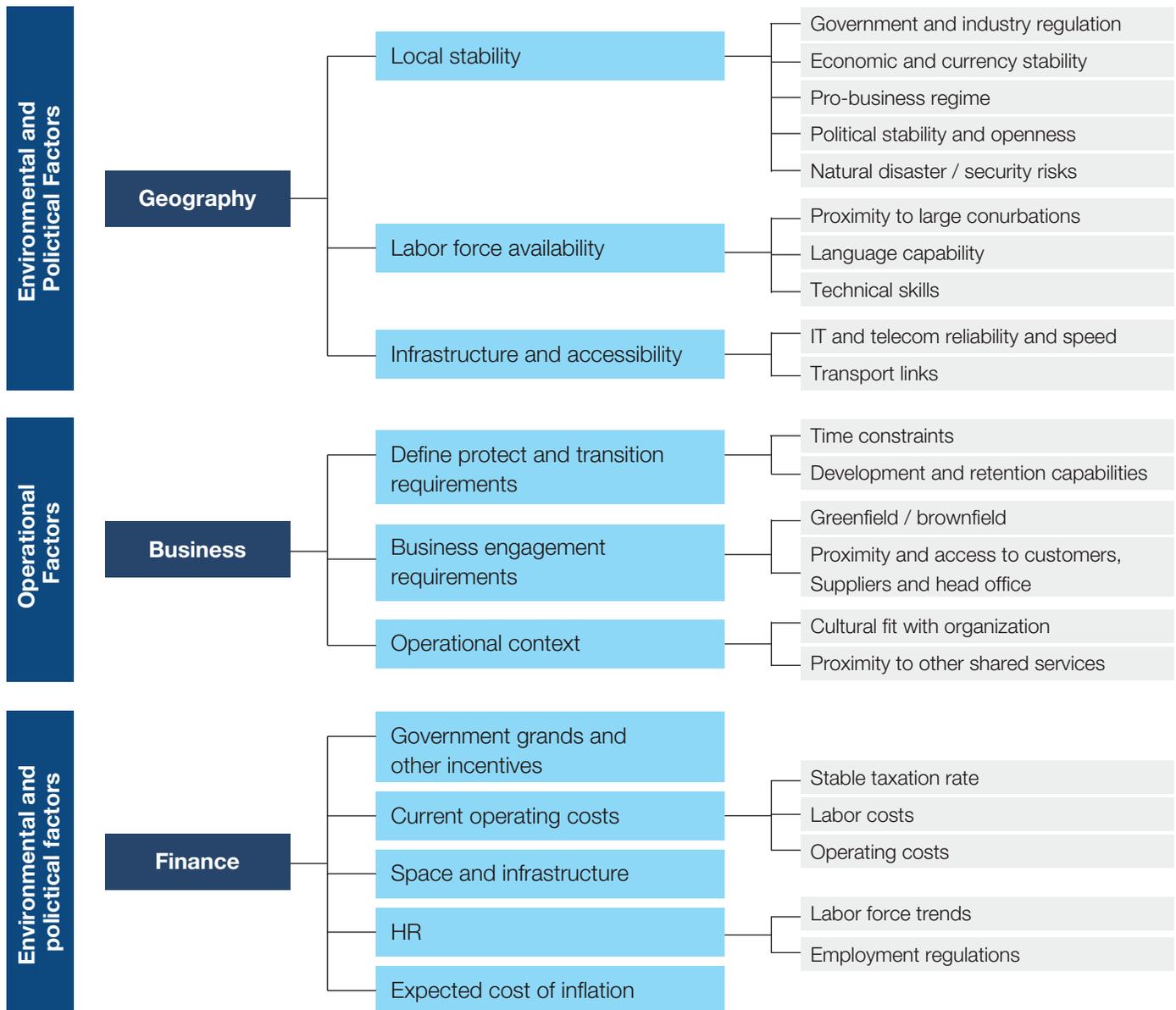
Says Manoj Bohra, Lead Consultant, Quality, WNS Global Services, "To select the right sourcing location, organizations need to step beyond short-term location trends and make a decision based on robust evaluation criteria tailored to their own specific requirements and of the market in which they operate. The choice of sourcing location cannot be solely based on cost but must factor in environmental, political and operational considerations."

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**A Closer Look at the Interplay of the Three Factors Underlying the Sourcing Localization Decision**



## CONCLUSION

“Outsourcing finance and accounting to external service providers, though now well-established, is still sometimes eyed with suspicion. Internal controls have always been a high priority for CFOs and C-suite executives. In the wake of corporate scandals and ever-increasing compliance and governance requirements, these have gained priority. While service providers are themselves setting up internal controls to ensure that operations run effectively and that financial reporting is reliable, there is no escaping the fact that customers could face any or all of the following risks,” says Bohra. He lists them as follows:

- Changes in performance dependent on change in the operating model
- Knowledge transfer related issues
- Negotiating price
- Ensuring quality and continuity
- Organization change management
- Service-level Management
- Vendor governance
- Geographical and political risk
- Data privacy

The important thing is to choose a service provider that has invested in technology, processes, people and expertise—and who is willing to work as a partner.

Customers switching to another outsourcing partner are not just a vague fear anymore. As many as 33.3% of the Outsourcing Center and WNS survey respondents said they would consider changing their outsourcing partner, and nearly 40% answered “maybe.” Some of the key reasons for dissatisfaction included low understanding of the business process, provider’s inability to innovate wisely and create value beyond their given task, and last but not the least, their provider’s lack of domain expertise.

The dissatisfaction with service providers can lead to considerable churn. When changing service providers, look for providers who possess strong functional expertise, have deep understanding of the industry, have the ability to assess the unique needs of their clients, are ready to collaborate with you

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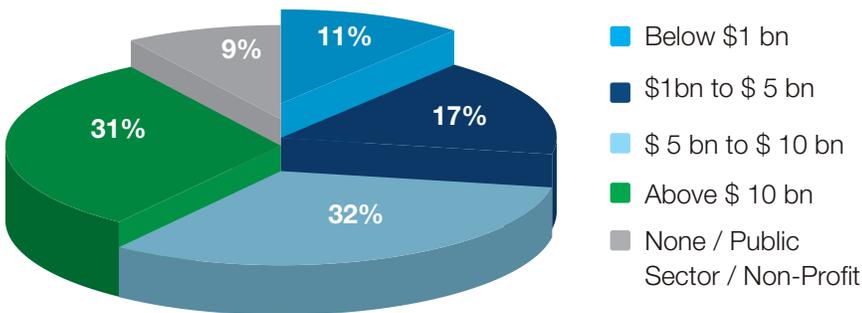
and your teams, and are able to deliver foresight, share the risks and understand your business. Such a partner can deliver on the promise of world-class outsourcing by bringing thought-leading insight to improve both business operations and top-line and bottom-line results.

## ABOUT THE PARTICIPANTS

The participants represent a range of industries including retail, financial services, transportation / logistics, manufacturing, healthcare and telecommunications.

The survey findings provide some key and current trends in F&A challenges; expectations of companies from their FAO service providers and the direction buyer-provider relationships will take in the near future.

### What is your organization's annual revenue?



31% of the companies participating in the Outsourcing Center and WNS and WNS Global Services survey represented companies with revenues above \$10 billion; 32% of respondents came from companies with revenues between \$5 - 10 billion; 17% from firms of size \$1 - 5 billion and 11% were from enterprises below the \$ 1 billion mark.



An Outsourcing Center and WNS Global Paper

