

Drive Agility and Value into Your F&A Processes

With Technology-enabled BPM

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Complex Business Demands - Driving the Need to Re-design the F&A workplace

The CFO today is in the midst of a number of business **challenges** such as:

- Financial pressures on both top and bottom lines
- Multi-level risk mitigation (compliance, business continuity planning, data security and privacy)
- An unpredictable business environment speckled with toughening competition and tightening regulations
- Advent of new technologies and widespread mergers and acquisitions
- Concerns about business agility (scalability, flexibility, information accessibility) and ensuring optimum stake holder value (market perception, reputation, valuations)
- Driving efficient operations to reduce cost
- Creating greater visibility through reliable and accurate information and generating higher ROI on IT and process improvements
- Improving regulatory compliance
- Increasing quality of support from the finance organization to the entire organization

How can the CFO achieve his goals of building the organization's future?

Well, the solution for most CFO challenges lies in creating... a '**Process Enhancement Technologies & Services (PETS) + Process Maturity (PM) Model-enabled workplace**'!

According to Gartner, "Process Enhancement Technologies & Services (PETS) represent both applications (such as Accounts Payable automation) and services (such as an

With so much on his platter, the CFO's agenda today is focused on achieving various **goals**:

Featuring research from

Gartner

e-invoicing network or a scanning specialist) that are necessary to overcome shortcomings in existing Finance & Accounting (F&A) solutions.”

When integrated with a Process Maturity (PM) Model, PETS can help businesses achieve strategic success for their F&A organization.

A PETS+PMM-enabled workplace helps in:

- Automating 100 percent of mundane tasks

- Reducing paper-based processing by more than 95 percent
- Reducing labor drastically
- Improving productivity significantly...

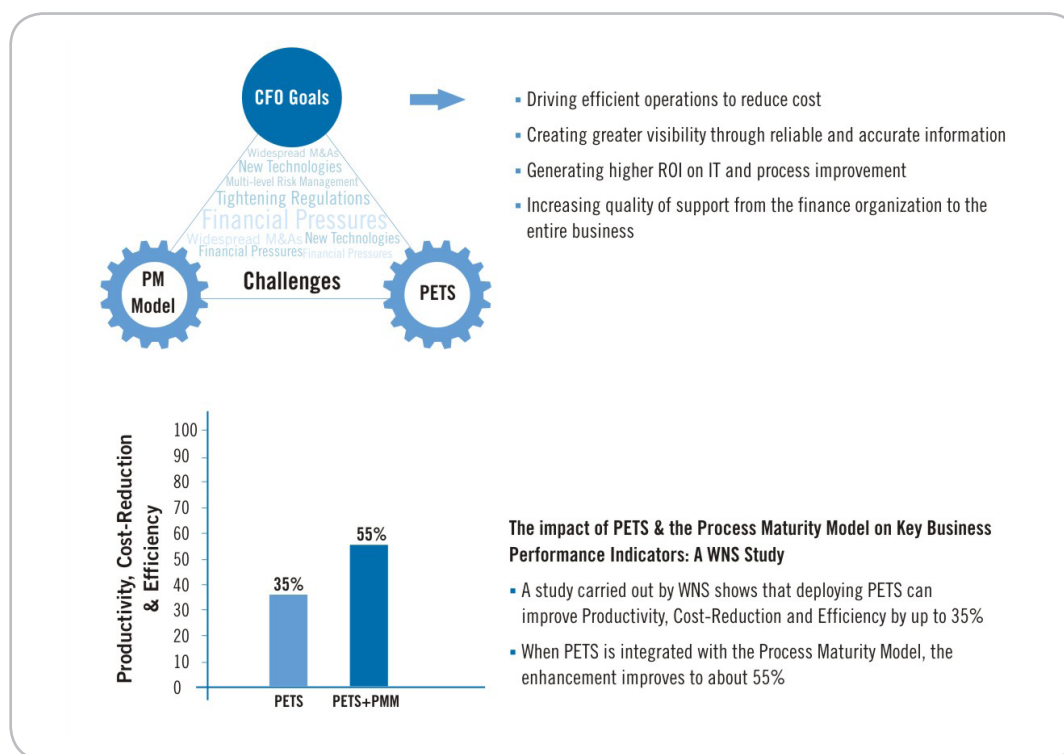
...thereby assisting the CFO to steer the organization towards its goals.

This whitepaper tells you how.

Source: WNS

FIGURE 1

PETS combined with the PM Model helps address challenges in F&A and attain key CFO goals.



Source: WNS

The impact of PETS and PETS+PMM on productivity, cost reduction and efficiency within the F&A organization.

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The F&A ERP Module Needs Sharpening in the Changed World Order

Effective operations call for a fine balance between technologies, the people involved, the tasks being performed, the processes laid down, the planning and control mechanisms. For most organizations world-wide, implementing ERP has been the first step towards standardizing and automating business functions. The top-most choice for ERP implementation for most organizations has been the Finance and Accounting function.

The F&A ERP module has proved to be a proficient organizational tool that provides enhanced financial functionality and analysis capabilities to businesses. ERP helps control F&A processes by enhancing transparency and consistency. Most research findings on

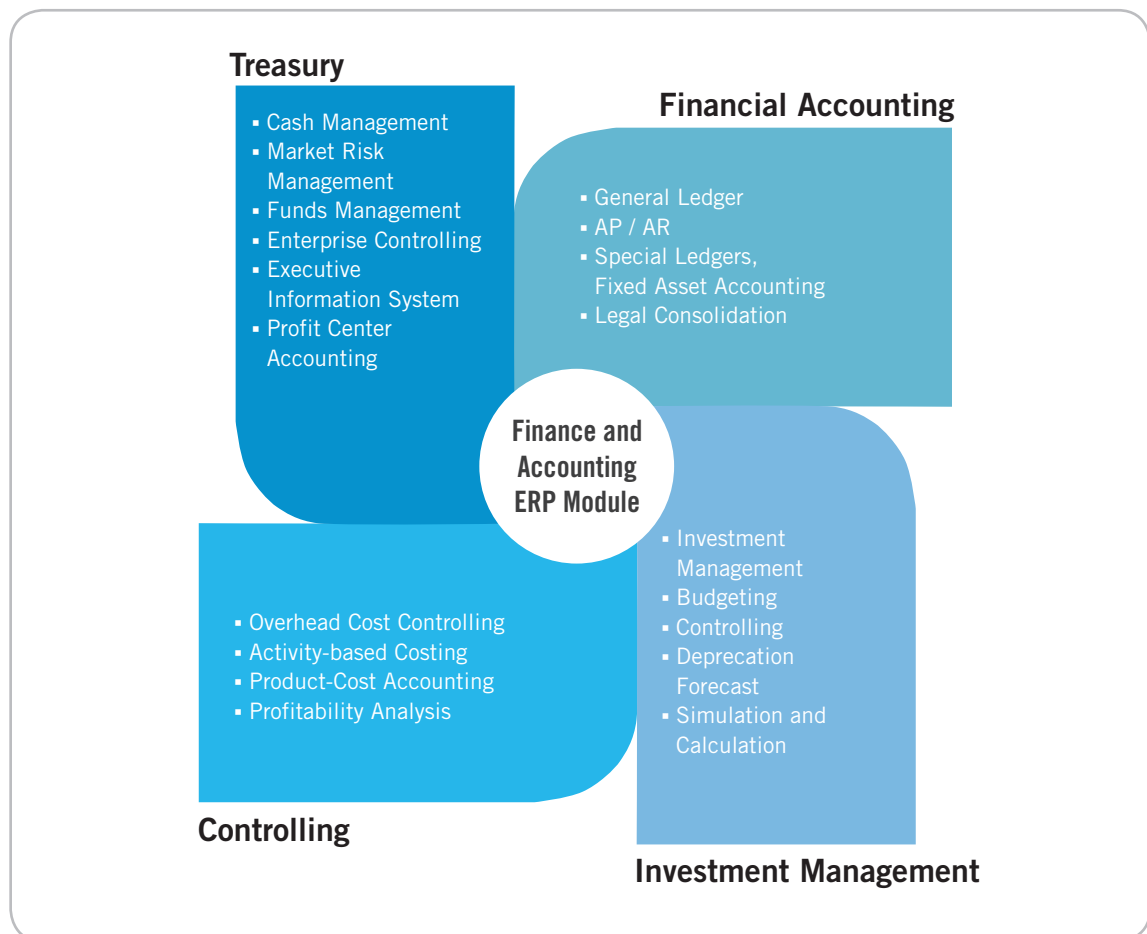
ERP indicate that more than 90 percent of ERP usage is for F&A today! The accountancy or the financial module often forms the core around which other modules are organized.

Despite the utility value of ERP, increasing business demands and constant maturity in processes and systems have exposed certain inherent limitations of the ERP system in addressing end-to-end process automation. These limitations call for either building robustness in the ERP systems through additional investments or quickly aligning with ERP agnostic technologies that can help automate and create mature business processes.

Source: WNS

■ **FIGURE 2**

A graphical representation of the functions that a typical F&A ERP Module serves.



Source: WNS

How Does ERP Fall Short of Meeting New Business Demands?

The ERP was developed with the raison d'être of improving integration among multiple business functions and processes within the organization. Most ERP packages were designed and developed in the form of modules, each module specifically built to address one key function of the organization, be it F&A, HR, Manufacturing, Production or Sales & Marketing. Despite the diversity in ERP systems available in the market, the architecture and the functioning of ERP modules were similar and standard. Even today, ERP systems continue to be organized in modules, each module covering one of the major functions of the company, including data processing for different management processes involved.

The *standard nature of ERP systems* has led to various inherent limitations especially in the context of Finance and Accounting where ***too little customization may not integrate the ERP system with the business process while numerous customizations may stretch the ERP beyond intended use and make the cost of implementation and ongoing maintenance prohibitive.*** Hence, F&A organizations typically deal with these exceptions and customizations outside of the ERP, many times through paper-based and manual processes. Such manual process adaptations cause inefficiencies, loss of productivity and in many cases audit and control issues.

Here is an example:

- ***The standard purchasing ERP framework:*** The ERP usually has a standard purchasing framework that is typically based on legal entities or policies for purchases. However, in reality, an organization usually has an unlimited number of concurrent purchase card providers.

- ***Increased business demands require added ERP functionalities:*** The ERP in such a scenario is forced to interact with the systems of all card providers, set policies, and manage individual limits and policies for each user and the organization. Thus, additional functionalities such as tracing transaction activity; analyzing procurement spending patterns and resolving supplier payment issues with high speed, accuracy and efficiency are needed from the ERP system.
- ***ERP Customization increases TCO:*** While the ERP can be customized to bring in the desired functionality, the TCO goes up significantly.
- ***Enhancing ERP with PETS:*** For such intricate requirements, businesses can avoid the ERP customization route, and instead opt for a PETS solution such as the Purchase card or P-card, that has all the advanced functionalities required for addressing complex purchasing needs and can be easily integrated with the ERP, at costs much lower than what is required to customize the ERP.

"Benefits accrued through huge investments may not result in 'Quick ROI', which is often the goal for most investments made by organizations today."

Source: WNS

Enhancing ERP with Process Enhancement Technologies & Services (PETS)

For complex business needs, ERP can no longer serve all your needs and requirements in isolation, especially for the Finance and Accounting organization. There are multiple activities – both mundane and complex that are outside the purview of the ERP because of the way the ERP is structured and the dependencies that other ERP modules may have on it.

PETS make for an ideal enhancement for your existing ERP.

Here is why:

- PETS make ERP enhancement easy and cost-effective, thanks to the benefits they bring along in the form of **flexibility of deployment, universal integration adapters, modular built, low annual maintenance costs** and **capital investments** - providing a profitable option for any organization looking for "Fast ROI".
- PETS and Finance and Accounting platforms such as **auto-pay frameworks, portals, reconciliation tools** and **reporting engines**, along with the core accounting ERP, provide the benefits of new-age, feature-rich applications with the robustness of the trusted ERP platform. These platforms also provide user-friendly interfaces, short learning curves and are highly configurable, making them ready to adapt to dynamic organizational changes and business demands.

According to Gartner, "F&A BPO PETS are supplements to a client's existing ERP suite and suite of suppliers. Some are "off-the-shelf" applications and some are "home built" applications in the F&A BPO providers offering. The options for F&A BPO architectures will increase dramatically in the next five years with the growth of cloud technologies, especially software as a service, and business process as a service, which will increase the choice for using multiple PETS in an F&A BPO relationship."

PETS – Key Imperatives & Classification Based on Process Complexity

PETS must satisfy two important criteria to be able to create real value for your business:

1. PETS you employ must be easily compatible with the core F&A ERP module
2. PETS must support risk and compliance imperatives within the organization

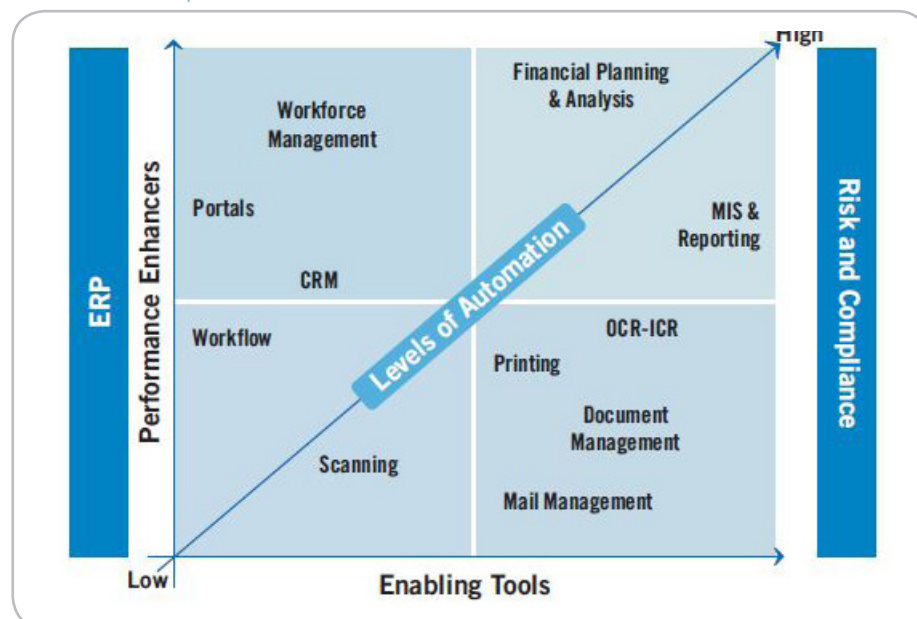
Figure 3 explains how PETS is bound by two important pillars – core ERP on one side and Risk and Compliance on the other.

Depending on the business process it serves, each Process Enhancement Technology & Service or Enabling Tool can be classified into the quadrants as shown in figure 3.

Source: WNS

FIGURE 3

PETS within quadrants 2, 3 and 4 are process-specific, while PETS in quadrant 1 cuts across all processes within F&A.



Source: WNS

PETS + PM Model - Higher Maturity & Enhanced Value

Integrating Process Enhancing Technology & Services (PETS) with a Business Process Maturity Model (PMM) helps to move business processes from their current state of affairs to higher levels of maturity, thereby enhancing the impact created by PETS.

In this model, each target business process is rated on a scale of 0-4, on 5 key dimensions and 36 sub-dimensions and a process maturity map is created. The five key areas assessed are:

- Operating Model
- Technology Enablement & Optimization
- Operational Controls and Service Delivery

- Organizational Development
- Strategic Business Value

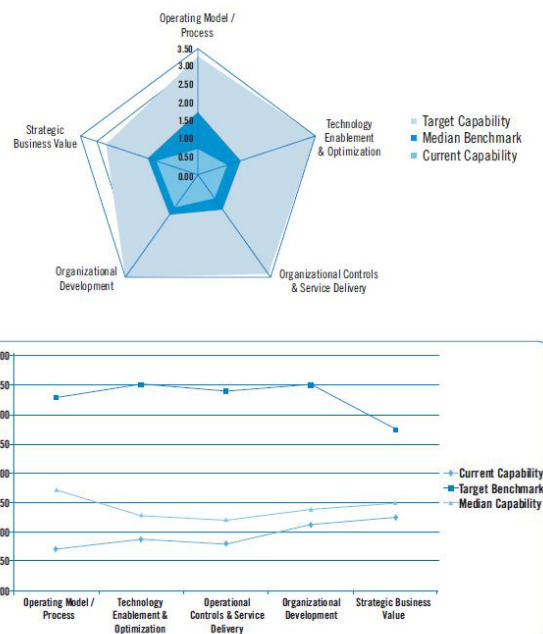
Mapping the target business process with the PM model helps determine the maturity level of the process and in turn facilitates creation of a PETS deployment roadmap to bring the process to a desired level of maturity.

PETS on the other hand, form the important base of this model to enhance both the efficiency and effectiveness of processes through technology led automation, business process re-engineering, analytics and industry benchmarking.

FIGURE 4

The Process Maturity Model followed by WNS to create the PETS-deployment roadmap.

Dimension	Sub-Dimension
Operating Model / Processes	<ul style="list-style-type: none"> • Scope & Span • Organizational Structure & Alignment • Process Standardization • Business Rules & Data Normalization • Knowledge Management • Continuous Improvement • Continuous Improvement • Strategic Sourcing Joint Innovation
Technology Enablement and Optimization	<ul style="list-style-type: none"> • Base Enablement • Source-to-Pay • Order-to-Pay • Record-to-Report
Operational Controls & Service Delivery	<ul style="list-style-type: none"> • Governance • Operational Control • Performance Management • Benchmarking
Organizational Development	<ul style="list-style-type: none"> • Organization Structure • Staffing Levels • Senior Management Team • Staff • Incentives • HR Planning • Recruiting, Development and Retention (Management) • Recruiting, Development and Retention (Staff)
Strategic Business Value	<ul style="list-style-type: none"> • Operational Planning • Customer and Vendor Relationship Management • Risk Management • Cash & Spend Management



Source: WNS

In totality, the PETS + PM model helps service providers to move:

From		To
Being labor intensive	➔	Being Innovation Centered / Technology Augmentation
Being dependent on capability-specific services	➔	Having end-to-end services across the value chain
Operating on fixed pricing models	➔	Operating on flexible pricing models

Benefits Delivered by the PETS + PM Model

By re-structuring processes, businesses can transform the way of doing business, save money and time, and increase the quality of operations and products. Listed below are some key benefits delivered by the PETS+PM model:

- The model brings in agility to the F&A organization by automating multiple process steps from origination
- It reduces workload and operating costs by automating payables, enabling vendor self-service, auto reconciliations and automated reports
- It helps optimize production processes – shorter cycle times are achieved across Invoice-to-Payment, Order-to-Cash and book closures
- The model equips the F&A organization with better decision-making capabilities and faster access to finance reporting and analytics
- The PETS+PM Model allows better co-ordination of department performance by greater integration of end-to-end processes
- Elimination of human errors are made possible by reduction in manual interventions, built-in checks, and balances and fraud detection within this model
- It ensures better compliance – be it regulatory, statutory or internal

Source: WNS

A WNS Case Study

How did a leading freight transportation and logistics provider move its accounting process up three maturity levels to enhance key business metrics?

The Client:

A leading freight transportation and logistics provider in the US

The Challenge:

With operations across the US, the client had to deal with hundreds of thousands of paper invoices that would come in for accounting and payments. The huge volumes of paper invoices that were being managed manually led to a major problem for the client – delayed vendor payments and therefore angst among vendors.

The Solution:

WNS ran the Process Maturity Model study on the client's process and created a roadmap to deploy PETS across three levels (depicted as Level 1, 2 and 3 in figure 4. Level 0 indicates the client's process before

PETS deployment.) PETS would be deployed to help the process move from level 1, level 2 and finally level 3.

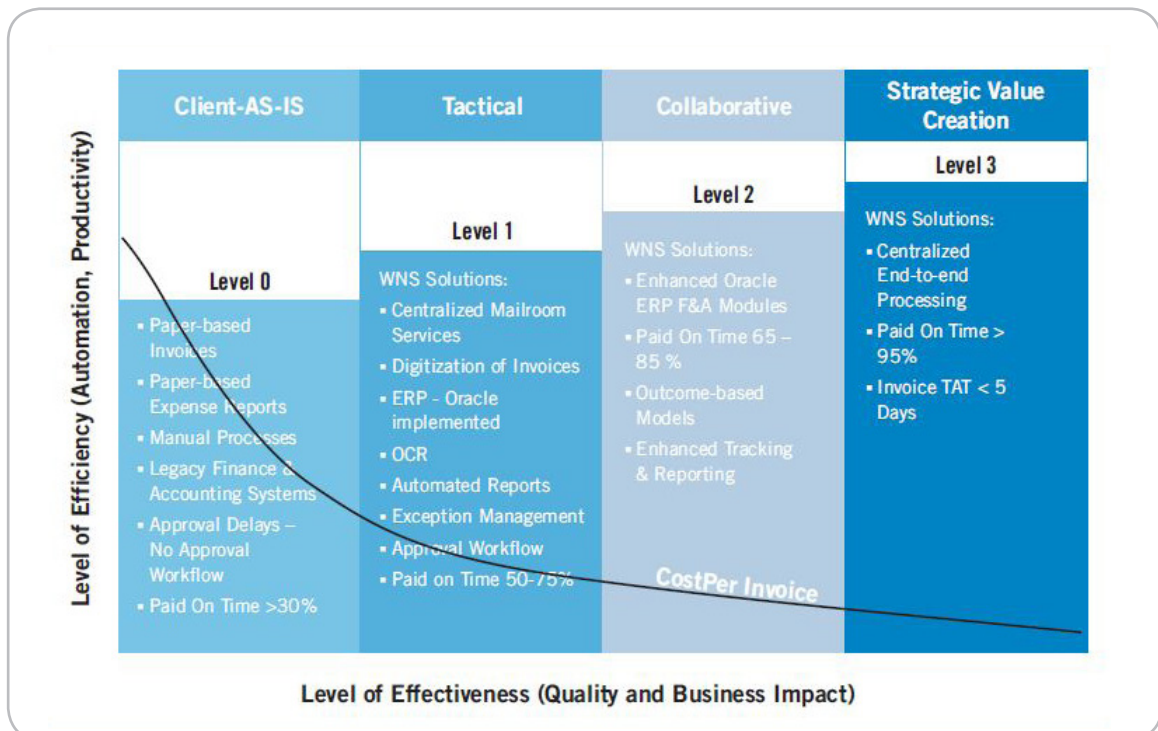
Level 0: Indicates the client's process before PETS deployment. Before PETS, the process involved managing a huge volume of paper invoices, marked by hindrances in the approval process, lack of an approval workflow and resultant delays in vendor payments.

Level 1: Aimed at eliminating paper invoices. At this stage, mailroom scanning solutions were introduced and all invoice data was converted into electronic format. Central scanning hubs and mailroom services eliminated paper invoices and related services. An approval workflow was introduced. On stabilization, the process started showing improvements in vendor payments.

Level 2: Once level 1 started showing results, WNS introduced the process to more sophisticated technologies. Automated data extraction and Oracle ERP finance and accounts solutions were introduced at this stage. This ensured processed and validated information was available always. Customized workflows with approvals improved the approval process and thus payments to the vendors.

FIGURE 5

The Process Maturity Model used for deploying PETS for one of WNS's clients.



Source: WNS

Level 3: Seamless integration of all workflow and document archival systems with ERP was introduced at this stage. This provided a single system to the users for information availability and management. Online portals (with 'reminder' and 'escalation' features) were introduced to ensure systems availability to users for enabling timely approval on invoices.

This systematic and step-wise introduction of PETS helped transform the client's process from paper-based invoices and manual accounting processes to paperless, automated accounting and information management solutions with the following benefits:

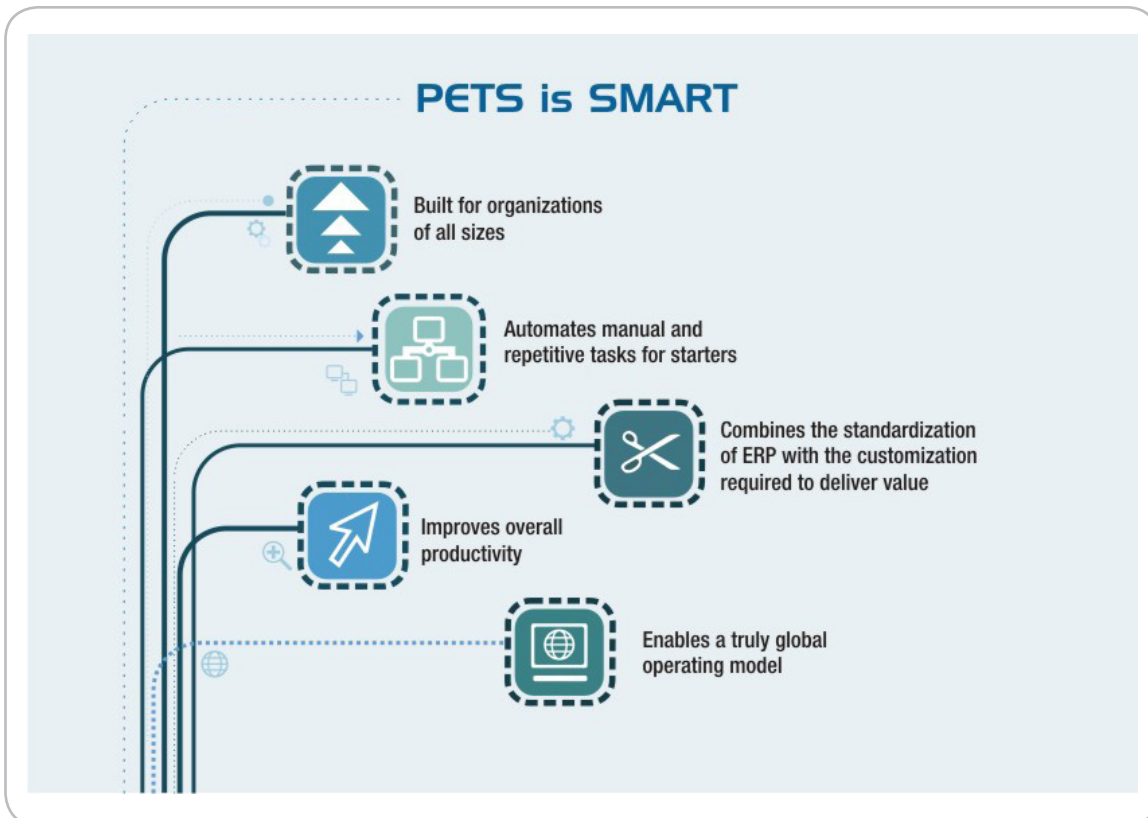
- Cost per invoice reduced by 35 – 40 percent
- Lower costs of operation led by significant improvements in process management control and automated reporting

- Improved productivity gains due to automated workflow routing and data indexing
- Invoice turnaround time < 5 days. Timely approvals and vendor payments enabled by systematic approval hierarchy
- Information availability across the organization leading to higher productivity made possible with data management within ERP

WNS was successful in moving the client's operations from the current level to a maturity level (Level-3), thereby creating strategic value for the client.

Source: WNS

FIGURE 6
Features that make PETS a SMART choice for organizations



Source: WNS

Excerpts from a Q&A with Sanjay Jain, the Chief Capability Officer at WNS

What is the real edge that Process Enhancement Technologies have?

Sanjay Jain: Process Enhancement Technologies help automate manual and repetitive tasks. Automating such tasks reduces manual and paper-based processing, reduces manual interventions and enables audit trails to help improve control-and-compliance frameworks. This multi-level impact helps improve inter-group interactions, thus improving overall productivity and enabling a truly global operating model where a geographically distributed workforce can work effectively and efficiently.

Automating such tasks reduces manual and paper-based processing, reduces manual interventions and enables audit trails to help improve control-and-compliance frameworks.

What are the gaps / limitations that exist in the ERP vis-à-vis the needs of the F&A organization and where do they need help?

Sanjay Jain: The standard and modular nature of ERP systems limits the scope of customization drastically. Customizing the ERP beyond its core intended use may stretch it and make the cost of implementation and ongoing maintenance prohibitive. Hence, F&A organizations typically deal with these exceptions and customizations outside of the ERP, many times through paper-based and manual processes. Such manual process adaptations cause inefficiencies, loss of productivity and in many cases audit and control issues.

Does it make a difference to know how mature your business process is to be able to implement PETS and derive maximum value from it?

Sanjay Jain: Absolutely! To a large extent PETS helps F&A organizations drive maturity into their current operating, process and technology models. Hence, knowing the current state of the business processes and the target desired state will help an organization identify the gaps and then create the right transformation plan to address the gaps and deploy appropriate PETS artifact in a timely manner to mature its processes.

Knowing the current state of the business processes and the target desired state will help an organization identify the gaps and then create the right transformation plan to address the gaps and deploy appropriate PETS artifact

Given that many businesses outsource parts of their F&A function, how can the service provider play a strategic role in helping the business achieve its goals?

Sanjay Jain: A service provider can play a significantly important and strategic role in helping businesses achieve their goals. By integrating PETS and deploying Process Maturity Models a service provider can:

- Help create an operating model that delivers a sustainable and predictable quality of services to its clients while addressing the variability in business cycles
- Impact step changes in productivity and efficiency by addressing automation of manual workflows and inefficiencies in ERP systems by using the right PETS module
- Improve their control and compliance framework
- Create commercial engagement models by providing output-based or outcome-based pricing models that help clients manage variability in their business better

By integrating PETS and the Process Maturity Model, providers can offer output-based or outcome-based pricing models to clients

8. WNS – A Leading Provider of PETS and Business Process Management Solutions

WNS (Holdings) Limited (NYSE: WNS), is a leading global business process solutions company. WNS offers business value to 200+ global clients by combining operational excellence with deep domain expertise in key industry verticals.

To help clients overcome the limitations of ERP and harness the power of PETS, we provide a wide array of Process Enhancement Technologies and Services (PETS) for the Finance & Accounting organization. Our range of PETS brings about significant process improvements to our clients' businesses. Significant benefits can be achieved through the use of these PETS either individually or as part of a program of continuous improvement.

Our technology consulting arm, WNS Technology Services (WTS), provides cutting-edge technology services and solutions across verticals. Under the WTS umbrella brand, we offer our BizAps family of Purchase-to-Pay and Order-to-Cash solutions, as well as partner solutions. These solutions help build the vendor-customer ecosystem for our clients required for a transparent and error-free business environment.

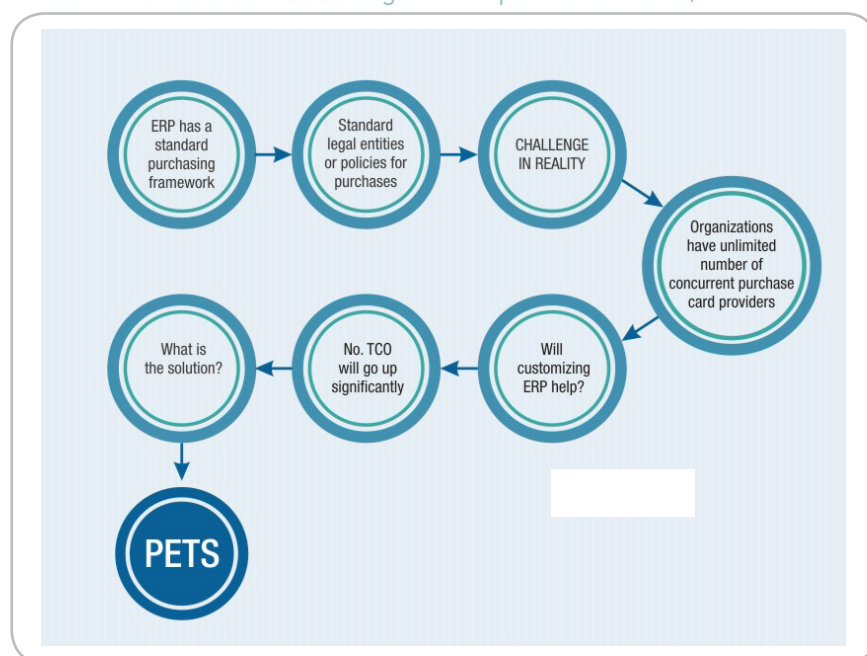
Our long-standing experience and expertise in successfully integrated technology implementation with domain-expertise, helps us deliver niche solutions for clients in Application Development and Maintenance, Business Intelligence and Analytics Tools, ERP and Business Application management and BPM.

F&A Activities and Deal Management Technologies	Software Tool Suppliers and Service Partner
Scanning, Digital Imaging, Mailroom and Archiving	Berkheimer Outsourcing, Iron Mountain, Box-it, Sema
Optical Character Recognition	Kofax, Pegasus
Business Process Management Suites	Newgen, Datacap, coreNeuron
Procure-to-Pay applications and Specialist Partners	WNS BizAps Solution (Vendor Master Workbench, Vendor Portal, Self-service Invoicing, Web based Purchase Requisition and Approval Workflow, EZ Accounts Workbench, P-Cards Engine Duplicate Payment Checking, Dynamic Discounting), Other solutions: SAP, Oracle, PeopleSoft Specialist Partners (Ariba)
Order to Cash applications and Specialist Partners	WNS Solution (CashWiz) CoAction solutions (Customer Portal, Return and Claims Management, Web Invoicing, Collections Workbench and Intelligence Reporting, Cash Application Tool) SEEinbiz solution (Customer Communication Platform)
E-Invoicing Services	Ariba, Tradeshift
Financial Governance Applications Including Reconciliation Management	Oracle, Cognos, Trintech and SAP Business Objects
BI, Analytics and Finance Performance Management	Hyperion, SAP Business Objects, Cognos, MS Server 2008, Knowledge Relay
Expenses	Newgen, Concur, Oracle, SAP, PeopleSoft
Client Reporting	Trintech - AssureNet, ReconNET, Unity GL Close, Trackpoint, WNS Operations Portal
Profit Recovery and Analytics	Cognos, Hyperion
Financial Close	Oracle, Cognos, Ariba, Trintech, Jira, Oracle, Business Objects

Source: WNS

FIGURE 7

Driving enhanced value from your ERP with PETS (Example: Challenges faced when ERP is stretched while dealing with multiple Purchase cards)



Source: WNS

Finance and Accounting Process Enhancement Technologies and Services Are Essential to the Future of BPO Delivery

Organizations that are new to F&A business process outsourcing, or want to redesign their deals, can use this research to understand the scope of activities and process enhancement technologies and services that supplement ERP suites, and how to choose among the main F&A BPO delivery options.

Overview

As organizations investigate how to start or further exploit finance and accounting (F&A) business process outsourcing (BPO), they are faced with a growing challenge: “How do we improve the finance processes via the use of technology to deliver our optimum outcomes?” This involves evaluating automation opportunities and research is a good starting point for those learning about this topic, and the available options. This is also applicable to organizations that want to streamline delivery at their internally run and managed shared-service centers.

Key Findings

- The drive for increasingly effective and efficient processing leads buyers to consider using process enhancement technologies and services (PETS) that F&A BPO providers have built up using a large portfolio of applications and services.
- F&A BPO PETS are supplements to a client’s existing ERP suite and suite of suppliers. Some are “off-the-shelf” applications and some are “home built” applications in the F&A BPO providers offering.
- The options for F&A BPO architectures will increase dramatically in the next five years with the growth of cloud technologies, especially software as a service, and business process as a service, which will increase the choice for using multiple PETS in an F&A BPO relationship.

Recommendations

- Developing a client organization’s capability to evaluate the use of F&A BPO providers’ PETS will require a multidisciplinary team drawn from IT and finance.

- Ensure that all members of the team are aware of their responsibility to participate in mitigating the costs and risks associated with PETS, and comprehend the realistic benefits and implications of using the services.
- Often buying access to PETS from your F&A BPO provider should be the most cost-effective solution; however, review ERP vendors and independent software offerings delivering similar process improvement technologies and services to see if there is a solution that is easier to implement or has a better ROI. Accessing a collective solution that enables the service provider to gain economies of scale should be significantly less expensive (if not “free” within the service) when buying an outsourced service.
- Avoid using the terms “innovation” and “transformation” when discussing these PETS because fundamentally these terms mean change, and you will get change, but you need to couch both internal and supplier discussions in terms of the actual process benefits that would be received or plausible in the life of the BPO contract.

Strategic Planning Assumption(s)

By 2017, virtually all F&A BPO deals will use an integrated delivery suite of F&A-BPO-provider-delivered PETS.

Analysis

This document was revised on 10 February 2012. The document you are viewing is the corrected version. For more information, see the Corrections page on gartner.com.

F&A BPO providers supply a combination of labor from onshore, nearshore or offshore locations, varying amounts of PETS and in limited cases, the core ERP. There are more than 20 key providers of F&A BPO, 16 of which are evaluated in Gartner’s Magic Quadrant for F&A BPO, and many of whom use combinations of PETS to build their offering. This research does not mention which F&A BPO providers promote which PETS, but

introduces the concept, the pros and cons of various models when buying or improving F&A BPO delivery.

PETS are both applications (such as AP invoice automation) or services from specialist partners, such as an e-invoicing network supplier or a scanning specialist and in some cases, F&A BPO providers have built their own, custom process enhancement solutions. These PETS are necessary to both overcome shortcomings in clients’ existing F&A solution PETS architectures and to differentiate F&A BPO offerings by allowing them to offer better, faster and/or less expensive processing solutions.

The F&A BPO staff will perform the work using a combination of several of these solutions and will use either an access tool such as Citrix to transfer data on to the organizations’ ERP system, or integration capabilities inherent in the PETS to transfer data directly to a client’s ERP system.

Each F&A BPO provider is looking for ways to differentiate its solution, whether via focusing on:

- Labor and talent: Through concentrating on locating its F&A BPO global delivery network in various global locations to attract talent, slave off labor attrition and better manage wage rises; training; and offering higher-skilled workers for record to report services or colocate with technologists or the client; see “Six Best Practices When Using Offshore BPO”
- Developing business process as a service (BPaaS) or business process utility (BPU) solution for full finance functionality or a specific service such as expenses
- Bundling in types of consulting and Six Sigma or Lean services
- Partnering and building finance process delivery methodologies and benchmarks

- Investing significantly in PETS via alliances or homegrown tools
- Building industry-vertical-specific offerings
- Offering interesting pricing models and commercial terms; see “Outsourcing Advisory: Pricing Options and Trends in BPO”
- .Supplying high-end F&A services around financial planning and control; see “Case Study: Pricing Model Challenges Moving from an Internal Finance or Shared-Service Organization to BPO”

These PETS are frequently and misleadingly referred to by a range of terms in the market, including the following:

- “Middleware,” however, as Gartner defines the term “middleware” as “system

software that offloads common utility functions from applications to make applications easier to develop or improve their quality of service,” which is a layer well below PETS, they are not middleware.

- “Bolt-ons,” but they are not bolt-ons because they don’t bolt on to anything since they are independent and can be integrated to or linked with any back-end ERP, or operate as stand-alone technologies.
- “Tools,” but they are not tools because they are either packaged applications or value-added services.

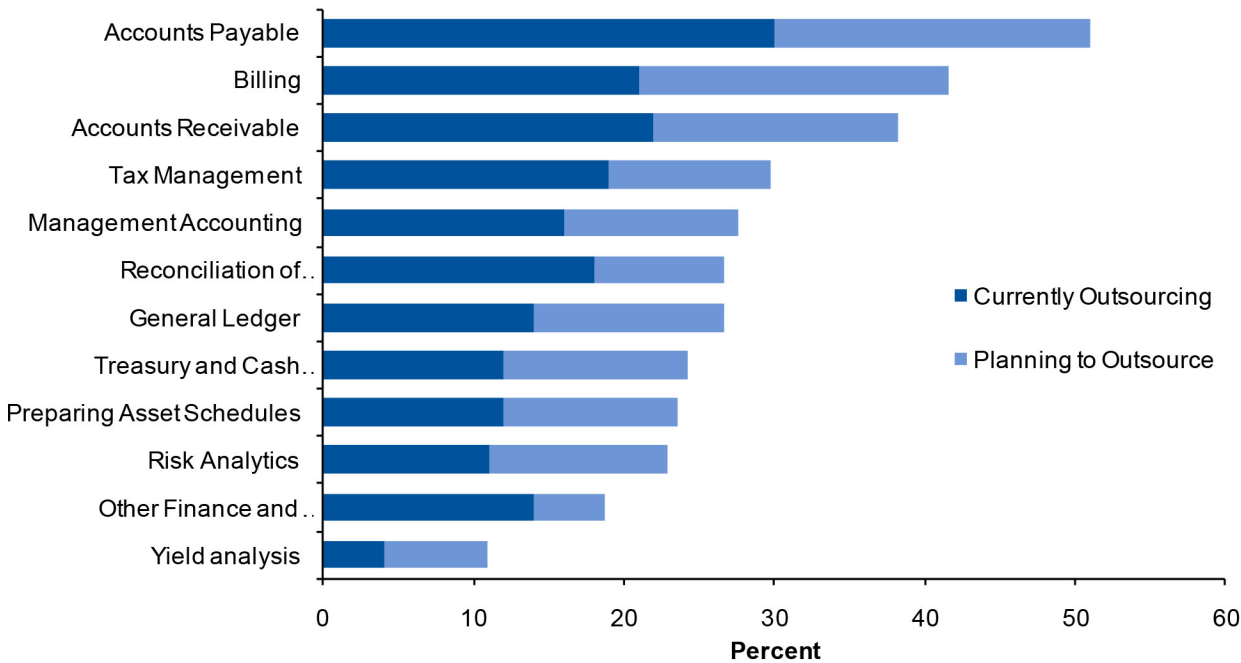
This is the rationale for the term “PET” and services.

What Processes Do Organizations Typically Outsource With F&A BPO?

Several large corporations have outsourced a very wide spectrum of F&A work, such as, Microsoft, BT, Unilever and Philip but each organization has taken a slightly different view of the way it has sourced PETS to dramatically improve the finance processing. These options range from building their own PETS, which the service provider will use, or using tools the service provider has built or procured for single or multiple-client use. It is this range of PETS described in this research.

Gartner’s recent survey of 277 organizations that outsource F&A BPO shows that the majority of organizations outsource elements of accounts payable and accounts receivable, with a growing number outsourcing record to report services, including preparation for SOX compliance, as shown in Figure 1.

FIGURE 1
What Are Organizations Buying and Planning for F&A BPO in the Next 12 Months?



Number of respondents = 277
Source: Gartner (March 2011)

Solution Architecture Considerations

When engaging in F&A BPO, it is important to think strategically about sourcing all the elements of a solution. In fact, the ability for a provider to show how its PETS operate in a buyer-specific vertical industry, geographic presence and scale of operations will be a key competitive supplier differentiator during the next three years. Rarely is a client starting from a greenfield site, that is, with no F&A systems. Typically, an organization faces many existing systems and variables when it starts to consider starting or enhancing outsourcing its F&A, including the following:

- The number and type of processes that a finance function performs, which differ by size and scale of number of recipients and global presence of the company or government
- Industry in which an organization operates, e.g., airlines have additional challenges of revenue accounting or media companies need to perform royalty accounting
- How many ERP systems are in operation, the future near and midterm ERP strategy and the existing applications surrounding the ERP systems including, infrastructure, databases, middleware, consolidation tools, data warehouses, business intelligence applications, Excel spreadsheets and analytics applications

The opportunity for benefiting from an F&A BPO providers established knowledge and suite of PETS will ultimately depend on the following:

- What process functionality you are lacking in your ERP. Evaluate providers' solutions on what they can specifically show you they have delivered, preferably in your industry and regions to meet these gaps. The most typical functionality that is lacking in F&A is a low-cost way to get the invoice content into an ERP, hence the massive choice of scanning, OCR and electronic invoicing suppliers.

- What technologies your IT and CFO team will support the deployment of (and whether these are owned by the service provider or yourselves). Some clients of F&A BPO do not use the provider's suite of PETS as their IT team will not allow these technologies to interface with their ERP or security systems.
- How these technologies and services will be paid for — will it be per transaction or as a one of charge. In 2011, organizations should be striving for costs relative to transactional use.
- How internationally deployable and robust these PETS have proved to be.
- What type of deal you have entered into with the service provider. For example, if it is a business outcome deal, then the provider has more leeway to decide on what PETS it needs to meet the business outcome; however, as to how these pertain to interfacing with your ERP and your data, and when you are evaluating the capacity of the PETS to improve the provider's ability to meet the business objectives you must understand this.

Gartner has defined four main architectural styles for how BPO in general is delivered as outlined in "Taxonomy of BPO Delivery Architecture: Know What You Are Really Buying," which describes in detail that some types of BPO outsource both the processing people and process enhancement solutions, but not the underlying ERP application or the infrastructure supporting the ERP. This type of people plus PETS BPO is termed "People for Process" because it focuses on providing labor and process enhancements, not the core ERP application.

Therefore, Gartner's taxonomy of BPO architectures actually encompasses both Scenarios 1 and 2 listed in Table 1 because certain F&A BPO really do only access the BPO provider's labor and certain deals access both people and PETS, but still not

the underlying ERP application. Figure 2 illustrates the three elements of people, process and ERP.

Table 1 sets out to show the finer distinction of the typical F&A BPO adoption scenarios by illustrating who is responsible for providing which part of the solution. It is critical before issuing an RFP to fully understand which of these three options will suit your organization, and what you are trying to achieve be it short term cost reductions, or cost reduction with process improvements.

Description and Discussion of Scenarios

Today, Scenarios 1 and 2 are most prevalent; however, Scenario 3 is being used for certain single processes, such as, expenses or accounts payable, and is adopted by some notable groups of organizations, including many of the U.K.'s National Health Trusts.

Scenario 1: Labor Only — Characteristics and Pros and Cons

- This is where an F&A BPO provider supplies labor from onshore, nearshore or offshore locations with no PETS.
- The people perform the work using an access tool such as Citrix to enter data directly into the company's ERP or finance systems.
- The client is responsible for providing financial governance and statutory compliance, process structure, ERP software and all infrastructures.
- This is prevalent mostly in early, pre-2006, BPO deals or deals that are supporting single countries predominantly the U.S. or U.K.
- Clients of this service know that they didn't attempt to buy "innovation" or process improvement, and just wanted access to managed, less expensive labor.

Table 1. Strategic Choices and Responsibilities Matrix for F&A BPO Solutions

F&A BPO Strategic Choices	BPO Buyer Responsibilities and Contribution	BPO Provider Responsibilities and Contribution
Scenario 1 — Labor only — no PETS just remote access tools	<ul style="list-style-type: none"> • Governance, risk, security data privacy and statutory compliance • Process structure • ERP software • Infrastructure 	<ul style="list-style-type: none"> • Finance employees
Scenario 2 — Labor plus PETS and services	<ul style="list-style-type: none"> • Governance, risk, security data privacy and statutory compliance • ERP software • Infrastructure 	<ul style="list-style-type: none"> • Finance employees • Process enhancement technologies and services
Scenario 3 — Labor plus PETS plus ERP direct or via a BPU/BPaaS	<ul style="list-style-type: none"> • Governance, risk, security data privacy and statutory compliance 	<ul style="list-style-type: none"> • Finance employees • Process enhancement technologies and services • ERP software and supporting infrastructure either direct or using cloud-based services
Source: Gartner (July 2011)		

- These types of outsourcing deals may involve the outsourcer providing support of technologies, but only to improve data entry such as optical character recognition or electronic invoicing tools.
- Occasionally, this option may have the BPO provider also hosting and maintaining the ERP application as part of a separate application management and maintenance deal, usually in an attempt to gain some economies of scale.
- Pricing model is typically time and materials, or fixed price (see “Outsourcing Advisory: Pricing Options and Trends in BPO”).

This scenario is suitable if you are not interested in changing your processes, or want short-term access to a less expensive labor source.

Pros: *Relatively quick and easy to contract for and start*

Cons: *No process improvements, sometimes latency of remote access tools and it is very hard to sustain a value proposition after the 18- to 24-month mark with no process improvements or PETS incorporated in the deal.*

Scenario 2: Labor Plus PETS — Characteristics and Pros and Cons

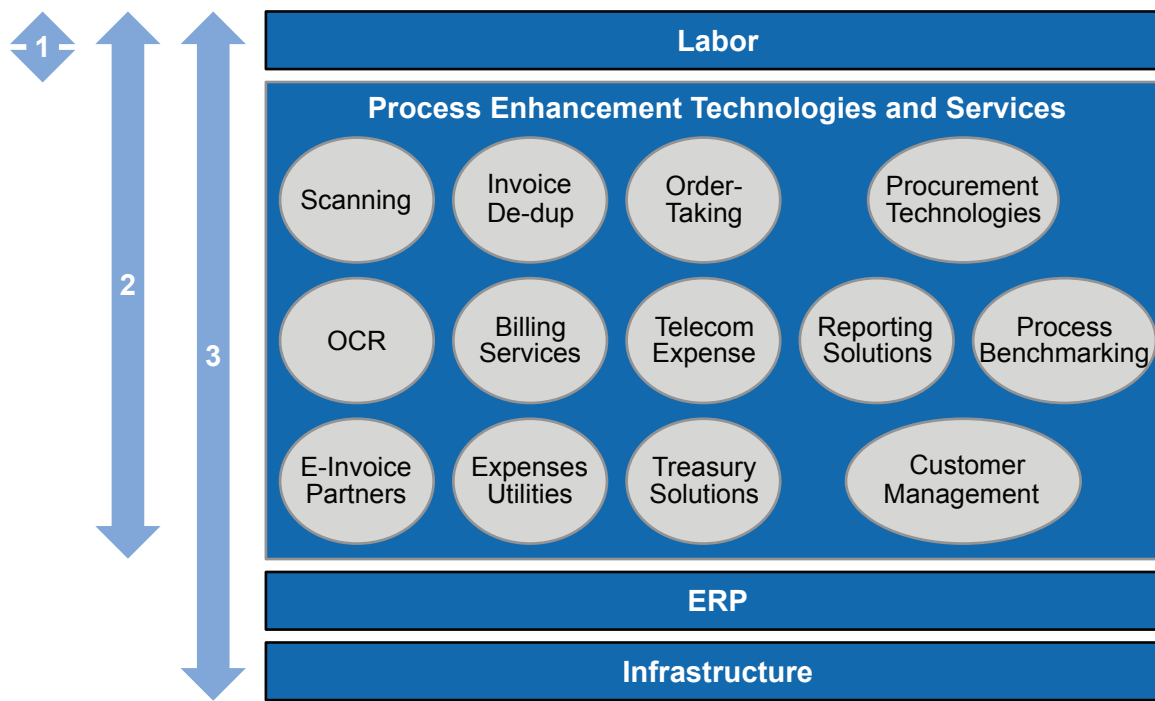
- This is where an F&A BPO provider supplies labor from onshore, nearshore or offshore locations and varying amounts of process enhancement tools.

- The F&A BPO provider’s staff perform the work using a combination of various PETS, such as OB10 for electronic invoicing or homegrown PETS, which then use tools such as Citrix to transfer data back to an organization’s ERP or finance suite.

- The client is responsible for providing financial governance and statutory compliance, process structure, ERP software and all infrastructures.
- Some of these PETS are commercially available and some are built by BPO providers to differentiate their offerings. The advantage of “home developed” PETS is that they can (in theory) be provided without a significant license fee and at a less expensive rate. It is also possible to buy certain process enhancement and services tools as BPaaS, for example, Expensify; however, these are usually not replacing the organization’s full ERP suite.
- This scenario is used in more than half of current F&A BPO deals, especially ones using large-scale BPO services.

■ **FIGURE 2**

The Three Elements of Finance and Accounting Activity: Labor Plus PETS Plus ERP



Source: Gartner (July 2011)

- Clients of these solutions aim to buy process improvement and attempted various degrees of success to buy "innovation," not just wanting access to managed, less expensive labor.
- These types of outsourcing deals include multiple types of tools.
- Pricing models can be time and materials, fixed price, per transaction or business-outcome-based (see "Outsourcing Advisory: Pricing Options and Trends in BPO").
- Occasionally this option may have the BPO provider also hosting and maintaining the application to gain economies of scale and synergies.
- This approach is in line with Gartner's "pace layering" concept. In this scenario, F&A BPO providers are using systems

of differentiation and innovation outside the organization to provide value-added services, which are linked with the systems of record on-site in the client organization (see "Use Gartner's Pace Layers Model to Better Manage Your Financial Management Application Portfolio").

This scenario is suitable if: You are interested in streamlining and enhancing your processes while using the provider's labor.

Pros: High potential for process improvements, and PETS works especially well when organizations need to manage process enhancement across a base of multiple types of ERP installations as it can streamline processes across systems.

Cons: May well involve additional investments in internal IT systems that are not budgeted for or prioritized, necessitates

retaining some knowledge of finance PETS to evaluate the options and creates a major need to manage change in the business.

Scenario 3: Labor Plus PETS Plus ERP, as Provider Platform BPO or Potentially as BPU — Characteristics and Pros and Cons

- This is where an F&A BPO provider supplies labor from onshore, nearshore or offshore locations and varying amounts of process enhancement tools and the underlying ERP, such as Oracle or SAP.
- This is used in very few F&A BPO deals, fewer than 5% of the current F&A BPO adoption, and is expected to grow slowly because of organizations' significant existing ERP investments.
- Clients of these solutions to buy process improvement and attempt

various degrees of success by buying “innovation,” not just wanting access to managed less expensive labor.

- The pricing model is likely to be per transaction or business-outcome-based (see “Outsourcing Advisory: Pricing Options and Trends in BPO”).
- Points from Scenario 2 should also be considered.

This scenario is suitable if: You are interested in streamlining your processes and need a new ERP technology solution.

Pros: *High potential for process improvements, works well to manage companies that have no or outdated multiple ERP systems because it can streamline processes across systems and can be paid for on a consumption basis, therefore moving to variable costing for a large part of the organization’s back-office labor, applications and underlying infrastructure.*

Cons: *May involve additional investments in internal management tools and a higher degree of investment in risk and security management, and managing change in the business.*

What Finance PETS Do Organizations Typically Outsource With F&A BPO?

For Scenarios 2 and 3, the range of PETS that can be used is provided here in a list compiled by Gartner interviews with the leading providers of F&A BPO (17 providers with revenue of more than \$50 million from F&A BPO at the end of 2010; see “Magic Quadrant for Comprehensive Finance and Accounting BPO, Global” for details) to understand their portfolio of PETS.

Note the following:

- This is not an exhaustive list of tools or service categories. Hence when buyers specify they want “innovation,” Gartner would like to see more specificity about which of these process areas need improvement and a ROI calculation performed. Many providers have developed proprietary solutions, and some of these are evaluated in Gartner Magic Quadrants but the providers of “homegrown/developed” tools are not always evaluated by Gartner analysts. The advantage of the home-developed tools can be that they are more flexible and have the necessary functionality, but on the other hand they are not likely to be best in class. This is a factor that you can compare providers bids on to see if they have a satisfactory solution to each aspect of the F&A processing and to see what solution would suit your organization’s profile, budget and processing requirements vis-a-vis homegrown or best of breed. Homegrown PETS may be able to be delivered at a lower total cost as the provider owns the software.
- The ERP vendors are listed in Table 2. For these vendors, it will mean that the BPO provider is using this element of the ERP software — probably while under license to the client. If it is not a “homegrown provider’s tool,” then it’s highly variable as to whether the client or the BPO provider owns and licenses any of these tools and partners.

Table 2 lists example PETS, some of which are essential to move the work to onshore, nearshore or offshore locations, such as scanning, OCR and mailroom services, and the service management tools are useful for process flow and monitoring. PETS encompasses both software technologies and services, such as consulting or e-invoicing service providers, but not the actual F&A BPO providers; for a list of these, see Magic Quadrant in F&A BPO.

Next Steps

- Analyze your current portfolio of PETS and ERP to decide whether access to F&A BPO providers’ compilations of PETS is worthwhile for your organization. Investigate which ones you have in-house and which ones you can access (or already have) to from your provider.
- Understand how these scenarios have been used in your industry to see whether particular types of PETS make more sense for you.
- If you still have to decide on which scenario of outsourcing to adopt, then assemble a strong team of IT and sourcing and finance to evaluate these scenarios.

Table 2. Examples of PETS Used in F&A BPO

F&A Activities and Deal Management Technologies	Software Tool Suppliers and Service Partner Examples¹
Service Management for Finance Process and Outsourcing Deal Management	Digital Fuel, Nimbus, ControlSoft
E-Invoicing Services	Ariba, Basware, Crossgate, Invoice Exchange, OB10 — There are more than 400 e-invoice suppliers globally.
Financial Governance Applications Including Reconciliation Management	Oracle, Cognos, Trintech, Blackline, SAP Business Objects, Chesapeake, JET Express
Scanning, Digital Imaging, Mailroom and Archiving	Bottomline, Data Dimensions, Xerox, IBM, Iron Mountain, HP, HOV Services, Pitney Bowes, Williams Lee
OCR Software	Brainware, Captiva, IXOS, Kofax, Omnipage, OpenText, PROSAR-AIDA, Readsoft, TIS
Process Benchmarking	APQC, Hackett, PWC
Independent Consulting Process Support ²	Ernst & Young, KPMG, Deloitte
Business Process Management Suites ³	Doumentum, Filenet, Newgen, Oracle, SAP, Savvion, Skelta, IBM Business Process Manager V7.5
Procure-to-Pay Applications and Specialist Partners	Ariba, Emptoris, SAP, Oracle, PeopleSoft, JD Edwards, Hubwoo, Sterling Commerce, Bravo Solutions, Global E-Procure, Basware, Newgen
Order-to-Cash Applications and Specialist Partners	Sungard, ReconNET, NICE, Avaya Dialer, Oversight, VWA, NCO
Financial Control Software	FILENET, Microsoft, Nimbus, ServiceFlow, SmartStream
Business Intelligence, Analytics and Finance Performance Management	Hyperion, Cognos, SAP Business Objects
Telecom Expense Management	Rivermine, Tangoe, Profitline, Symphony (see “Magic Quadrant for Telecom Expense Management”)
Expenses	Concur, GERS (BPaaS offering and tool from IBM), Expensify (see “Cool Vendors in Business Process Services, 2011”), Oracle, SAP, Microsoft
Tax and Statutory Reporting Specialist Partners	BDO, Deloitte
Client Reporting	Trintech, ServiceFlow, Percolator
Profit Recovery and Analytics	EiPP-Avolent, Cognos, Hyperion, Microsoft
Financial Close	Oracle, Cognos, Ariba, Trintech, Jira, Blackline, Oracle, Business Objects

¹Many providers use “homegrown” technologies in each of these categories too.

²Many F&A BPO providers also have in-house consulting skills, which are not listed in this table.

³See Note 1 at the end of this report for information about the differences between BPM and PETS

Source: Gartner (June 2011)



Note 1. Differences Between BPM and PETS

There have been many approaches to business process improvement, with business process re-engineering (BPR) being one of the most popular. BPM disciplines, methods and technologies start from a perspective that is fundamentally different from business guru Michael Hammer's perspective for BPR, circa the 1990s. In today's more volatile business climate, BPM disciplines advocate that processes should be designed for change, not to last. BPM looks at the process as the work of one or more organizations, and that work may involve people and systems, structured and unstructured processes. The degree of process agility and integrity available in solutions provided by application or service vendors varies, depending on the degree to which the technologies that they use fulfill the key tenets of BPM (see "Use the BPM Sweet Spot Framework to Identify the BPM Technology You Need"). BPM tools and techniques are especially suitable for cross-organizational processes that require integration and insight into processes that span systems of record, differentiation and innovation. BPM is appropriate for processes that involve a mix of human and system interactions and that are structured or unstructured.

PETS refers to the bundled service offerings of BPO providers. These service offerings may include BPM-enabling technologies, application software, proprietary tools and services. These offerings are software-enabled services that add value to the BPO providers' services. PETS mostly targets supporting business processes that are structured and repeatable, such as a straight-through process with some human workflow. Today, most BPO providers' PETS offerings do not focus on collaborative, nondeterministic and goal-directed processes, as these would require the use of advanced BPM technologies and methods. BPO providers use a range of ways to deliver process optimization and simulation capabilities.

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