



The FAO Market: Signaling Towards Maturity

Finance and Accounting Outsourcing (FAO)
Annual Report: April 2012 – Preview Deck

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Background and methodology of the research

Background of the research

The global multi-process FAO market continues to grow at a healthy rate of 11%. However, the growth was slower when compared to 2010. This is not a sign of worry but a sign of movement towards the maturity of the FAO market. As the FAO market matures, the value proposition expands beyond cost and consequently, the FAO solution elements change too. FAO adoption is now not restricted to traditional markets but extended to under-penetrated markets as well. In 2012, Everest Group expects the FAO market to continue strong activity, resulting in a YoY growth of 10-15% in terms of ACV

In this research study, we review the global multi-process FAO market in 2011 and provide guidance on the market's direction in 2012. We focus on:

- Market size and buyer adoption trends
- FAO value proposition
- Contract characteristics across process scope, technology, global sourcing, and pricing structures
- FAO service provider landscape covering service provider's market shares and areas of investments

The scope and methodology of this report includes:

- Third-party FAO deals; it does not include shared services or captives
- 680+ multi-process FAO deals signed as of 2011 with a minimum of two F&A processes, over US\$1 million in ACV, and a minimum contract term of three years
- Coverage across 20+ FAO service providers with multi-process capability including Aditya Birla Minacs, Accenture, Capgemini, Cognizant, Datamatics, EXL Services, Genpact, HCL, HP, IBM, iGATE Patni, Infosys BPO, IQ BackOffice, Mahindra IT & Business Services, Serco, Steria, Sutherland Global Services, TCS, Wipro, WNS, Xchanging, and Xerox
- Ongoing buyer surveys and interactions such as Vertical Industry Strategies in Shared Services & Outsourcing (VISSSO), Best-in-class BPO buyer survey, Executive-level buyer interviews

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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 2012. 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:

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

Market size and buyer adoption

- The global multi-process FAO market reached to US\$3,8 billion in terms of ACV in 2011 and overall spending (TCV) reached to ~US\$32 billion
- 2011 witnessed signings of 72 new contracts and 126 extensions/renewals
- The multi-process FAO market is still growing but at a slower rate when compared to 2010
- The average contract size reduced in 2011 driven by the risk-averse and phased approach of new buyers and increased adoption by mid-market and SMB
- Organic growth accounted for approximately 70% of the ACV growth in 2011
- FAO buyer adoption continues to diversify across industries, geographies, and size of organizations

Overview and abbreviated summary of key messages

(page 2 of 2)

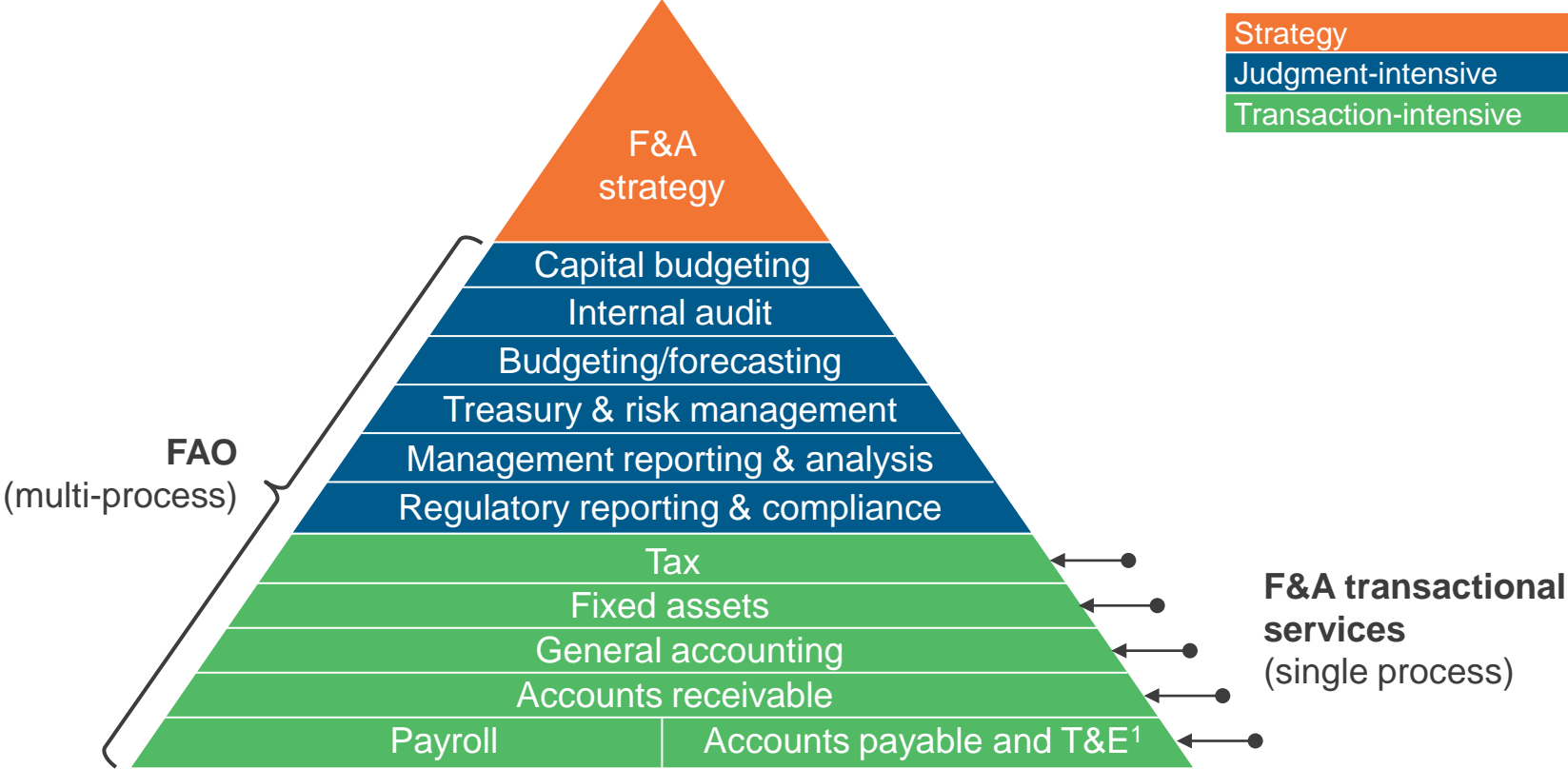
Value proposition and contract characteristics

- Cost reduction is an important but no longer the only driver for FAO. Process excellence, standardization, access to technology and expertise, and greater focus on core activities are other important drivers
- As the FAO market moves towards embracing a cost+ value proposition, solution elements are changing too
- Beyond transaction-intensive processes (AP, AR, and GL), judgment-intensive processes such as FP&A were increasingly included in FAO contracts
- The trend towards end-to-end solutions (P2P, O2C, R2R) continued to gain momentum as opposed to a traditional piecemeal solution
- A more global delivery model is quickly becoming commonplace, expanding beyond the traditional offshore/nearshore model
- While platform-based solutions witnessed significant increase, the technology augmentation model is the prevalent approach

Service provider landscape

- Accenture, IBM, and Genpact together account for 50% of the FAO market (in terms of ACV)
- However, competition in the FAO market is intensifying. The market share of the top three providers has reduced from 65% to 50% in the last five years
- Several FAO service providers had a strong 2011 performance
- As the competitive intensity increases in the FAO market, the need to create differentiated offerings is extremely high
- 2011 saw increased M&A activity from service providers

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

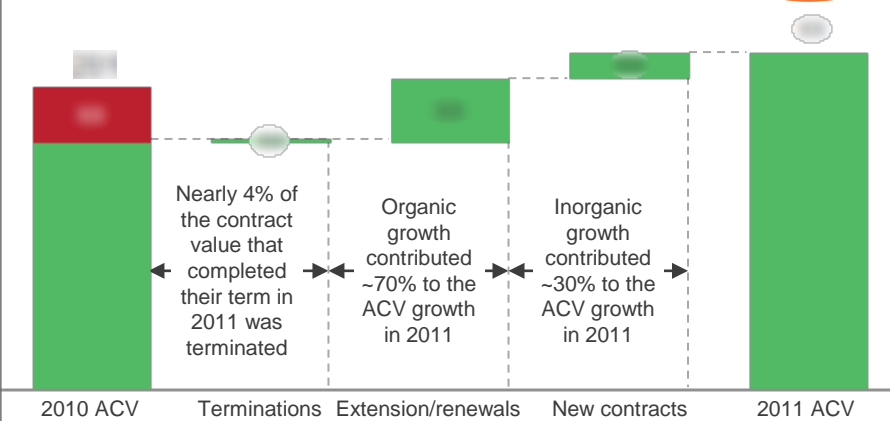


- Everest Group's analyses include multi-process FAO contracts with a minimum of two F&A processes, over US\$1 million in Annualized Contract Value (ACV), and a minimum contract term of three years
- Everest Group's analyses include all FAO contracts signed as of 2011. The current sample set for the report includes over 680 multi-process FAO contracts

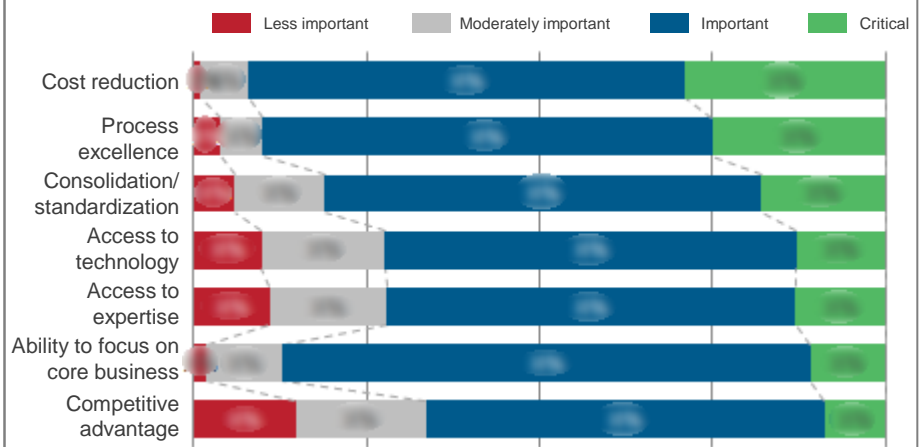
Source: Everest Group (2012)

This study offers three distinct chapters providing a deep dive into key aspects of the FAO market; below are four charts to illustrate the depth of the report

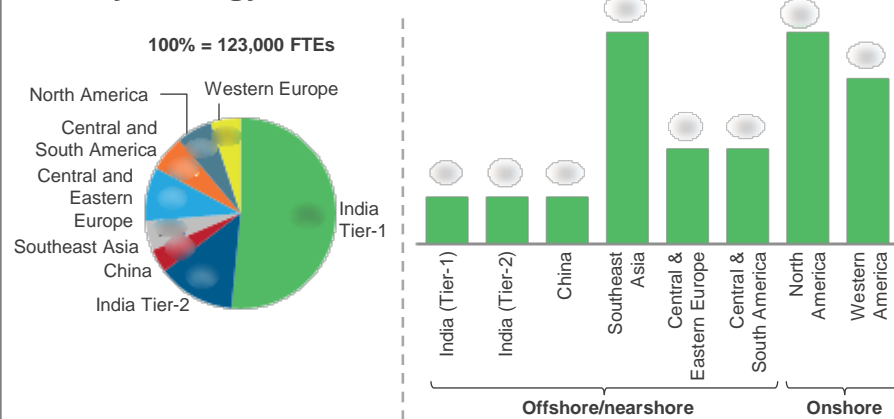
Components of FAO ACV growth in 2011
US\$ billion



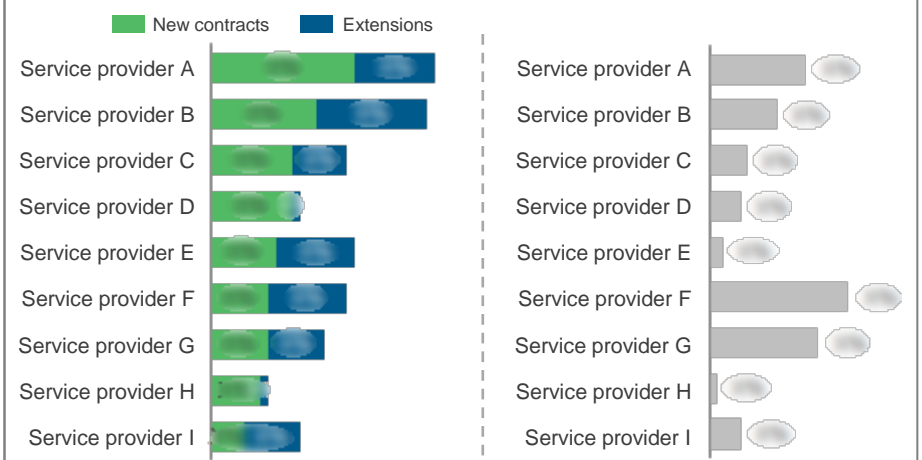
Key drivers to outsource F&A



Offshoring/nearshoring is a key component in F&A service delivery strategy



Market share of top three FAO service providers over time



Source: Everest Group (year)

FAO research agenda (page 1 of 4)

■ Published
 ■ Current
 ■ Upcoming

Topic	Goals of the research	Release date
The New Frontiers: Emerging Locations in the FAO Landscape	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 from such locations and highlights the market state therein	September-2011
Webinar Deck: Emerging Locations in the FAO Delivery Landscape – The New Frontiers	Everest Group hosted a webinar, Emerging Locations in the FAO Delivery Landscape – The New Frontiers. This report is the deck used during the webinar and discusses key findings from Everest Group's latest study around emerging locations in the FAO delivery location landscape	September-2011
2012 Market Predictions	Everest Group's analysts have released their complimentary 2102 predictions for key outsourcing and offshoring markets	December-2011
Process Innovation in FAO – Emergence of "World-Class Lift-Shift-and-Fix" Offerings	The increasing maturity of the global FAO market is driving innovation across multiple dimensions. These dimensions include changing value-lever mix, creating differentiated service offerings, targeting new market segments, and evolving contractual design. Developing process innovation models and frameworks to drive best-in-class performance emerged as one of the key focus areas for most service providers in recent years. In this research study, we analyze process innovation models and frameworks	January-2012

FAO research agenda (page 2 of 4)

 Published  Current  Upcoming

Topic	Goals of the research	Release date
Industry-specific FAO and Deep Dive into the U.S. Healthcare Providers	While FAO is largely considered a horizontal BPO offering, in recent years, service providers have increasingly shifted their focus to specific industries, both in terms of service offerings and sales strategy, to drive greater penetration. This report investigates some such instances visible in the FAO market and takes an in-depth look at one of the key industry segments – healthcare providers	February-2012
Achieving Best-in-Class BPO – Secrets Unveiled	As Business Process Outsourcing (BPO) matures, companies and service providers must look for the next source of value – labor arbitrage is important, but not sufficient. In particular, the industry is seeking to create value propositions that achieve cost savings while also delivering other sources of value. The results show a vivid difference in the approach and mindset of best-in-class	March-2012
Making the Right Choice – How to Evaluate BPaaS Solutions?	This research aims to compare Total Cost of Ownership (TCO) of Business Process as a Service (BPaaS) solutions with traditional BPO using a comprehensive financial model and create a comprehensive framework to evaluate BPaaS sourcing	April-2012
FAO Annual Report	Overview of the overall FAO market in 2011 with size and growth of the market, contract characteristics, value proposition, service provider landscape, and market outlook for 2012	Q2-2012

FAO research agenda (page 3 of 4)

■ Published
 ■ Current
 ■ Upcoming

Topic	Goals of the research	Release date
Leveraging BPO to Drive Success in Utilities and Retail Energy Providers	Utilities and retail energy providers are facing myriad and rapidly evolving challenges in the marketplace, such as increasing competition, disruptive technologies, regulatory pressure, rising consumer demands, and global economic volatility. One of the business areas impacted by these market forces is Meter-to-cash (M2C). This report examines the benefits of outsourcing M2C, and the considerations necessary to develop a long-term and constructive client-service provider partnership	Q2-2012
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 providing a comprehensive analysis of the FAO service provider landscape along multiple dimensions and assess service providers to position them in the Everest Group PEAK Matrix	Q2-2012
FAO Service Provider Compendium	Profile 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 Group perspective on service provider	Q2-2012
Unlocking Value From End-to-End Process Outsourcing: Focus on Procure-to-Pay (P2P)	The BPO market is now in a mature state with a well-established value proposition and demonstrated service provider capabilities. As the value proposition expands beyond cost arbitrage to improving business outcomes, buyers are considering an end-to-end approach as opposed to a functional piecemeal approach. In this study, we investigate the business value and the market state of an end-to-end Procure-to-Pay (P2P) process	Q3-2012

FAO research agenda (page 4 of 4)

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Topic	Goals of the research	Release date
Unlocking Value From End-to-End Process Outsourcing: Focus on Record-to-Report (R2R)	Traditionally, the FAO value proposition has focused on providing direct-cost advantage by outsourcing transactional processes like General Accounting. However, buyers are now willing to expand the scope to include end-to-end processes like Record-to-Report (R2R) that impact metrics related to business outcomes like efficient close cycle, fixing of bad debts, and improving compliance. In this study, we investigate the business value and the market state for outsourcing R2R processes	Q3-2012
Unlocking Value From End-to-End Process Outsourcing: Focus on Order-to-Cash (O2C)	Everest Group analysis suggests that O2C is the single largest segment in the global FAO market, accounting for nearly 35% of the market size. O2C BPO services can help clients reduce revenue leakage, accelerate the cash-flow cycle, and limit bad debt expense – outcomes that clients are increasingly demanding in the current economic scenario. In this study, we investigate the business value and the market state of expanding beyond Accounts Receivable to an end-to-end Order-to-Cash (O2C) process	Q4-2012
Industry-specific FAO and a Deep Dive in the Retail Industry	While FAO is largely considered a horizontal BPO offering, in recent years, service providers have increasingly shifted their focus to specific industries, both in terms of service offerings and sales strategy, to drive greater penetration. This report investigates some such instances visible in the FAO market and takes an in-depth look at one of the key industry segments – retail	Q4-2012

Additional FAO research references

The following documents are recommended for additional insight into 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. **Industry-specific FAO and Deep Dive into the U.S. Healthcare Providers** (EGR-2012-8-1-0650); 2012. In this study, we investigate the rising industry-specificity in the FAO market. We focus on understanding the need for industry-specific FAO, service provider investment themes, and industry-specific FAO in the U.S. healthcare provider space
2. **The New Frontiers: Emerging Locations in the FAO Landscape** (EGR-2011-1-R-0596); 2011. In this study, we analyze the emerging location trends in F&A outsourcing market. We focus on value proposition of global sourcing in FAO, expanding FAO delivery footprint, and new FAO delivery locations, with a spotlight on five emerging locations across the globe
3. **Global FAO Service Provider Landscape - Competitive Intensity Driving Innovation** (ERI-2011-1-R-0550); 2011. In this study, we analyze the global FAO service provider landscape in 2010. We focus on relative position of 20+ service providers on the Everest Group PEAK Matrix for FAO, the Star Performers of 2010, implications of increased competitive intensity, and how service providers are innovating to differentiate themselves in an increasingly globalized FAO market
4. **FAO Annual Report 2011 - FAO is Back!!** (ERI-2011-1-R-0516); 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, and 2010 FAO Market Star Performers based on performance and capability building in 2010

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

Saurabh Gupta, Vice President:

saurabh.gupta@everestgrp.com

Abhishek Menon, Practice Director:

abhishek.menon@everestgrp.com

Arpita Bansal, Senior Analyst:

arpita.bansal@everestgrp.com

FAO Team:

FAOresearch@everestgrp.com

Everest Group

Two Galleria Tower
13455 Noel Road, Suite 2100
Dallas, TX 75240

Phone: +1-214-451-3110

Email: info@everestgrp.com

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Everest Group locations



Dallas (Headquarters):	info@everestgrp.com +1-214-451-3000
New York:	info@everestgrp.com +1-646-805-4000
Toronto:	canada@everestgrp.com +1-416-865-2033
London:	unitedkingdom@everestgrp.com +44-207-887-1483
Delhi:	india@everestgrp.com +91-124-496-1000

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