



# HfS Blueprint Report

## Progressive Finance & Accounting Business Process Outsourcing Services

### Excerpt for Infosys

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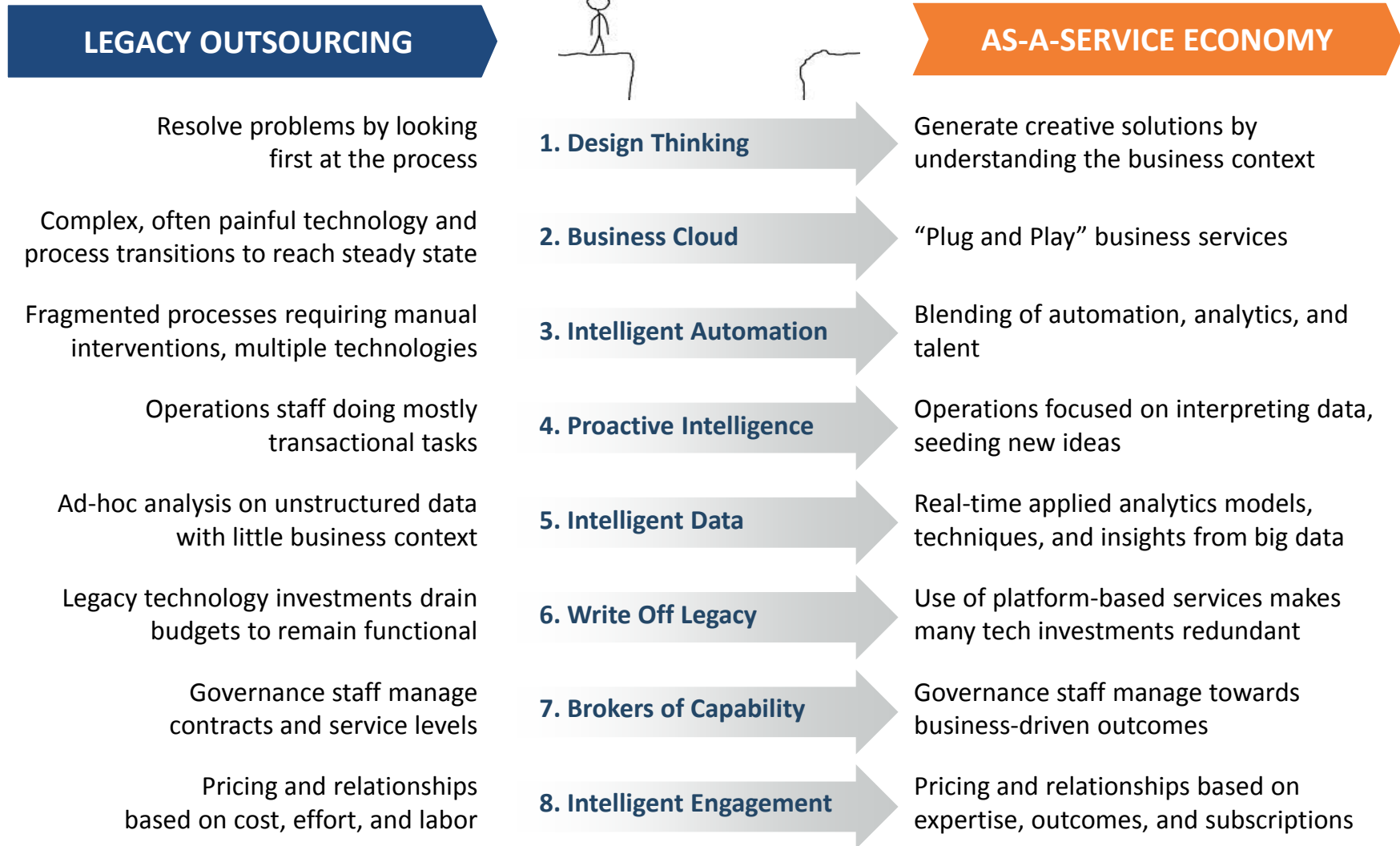
# Executive Summary



# Introduction to the HfS Blueprint Report: Progressive Finance and Accounting (F&A) BPO

- The Progressive F&A BPO HfS Blueprint Report is the first of its kind in the series of Blueprints by HfS. Unlike other quadrants and matrices, the HfS Blueprint identifies relevant differentials between service providers across a number of facets under two main categories: innovation and execution.
- HfS is emphasizing the focus on “Progressive” F&A BPO, with 47% of the Blueprint scoring being tied to proven innovation capability and performance that is “progressive” for these engagements, beyond the transactional F&A processes.
- HfS Blueprint Report ratings are dependent on a broad range of stakeholders with specific weightings based on 1,109 stakeholder interviews from the 2014 State of Outsourcing Survey that covered:
  - F&A BPO Enterprise Service Buyers
  - F&A BPO Service Providers
  - F&A BPO Industry Influencers (sourcing advisors and management consultants)
  - HfS Sourcing Executive Council Members with F&A BPO engagements
  - HfS Research Analysts with hands-on F&A BPO knowledge and experience

# Progressive F&A Is Based on Eight Ideals of the As-a-Service Economy

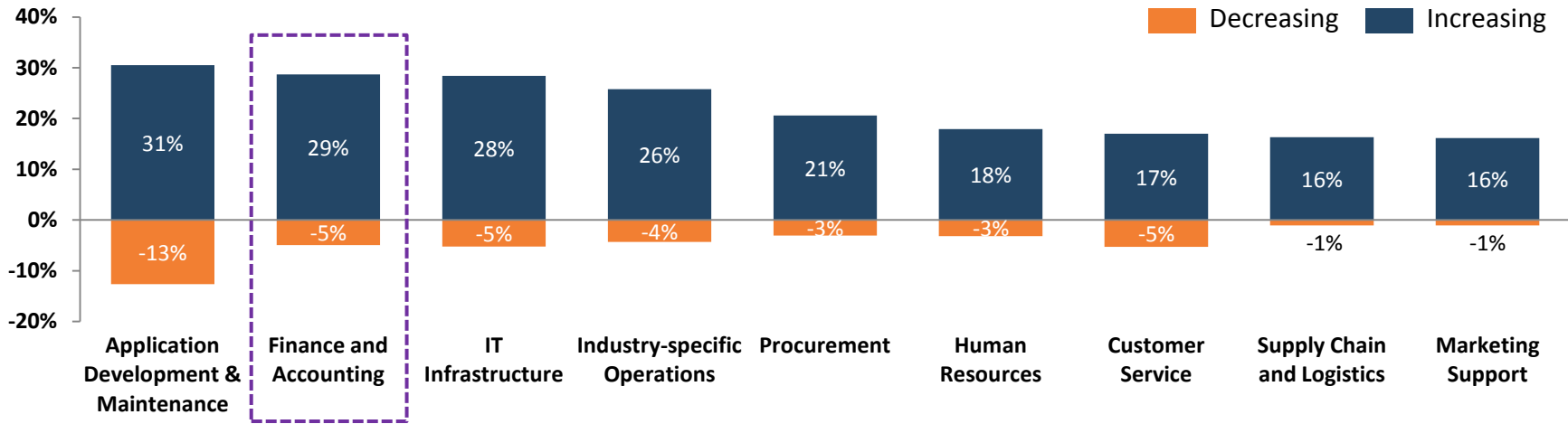


# Key Highlights – State of The F&A BPO Market

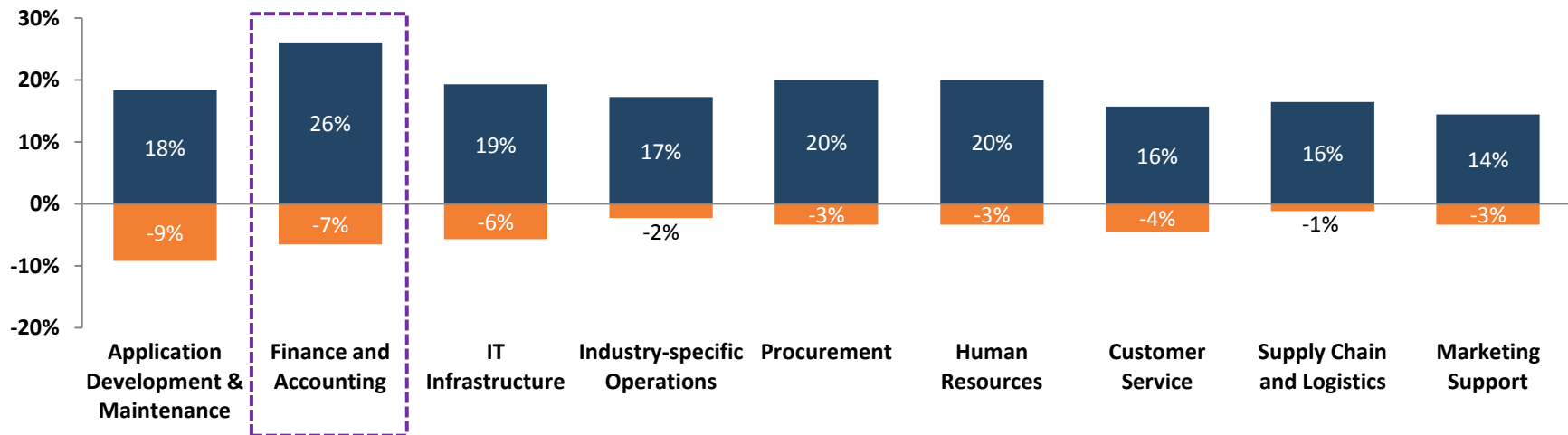
- **Market size for multi-process F&A BPO grows 9%.** Total F&A BPO surpassed \$25B in 2014, at a growth rate of 5%, with multi-process F&A BPO reaching \$5B for the first time. Multi-process F&A BPO is expected to increase at 9% in expenditure in 2015.
- **Demand for the offshore-centric F&A BPO model remains strong.** Claims of the demise of offshore BPO are premature, with 3 out of 10 enterprises expanding their offshore F&A BPO operations in 2015 (State of Outsourcing Study, 2014). 1 out of 4 increasing offshoring of F&A services into their in-house centers.
- **Deal activity grows to new heights.** New F&A contract signing in 2014 increased by 21%, while contract size for multi-scope engagements has stabilized at \$25M (ACV).
- **The “F&A Big Four” are joined by Infosys and HP in the Winner’s Circle.** Genpact consolidates its command of market share in second position. Accenture, Capgemini, IBM, Infosys, and HP make up the “Winner’s Circle.”
- **Impact of F&A “As-a-Service” emerging.** 50% of enterprises expect to be in a technology-enabled BPO environment within two years. HfS notes investments in automation from some service providers such as HP, TCS, and Sutherland having early impact. Accenture and Capgemini show maturity of transformation-plus-BPO delivery acumen. IBM’s merging of GPS into GBS shows promise and intent. HfS is also observing an increased bundling of IT and F&A in the retail, CPG and technology verticals.
- **Intense competition among the High Performers.** Wipro, WNS, arvato, EXL, TCS, Xerox, Sutherland, Cognizant, and iGATE are pushing aggressively for their share of new deals.
- **Ambitious upcoming F&A service providers have made noted improvements in their positioning, client-base, and delivery.** HfS notes the impressive performances with new clients from Cognizant, iGATE, and Sutherland, all of which are new entrants among the 2015 “High Performers” category.
- **Industries experiencing fundamental business model disruption showing highest F&A adoption.** These include Telecom, Software/High Tech, Utilities/Energy, Life Science/Healthcare, and Retail/Hospitality.
- **Sole-sourcing of F&A engagements is increasing.** Only 30% of F&A transactions have been advisor-led of the last year.

# Strong Uptake of F&A Offshoring Continues Unabated in 2015

## Q. How Will This Change in the Next Year? (Outsourcing)

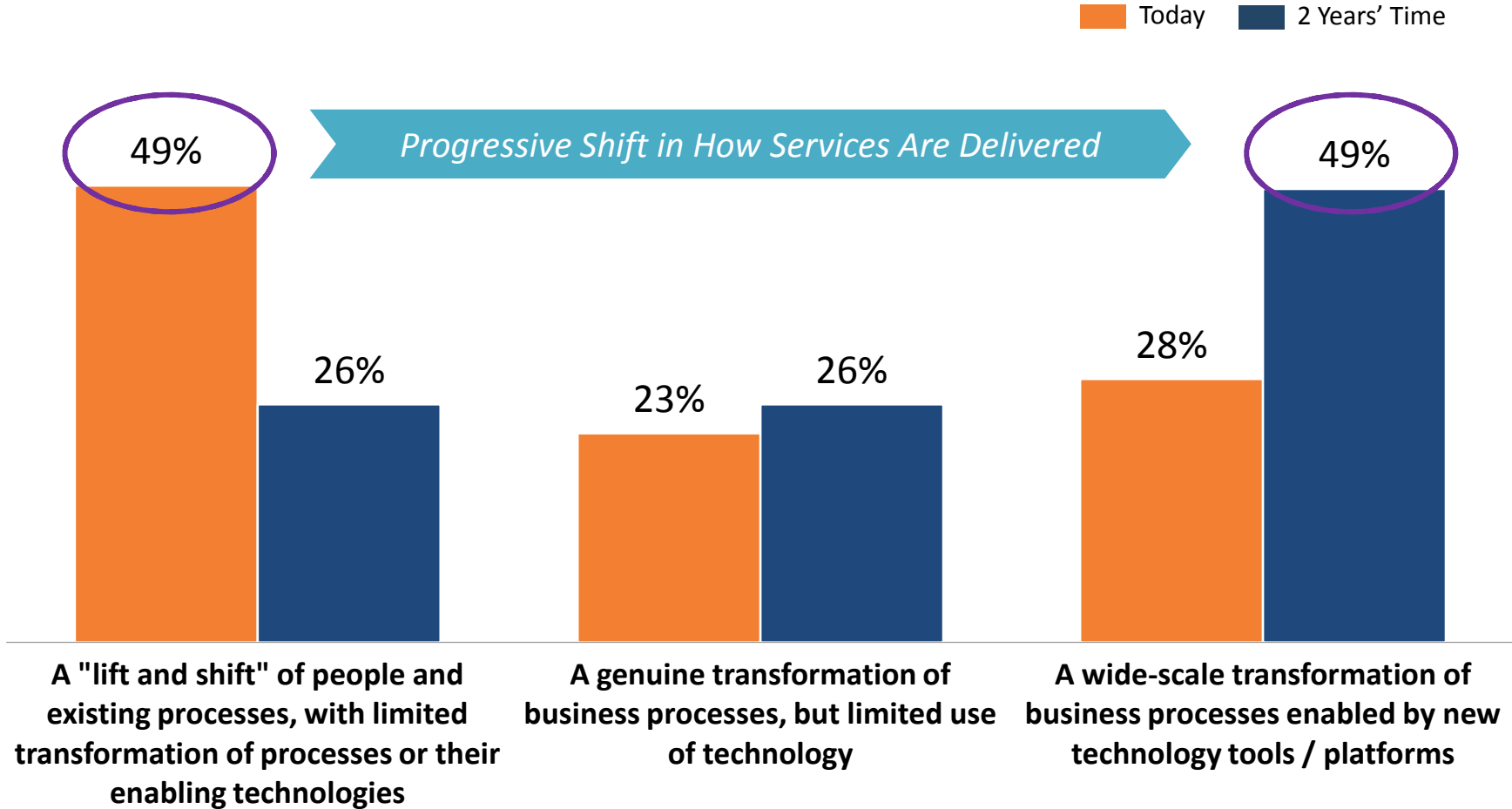


## Q. How Will This Change in the Next Year? (Shared Services)



# Operations Leaders Expect to Make the Leap to Progressive Technology-Enabled BPO Operations – and Fast!

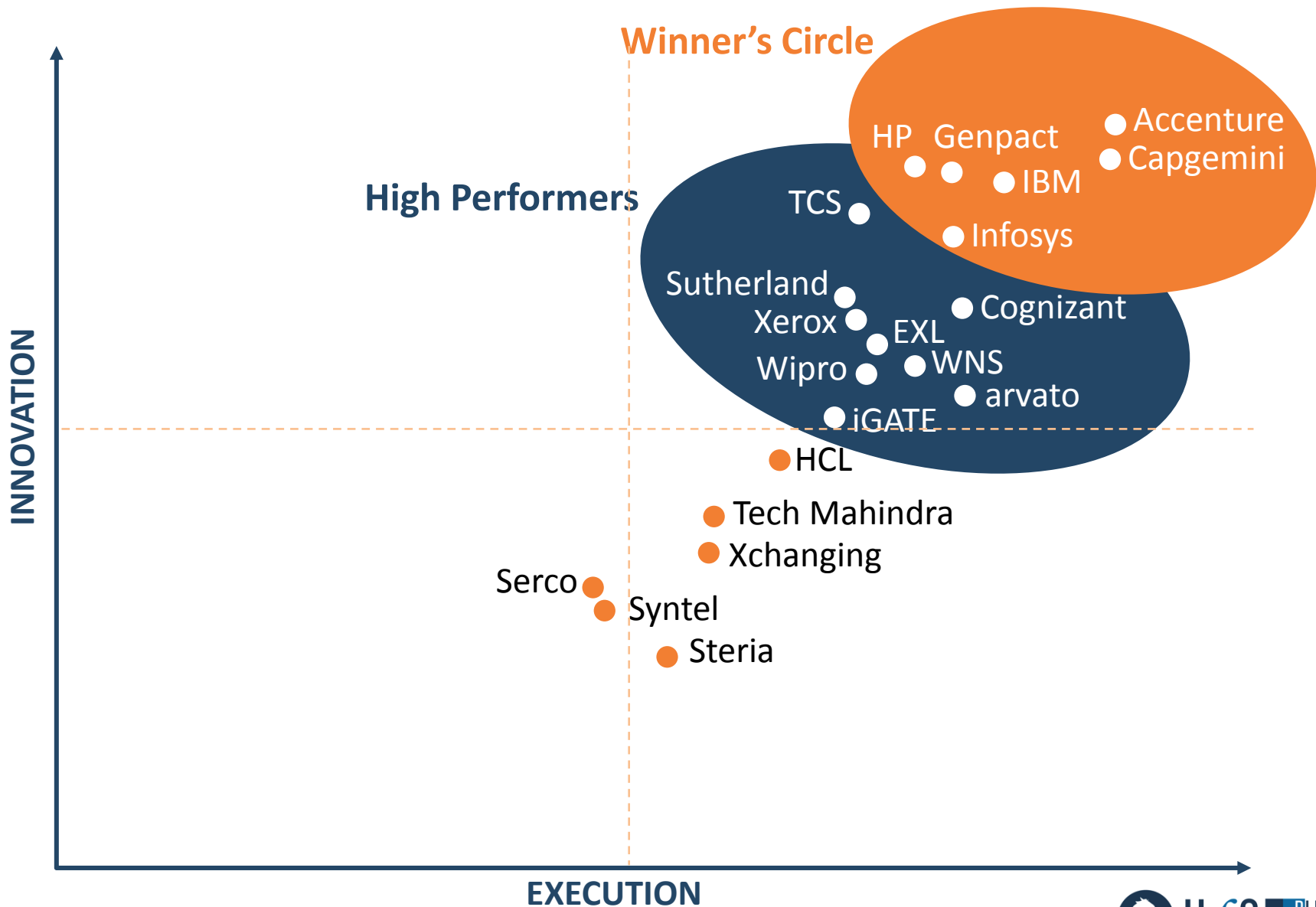
## State of BPO Engagements Today and Expectations for 2 Years' Time



Source: HfS Research, 2014  
Sample = 189 Major Enterprise BPO Buyers  
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# HfS Blueprint 2015: Progressive Finance & Accounting BPO



# Research Methodology



# Research Methodology for the F&A BPO Blueprint

## Data Summary

- 58 data points were collected from 1,115 live multi-process F&A Business BPO engagements. Each contract had a minimum of two core F&A processes bundled and a minimum of \$1M in TCV.
- Data were collected in Q2 2014, covering buyers, providers, and advisors/influencers of F&A Outsourcing BPO.

## Participating Service Providers



## This Report Is Based On:

- **Tales from the Trenches:** Interviews with buyers who have evaluated service providers and experienced their services. Some are supplied by service providers, but many are interviewed through interviews conducted with HfS Executive Council members and participants in our extensive market research.
- **Sell-Side Executive Briefings:** Structured discussions with service providers were intended to collect data necessary to evaluate their innovation, execution, and market share and deal counts.
- **HfS “State of Outsourcing” Survey:** The industry’s largest quantitative survey, conducted with the support of KPMG, covering the views, intentions, and dynamics of 1,079 buyers, providers, and influencers of outsourcing.
- **Publicly Available Information:** Financial data, website information, presentations given by senior executives and other marketing collateral.

# Key Factors Driving the HfS Blueprint

## EVALUATION CRITERIA

Two major factors:

- **Execution** represents service providers' ability to deliver services. It includes:
  - Solutions in the Real World
  - Quality of Customer Relationships
  - Market Share
- **Innovation** represents service providers' ability to improve services. It includes:
  - Vision for End-to-End Process Lifecycle
  - Integration of BPO and ITO
  - Vision to Tailor Solution for Specific Industries
  - Leveraging External Drivers

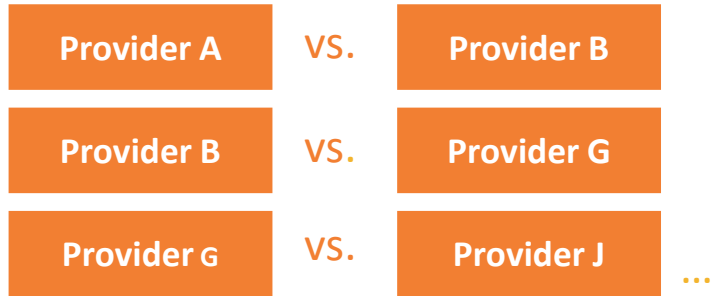
## CRITERIA WEIGHTING

Criteria are weighed by crowdsourcing weightings from the four groups that matter most:

- Enterprise Buyers [\$5B+] (20%)
- Buyers (20%)
- Service Providers (30%)
- HfS Research Analysts Team (20%)
- Advisors, Consultants, and Industry Stakeholders (10%)

Weightings from this report come from HfS's May 2014 State of Outsourcing Study

# How the HfS Blueprint Scores are Compiled

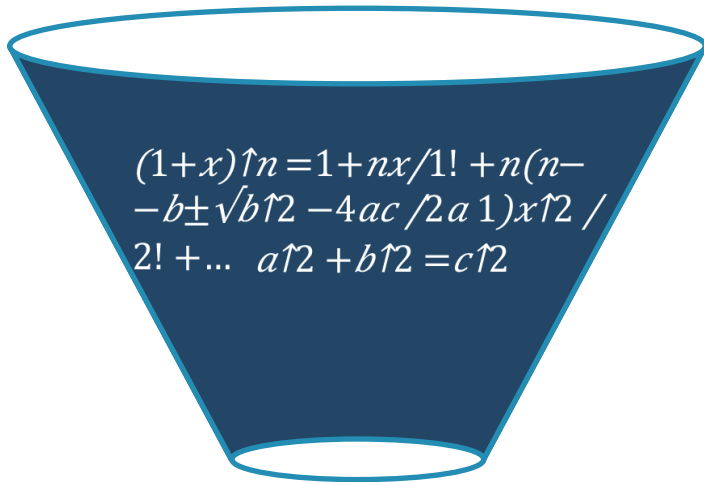


After service providers respond to HfS’s Blueprint RFI, and after client references and fact checking have been completed, HfS analysts conduct a paired comparisons survey of service providers in each category of evaluation. This can be as many as 1,100+ unique service provider comparisons.

The data/rankings are compiled and compared across all provider comparisons to identify inconsistencies within the scores.

After further data refinement, the criteria weightings are used to give each service provider a score in each evaluation criteria component.

Once aggregation and scoring are complete, the service providers’ scores are plotted, producing the HfS Blueprint.



# 2015 HfS Blueprint Scoring Percentage Breakdown

## EXECUTION 52.69%

<b>Quality of Customer Relationships</b>		22.70%
Quality of Account Management Team	11.30%	
How Service Providers Engage Customers and Develop Communities	4.67%	
How Service Providers Incorporate Customer Feedback	6.74%	
<b>Real-World Delivery Solutions</b>		16.45%
Actual Delivery of Services for Each Sub-Process	5.78%	
Geographic Footprint and Scale	3.18%	
Usefulness of Services to Specific Client Needs of All Sizes	7.49%	
Flexibility to Deliver End-to-End Solutions	4.20%	
Experience Delivering Industry-Specific Solutions	3.29%	
<b>Flexible Pricing Models to Meet Customer Needs</b>		13.54%

## INNOVATION 47.31%

<b>Vision for End-to-End Process Lifecycle</b>		15.10%
Concrete Plans to Deliver Value Beyond Cost and Investment in Future Capabilities	5.06%	
Integration of Technology Into Business Process	5.93%	
Continuous Improvement Methodology and Capability	4.11%	
<b>Vision for F&amp;A Outsourcing Solutions</b>		16.86%
<b>Ability to Leverage External Value Drivers</b>		15.35%
Leverage New Technology, SMAC, Security	8.58%	
Incorporate Regulatory Requirements Quickly & Proactively	6.76%	

## TOTAL 100%

# Execution Definitions

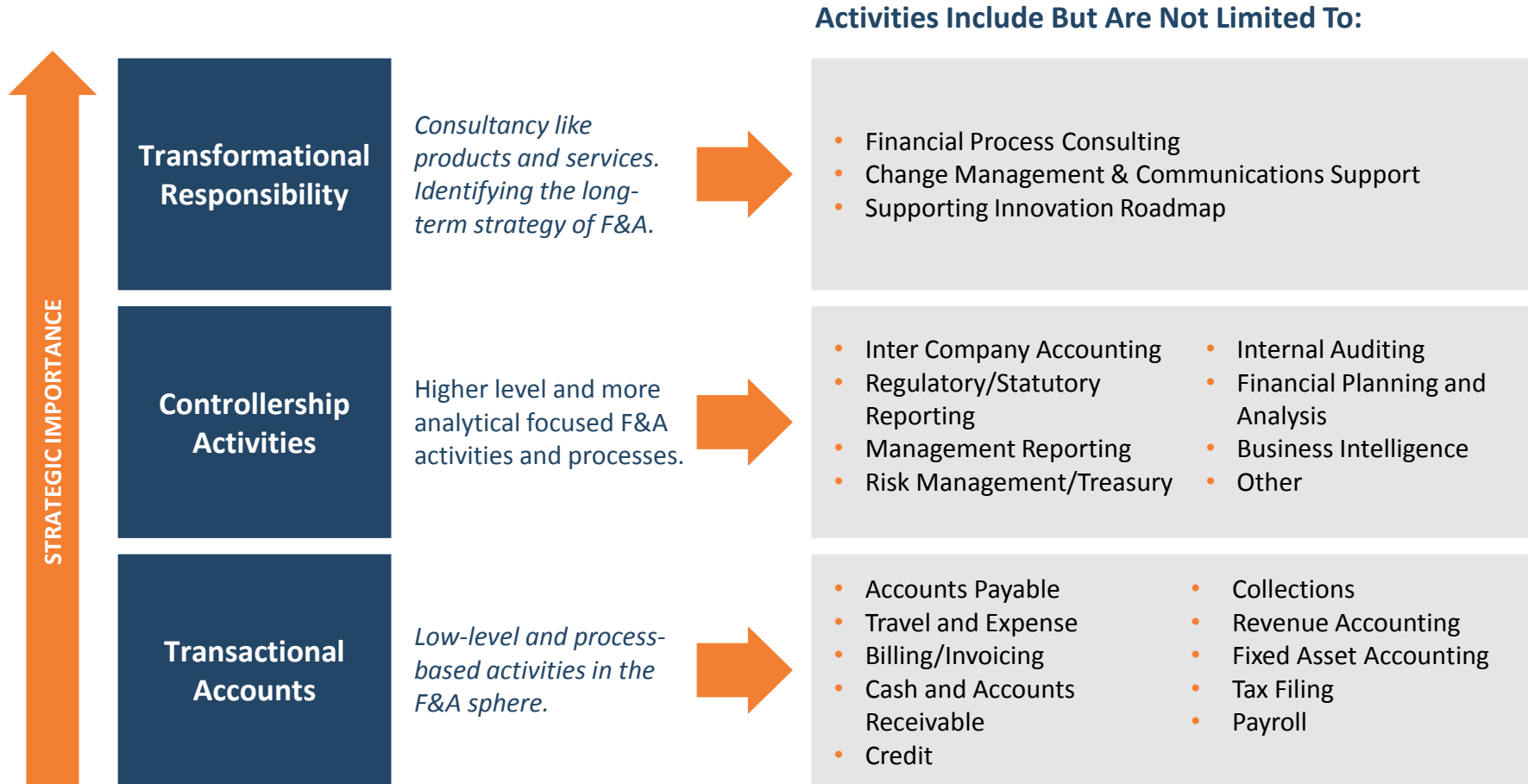
EXECUTION	How well does the provider execute its contractual agreement ,and how well does the provider manage the client/provider relationship?
Quality of Customer Relationships	How engaged are providers in managing the client relationship based on the following metrics: quality of account management, service provider / client engagement, and incorporation of feedback?
Quality of Account Management Team	What is the quality level of professional skills in the account management team?
How Service Providers Engage Customers and Develop Communities	How well does the service provider engage clients and develop client communities?
How Service Providers Incorporate Customer Feedback	How have service providers taken feedback and incorporated that feedback into their product/solution?
<b>Real-World Delivery Solutions</b>	<b>Does the solution provided compare favorably to the service agreed upon when taking into account delivery of services for each sub-process and geographic footprint and scale?</b>
Actual Delivery of Services for Each Sub-Process	Taking into account each sub-process and the entire macro process, does each sub-process sum to successful delivery of the service being provided?
Geographic Footprint and Scale	Specific to the category, to what degree do service providers have geographic locations that offer strategic value and do they have scale?
Usefulness of Services to Specific Client Needs of All Sizes	How flexible and experienced are providers when tailoring solutions based on client size, location, and type of solution (end-to-end and single point)?
<i>Flexibility to Deliver End-to-End Solutions and Point Solutions</i>	How flexible are providers with delivering multi-process end-to-end solutions vs. single point solutions?
<i>Experience Delivering Industry-Specific Solutions</i>	How experienced are providers at delivering solutions to the specific needs of different industries?
<b>Flexible Pricing Models to Meet Customer Needs</b>	<b>How flexible are providers when determining pricing of contracts? Are they willing to make investments into the client’s firm for long-term growth?</b>

# Innovation Definitions

INNOVATION	Innovation is the combination of improving both services and business outcomes.
Vision for End-to-End Process Lifecycle	The strategy for delivery services to each part of the processes "value chain." For example, in Finance and Accounting, the components of the value chain may include order to cash, record to report, and procure to pay and finance transformation.
Concrete Plans to Deliver Value Beyond Cost and Investment in Future Capabilities	Clear understanding of what value levers exist and how the service provider will deliver that value. Examples of value may include labor arbitrage, technology, analytics, quality, revenue, global scale, and flexibility.
Integration of Technology Into Business Process	How the service provider integrates applications with manual labor to improve value to clients. Service providers may provide cloud-enabled technology, SaaS, business platforms, BPaaS workflow, and social or mobility applications. Service provide may also develop in-house software and tools for providing point solutions for addressing specific F&A pain points.
Continuous Improvement Methodology and Capability	How well does the provider execute on improving business process and capabilities of their solutions?
Vision for Where The F&A BPO Market is Headed and How to Respond as a Service Provider	Does the provider have a vision for how the mortgage market is developing and how they need to respond as a service provider to these changes both in terms of specific capabilities and in their commercial and operating approach?
Ability to Leverage External Value Drivers	How well have providers integrated external value drivers into their services? Examples include: use of analytics and control tower.
Leverage New Technology, Security, Social Media, Mobility, and Cloud Capabilities	How well does the provider leverage the latest technology, tools, and platforms and pass on the benefits to the buyer?
Incorporate Regulatory Requirements Quickly and Proactively	How proactively does the provider keep abreast of the regulatory environment?

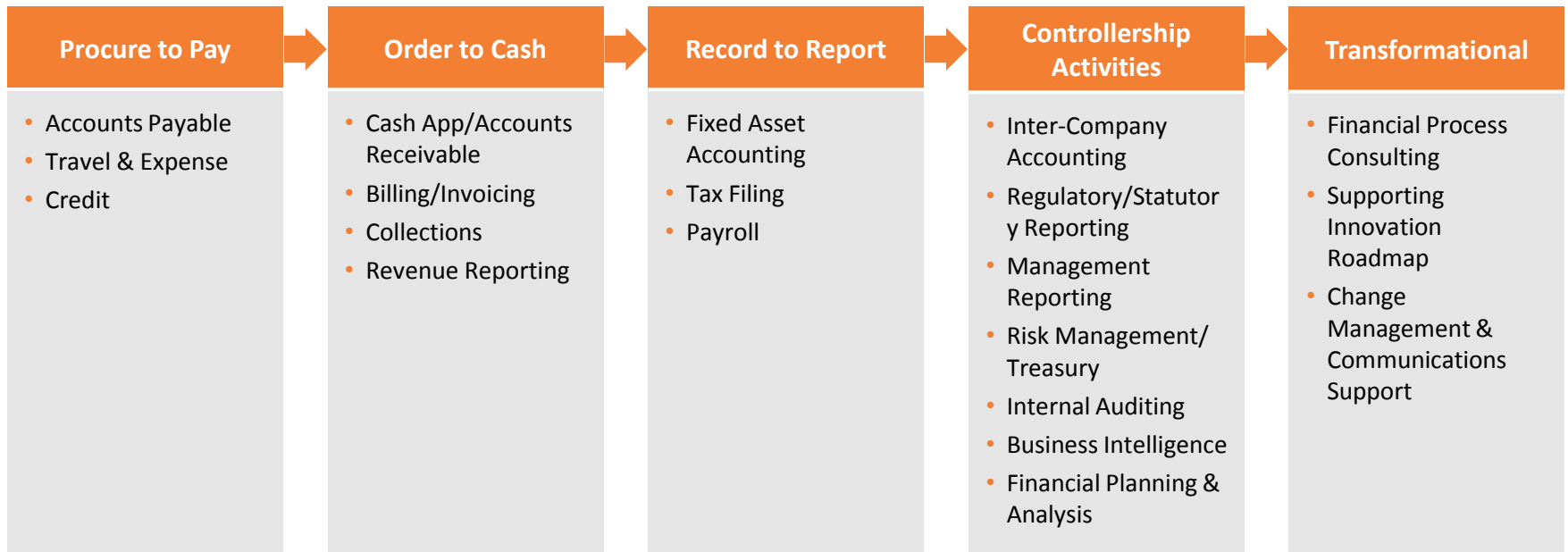


# HfS Research Bases Its Research on an Assessment Framework of the Services F&A BPO Service Providers Offer in the Market



# HfS Definition of Progressive Finance and Accounting Business Process Outsourcing

## Finance and Accounting Value Chain



**HfS Value Chain Definition:** Value chain refers to the series of departments which carry out value-creating activities to design, produce, market, deliver, and support a company's product or service. In this usage, we refer to the range of primary processes and support services that providers offer to their clients.

In the case of F&A BPO Blueprint, only those engagements, which involve a minimum of two of these core F&A process bundled and a TCV more than \$1M are assessed.

# Service Provider Capabilities



# Winner's Circle and High Performers Methodology

To distinguish providers that have gone above and beyond within a particular line of delivery, HfS awards these providers a “Winner’s Circle” or “High Performer” designation. The below provides a brief description of the general characteristics of each designation:

## WINNER'S CIRCLE:

Organizations that demonstrate excellence in both execution and innovation.

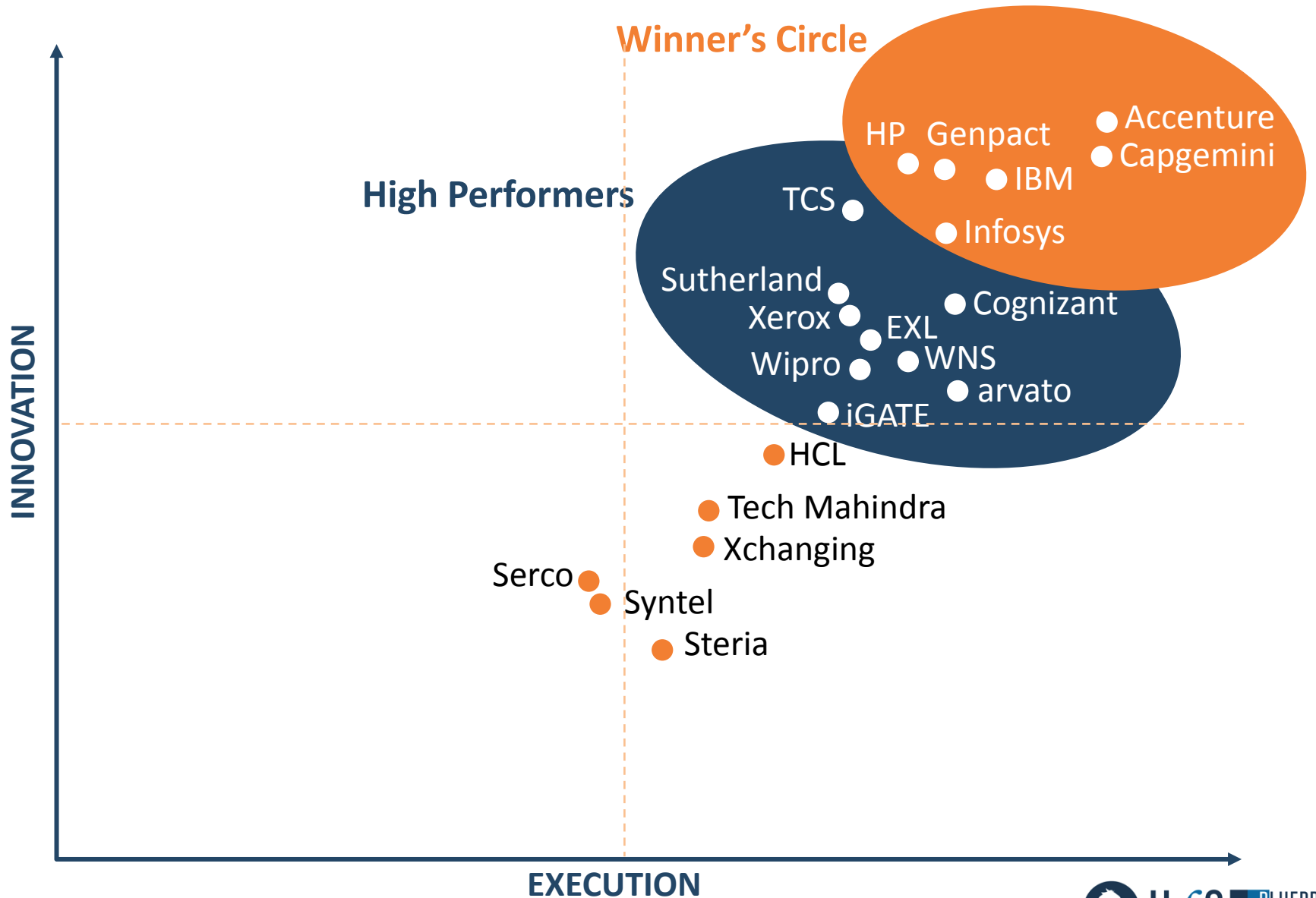
- From an **execution** perspective, providers have developed strong relationships with clients, execute services beyond the scope of hitting green lights, and are highly flexible when meeting clients’ needs.
- From an **innovation** perspective, providers have a strong vision, concrete plans to invest in future capabilities, a healthy cross-section of vertical capabilities, and have illustrated a strong ability to leverage external drivers to increase value for their clients.

## HIGH PERFORMERS:

Organizations that demonstrate strong capabilities in both execution and innovation but are lacking in an innovative vision or execution against their vision.

- From an **execution** perspective, providers execute some of the following areas with excellence, but not all areas: high performers have developed worthwhile relationships with clients, execute their services and hit all of the green lights, and are very flexible when meeting clients’ needs.
- From an **innovation** perspective, providers typically execute some of the following areas with excellence, but not all areas: have a vision and demonstrated plans to invest in future capabilities, have experience delivering services over multiple vertical capabilities, and have illustrated a good ability to leverage external drivers to increase value for their clients.

# HfS Blueprint 2015: Progressive Finance & Accounting BPO



# Major Service Provider Dynamics – Highlights

## EXECUTION

- **Accenture leads on partnership with clients (Winner's Circle)**
  - Accenture breaks new ground with a formal joint venture with its long-standing client, Marriott, to go to market with BPO services to hospitality industry, where F&A outsourcing is a prominent offering.
- **Capgemini's Global Enterprise Model is a world-class delivery platform for F&A services (Winner's Circle)**
  - Capgemini's flexible, platform-based GEM methodology has all the aspects of progressive delivery covered from right mix of FTEs, location mix, competency, technology, analytics, and governance.
  - All key Capgemini clients attest real value from the GEM methodology.
- **Infosys wins big on account management attention and responsiveness (Winner's Circle)**
  - Infosys scores highly when it comes to the "listening" capabilities of their account management and delivery teams for clients. They are frequently cited as being easy to work with and highly responsive to the short- and long-term needs of clients of all sizes.
- **HP leads with F&A Process Automation Tools and strong SAP-enablement capabilities (Winner's Circle)**
  - Most notably, HP has also actively been driving the benefits of deploying Robotic Process Automation for high volume, repetitive, rules-based work and its AutoFlow tool for workflow needs with clients instead of relying on legacy systems.
- **EXL a strong all-round performer with a consistent transition and process improvement performance (High Performer)**
  - The no-surprise transitions and managing change strategy works well with EXL's clients. When operations are stabilized over the 12-18 month period, EXL shifts focus with its EXLerator process improvement methodology and collaborates effectively with clients for overall process optimization, target operating model, platform changes, business impact value drivers, and scope shifts.

## INNOVATION

- **Accenture Bridging the Digital Divide (Winner's Circle)**
  - Invests heavily in a number of tools, assets, and alliance relationships to drive digital innovation. Examples include the Accenture Digital Workforce Platform and Accenture Intelligent Scheduling that have been effectively deployed with several F&A clients.
- **Smart Design and CFO focus from Genpact (Winner's Circle)**
  - Its dynamic 'Smart' foundation of Smart Strategy, Delivery, and Design are compelling and transformative. Genpact tools backed by several customer F&A success stories. In addition, is making investments in areas of F&A value to meet the needs of the CFO through its CFO Suite offering.
- **IBM drives innovative partnerships with clients (Winner's Circle)**
  - Continues to win over ambitious clients by hosting innovation discovery jams and workshops with its clients to understand pressing needs and create required solutions. Strong future potential with its analytics and cloud offerings in F&A BPO.
- **Infosys bets on transformative Robotics Framework (Winner's Circle)**
  - Proprietary Robotics framework for automation of rule-based repeatable work that has accuracy, efficiency, and positive cost impact for clients. Recent acquisition of automation tech firm Panaya (see [link](#)) could have major impact for clients struggling with ERP strangleholds in F&A.
- **Cognizant succeeding in moving from FTE-pricing to outcomes (High Performer)**
  - Despite a smaller footprint in F&A BPO, Cognizant's clients all cite the firm's desire to move as aggressively as possible to outcome-based delivery of F&A, which is already working very effectively. Well positioned for the As-a-Service Economy.
- **TCS's Vertical Focus a strong potential differentiator for "As-a-Service" F&A in the future (High Performer)**
  - Continues to believe – and invest – in strengthening industry knowledge and investing key leaders within industry segments who provide domain intensive guidance. Proprietary TRAPEZE Tools – available both in web-based and mobile versions provide powerful governance support in F&A.

# Top 6 Service Providers Across Service Offerings

## Leaders for Procure to Pay F&A BPO



## Leaders for Order to Cash F&A BPO



## Leaders for Record to Report F&A BPO



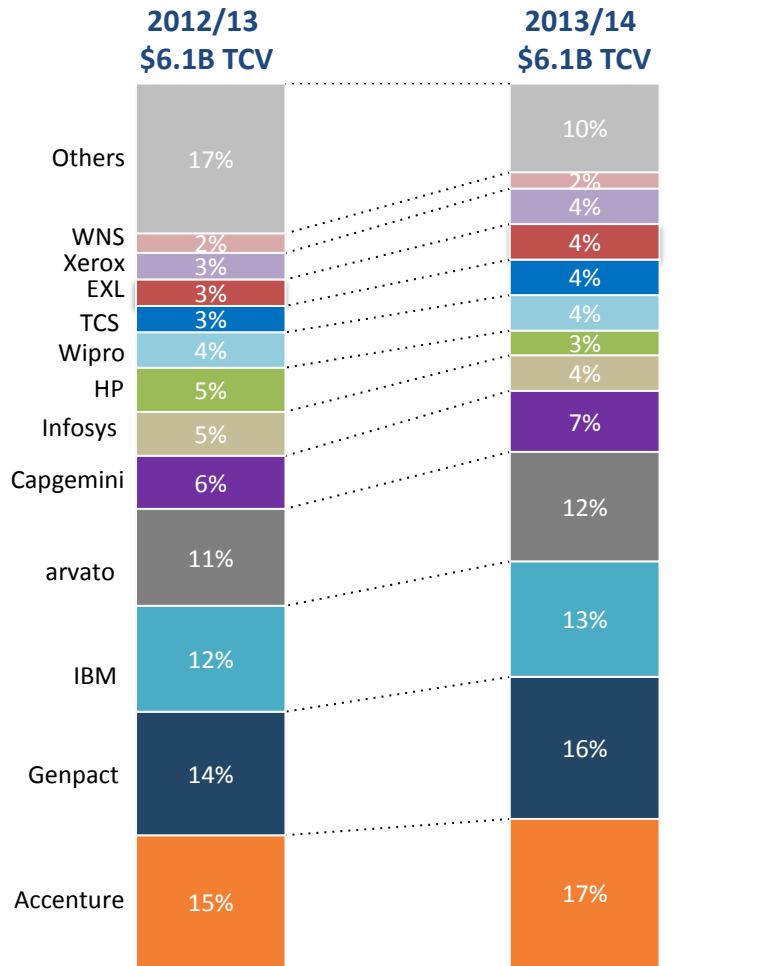
## Leaders for Finance Transformation F&A BPO



# As Competition Intensifies, Year-on-Year Market Share of Most Service Providers Grows Marginally

## F&A BPO – Service Providers Market Share Shifts

TCV in US\$ B



- Accenture, Genpact, IBM, arvato, and Capgemini continue to increase market share and compete aggressively with each other and also the likes of WNS, Wipro, and Infosys.
- Accenture dominates the large enterprise market; Genpact continues to penetrate in mid-market segment.
- Market share varies by industry segment. Although most of the service providers are concentrated on BFSI, Telecom & Hi-Tech, and Manufacturing, it is interesting to see that Accenture and IBM have a created a more balanced and diversified portfolio.
- arvato has a strong presence in integrated CRM/F&A services, while Capgemini has strong foothold in the Manufacturing sector.
- Nevertheless, the diverse F&A BPO landscape continues to present a number of opportunities for smaller size, as well as large service providers, to grow.

Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

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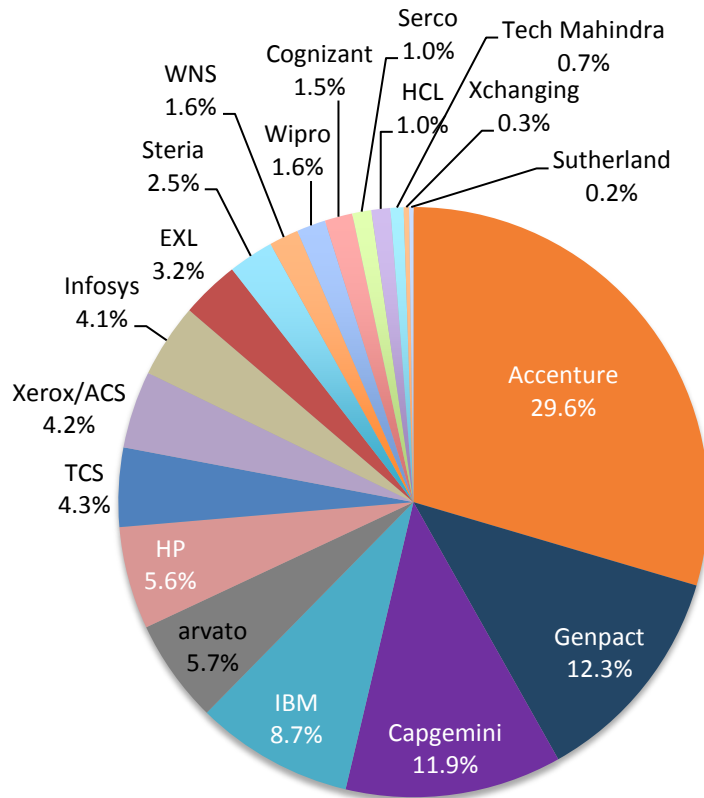
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# The “Big Four” of Accenture, IBM, Capgemini, and Genpact Dominate Half of the Multi-process F&A BPO Market

## Overall Market Share as % of TCV: All

Years To-Date



Service Provider	Projected TCV (\$M)	% Market Share
Accenture	12,101.0	29.6%
Genpact	5,025.3	12.3%
Capgemini	4,854.0	11.9%
IBM	3,544.0	8.7%
arvato	2,323.9	5.7%
HP	2,300.0	5.6%
TCS	1,771.5	4.3%
Xerox	1,734.5	4.2%
Infosys	1,659.5	4.1%
EXL	1,310.0	3.2%
Steria	1,017.0	2.5%
WNS	660.5	1.6%
Wipro	650.0	1.6%
Cognizant	621.0	1.5%
Serco	427.2	1.0%
HCL	424.5	1.0%
Tech Mahindra	294.4	0.7%
Xchanging	119.5	0.3%
Sutherland	98.1	0.2%
<b>Total</b>	<b>40,935.9</b>	<b>100.0%</b>

Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

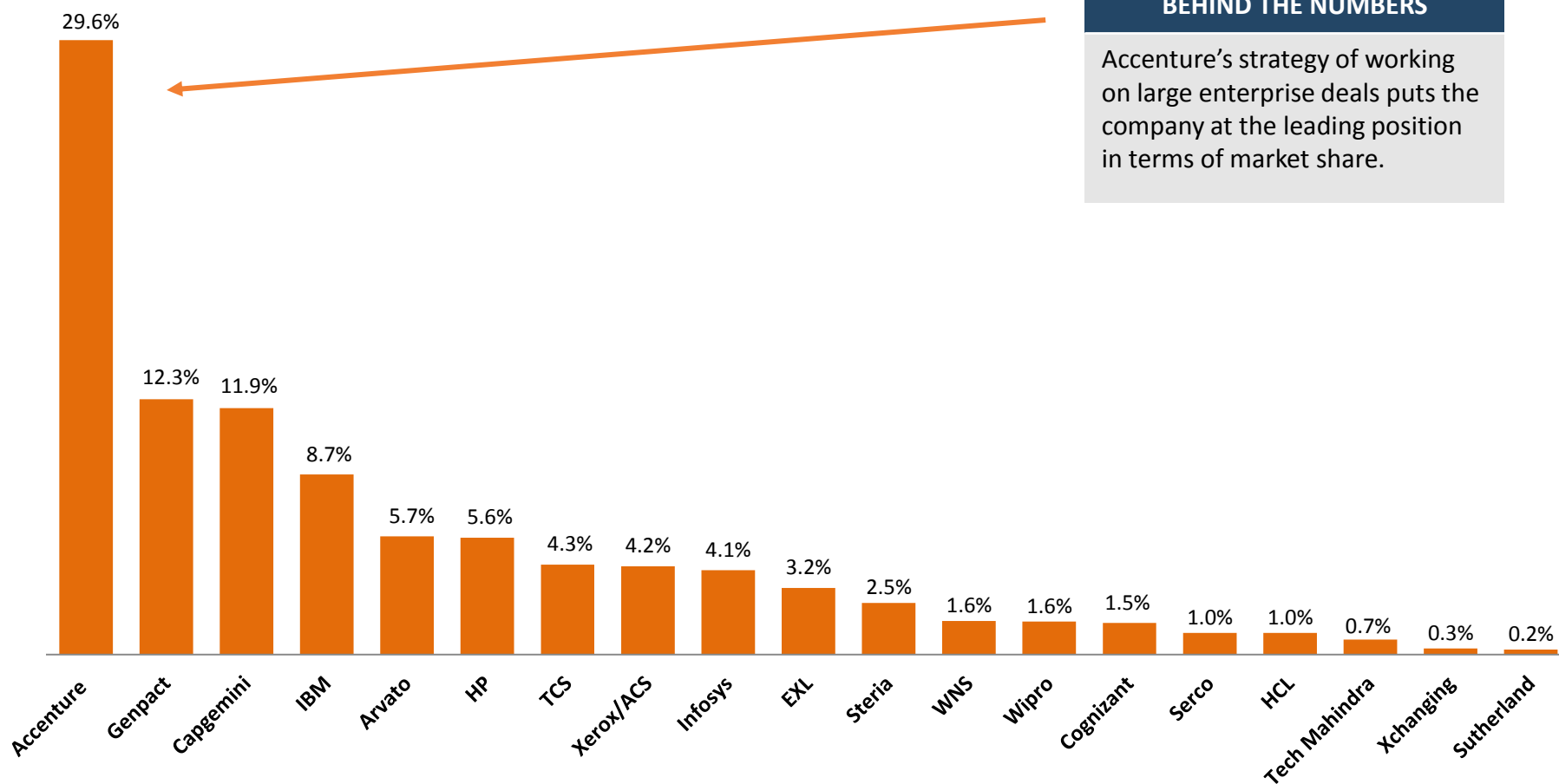
Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

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# Accenture's Dominance in the F&A Space Makes it a Clear Market Share Leader

## Total Market Share of TCV: All Years



### BEHIND THE NUMBERS

Accenture's strategy of working on large enterprise deals puts the company at the leading position in terms of market share.

Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

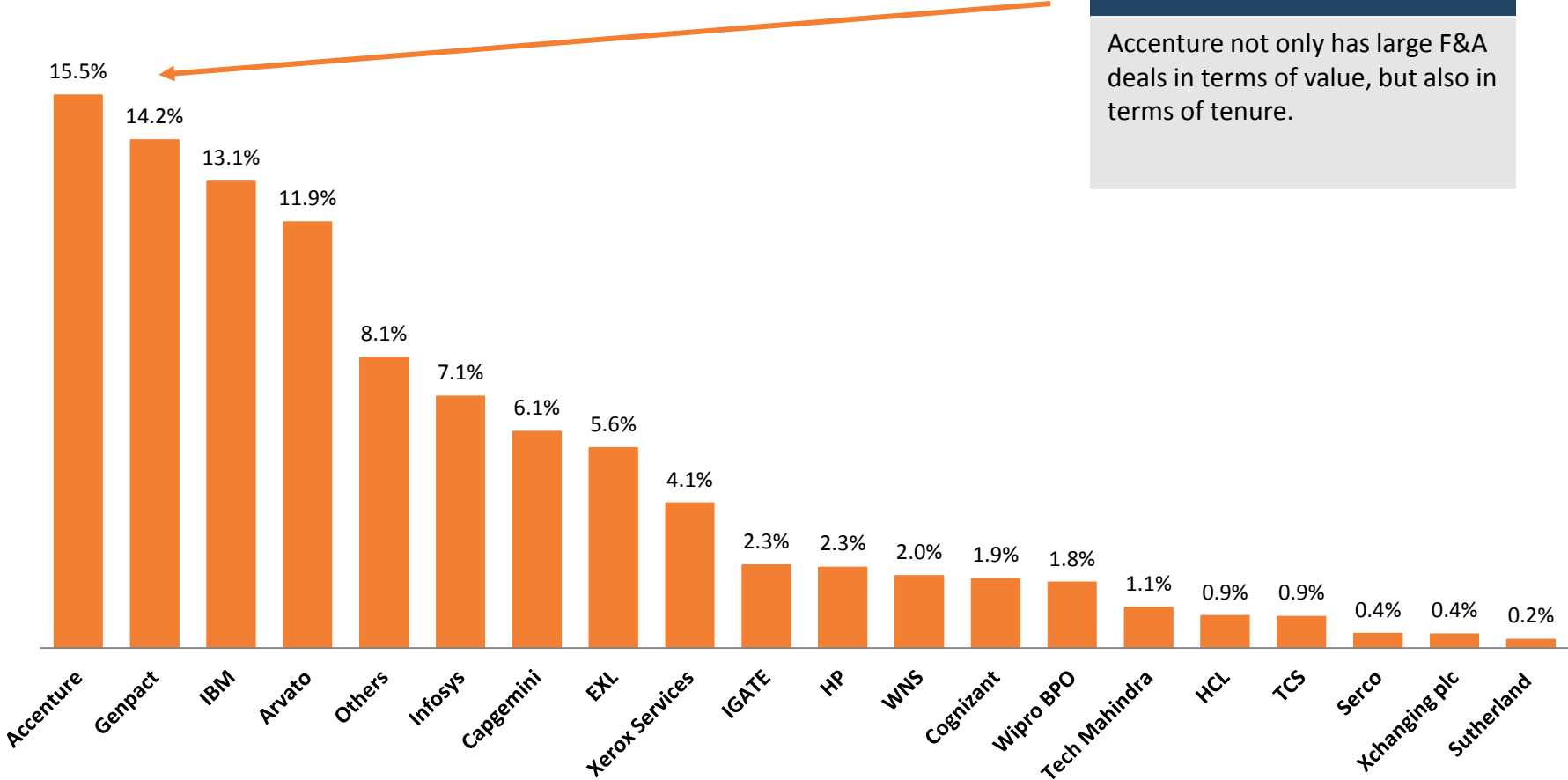
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# In 2012 and 2013 Accenture, Genpact, IBM, and arvato Together Accounted for More Than 50% of the Market Share

## Market Share of Deals of TCV: 2013-14

N =399



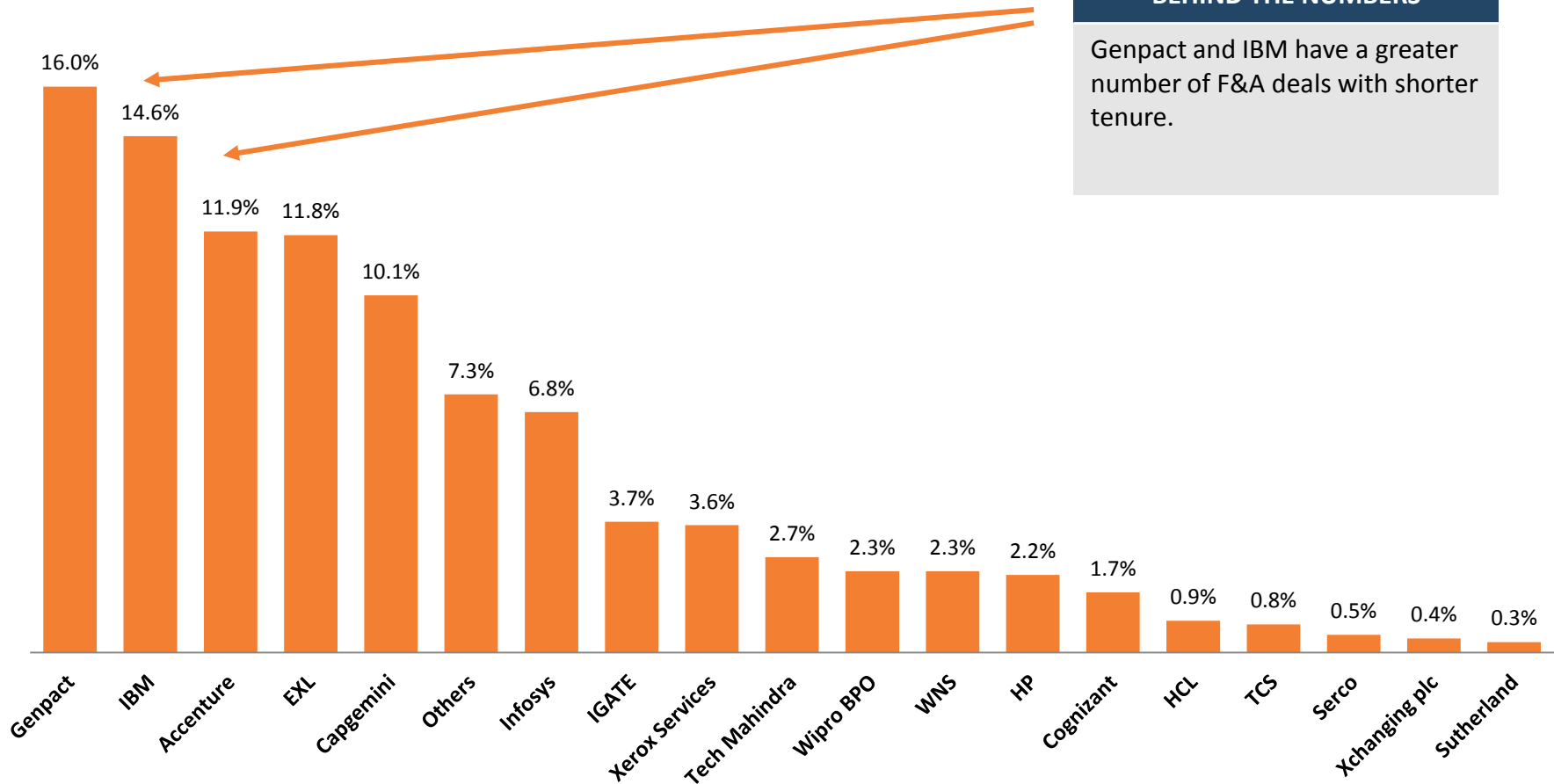
**BEHIND THE NUMBERS**  
 Accenture not only has large F&A deals in terms of value, but also in terms of tenure.

Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts  
 Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled  
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# In Terms of ACV for 2012 and 2013, Capgemini Bounced Back Significantly in Yearly Contract Value Compared to Totals

## Market Share of Deals of ACV: 2013-2014

N =399



Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

Based on live F&A BPO contracts which are over \$1m in TCv and have a minimum of two core F&A process bundled

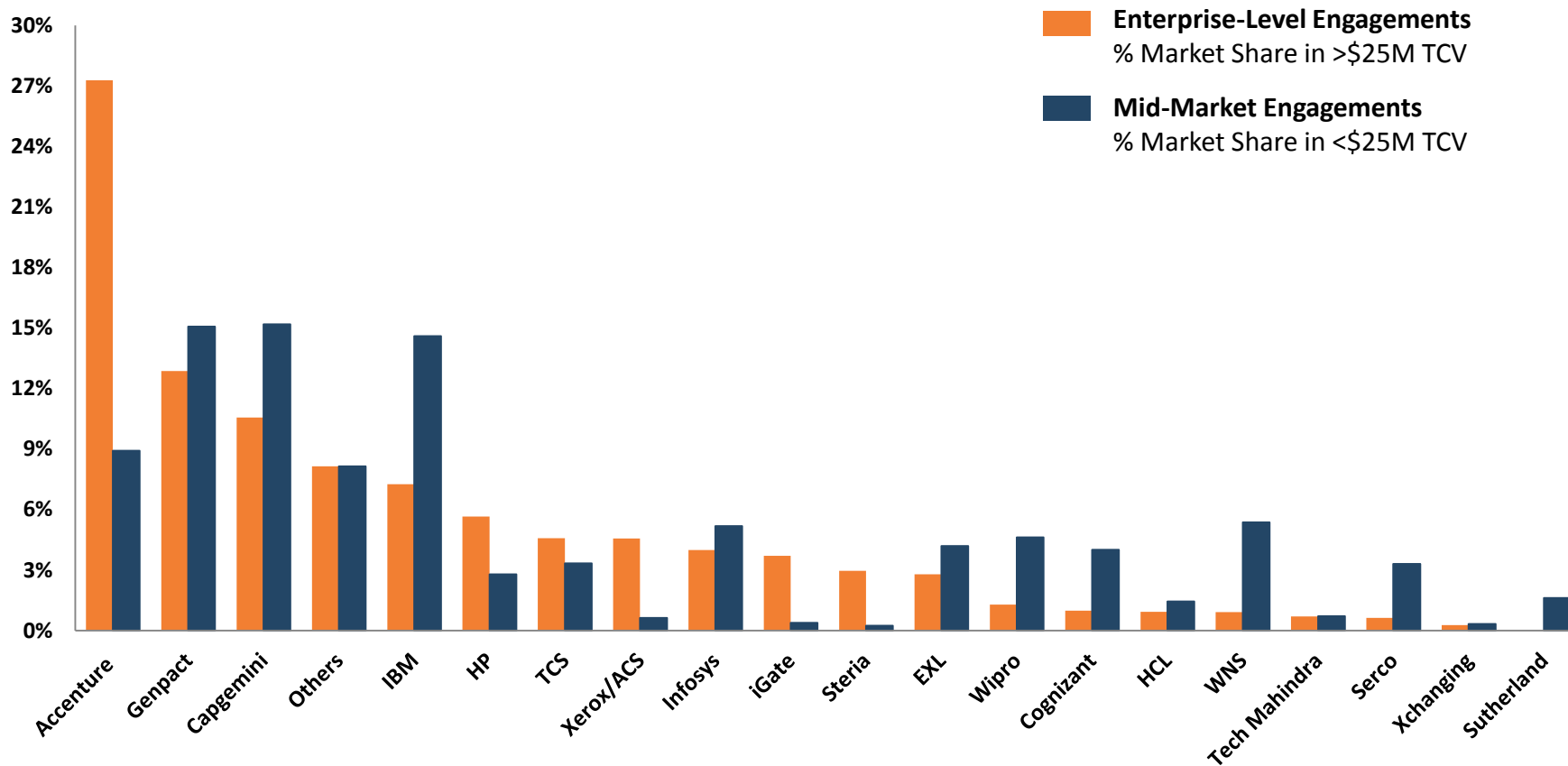
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# Accenture's Success Is Based on Large Deals Success, While Genpact's Client Mix Is a Balance of High and Mid-sized Contracts

## Market Share Percentage: Size of Deal

Percentage of Deal Count (Including Other)



Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

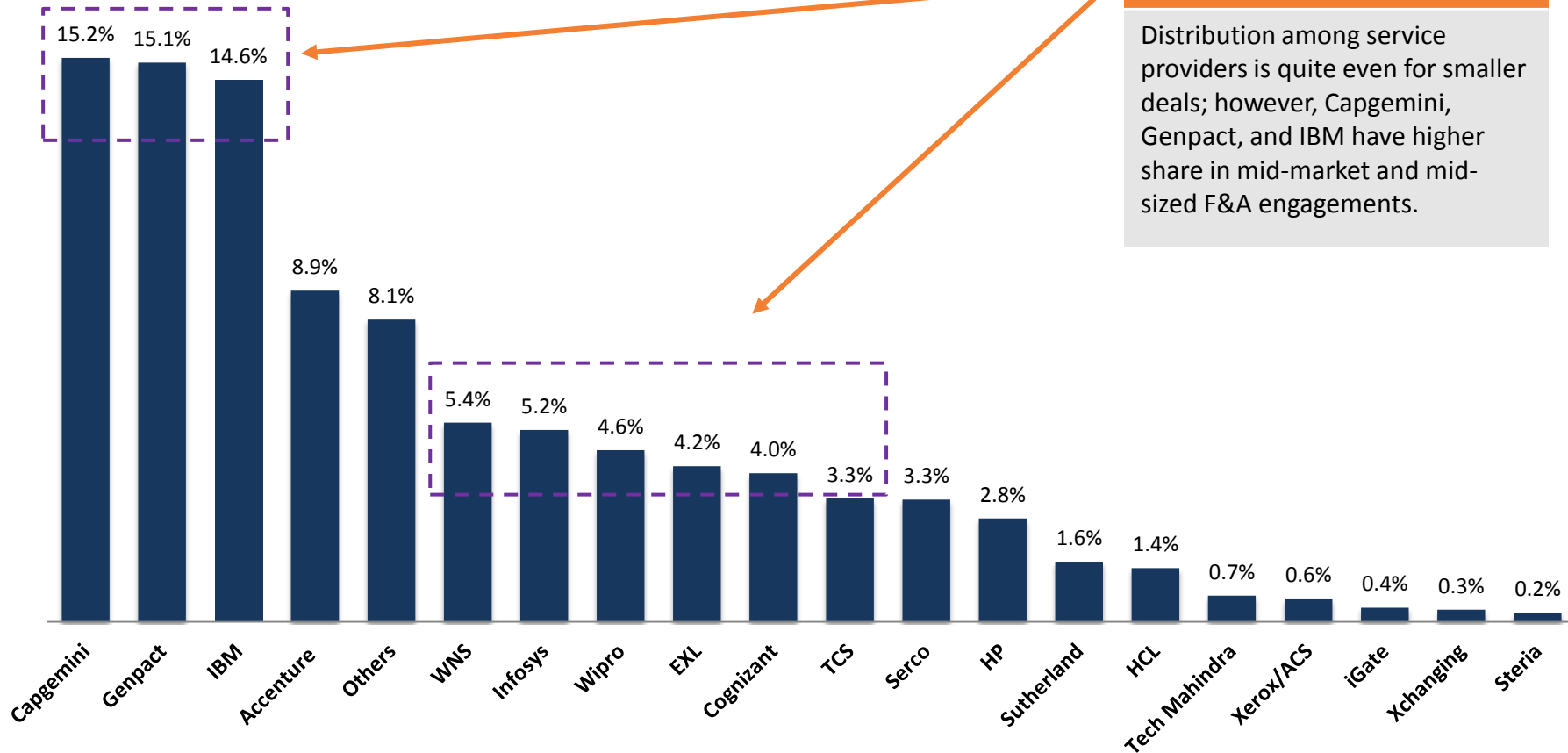
Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

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# Mid-sized F&A deals (<\$25M TCV): A Fairly Uniform Distribution Across Handful of Service Providers

**Market Share Percentage: Size of Deal <\$25M TCV**  
Percentage of Deals (Including Other)



**BEHIND THE NUMBERS**

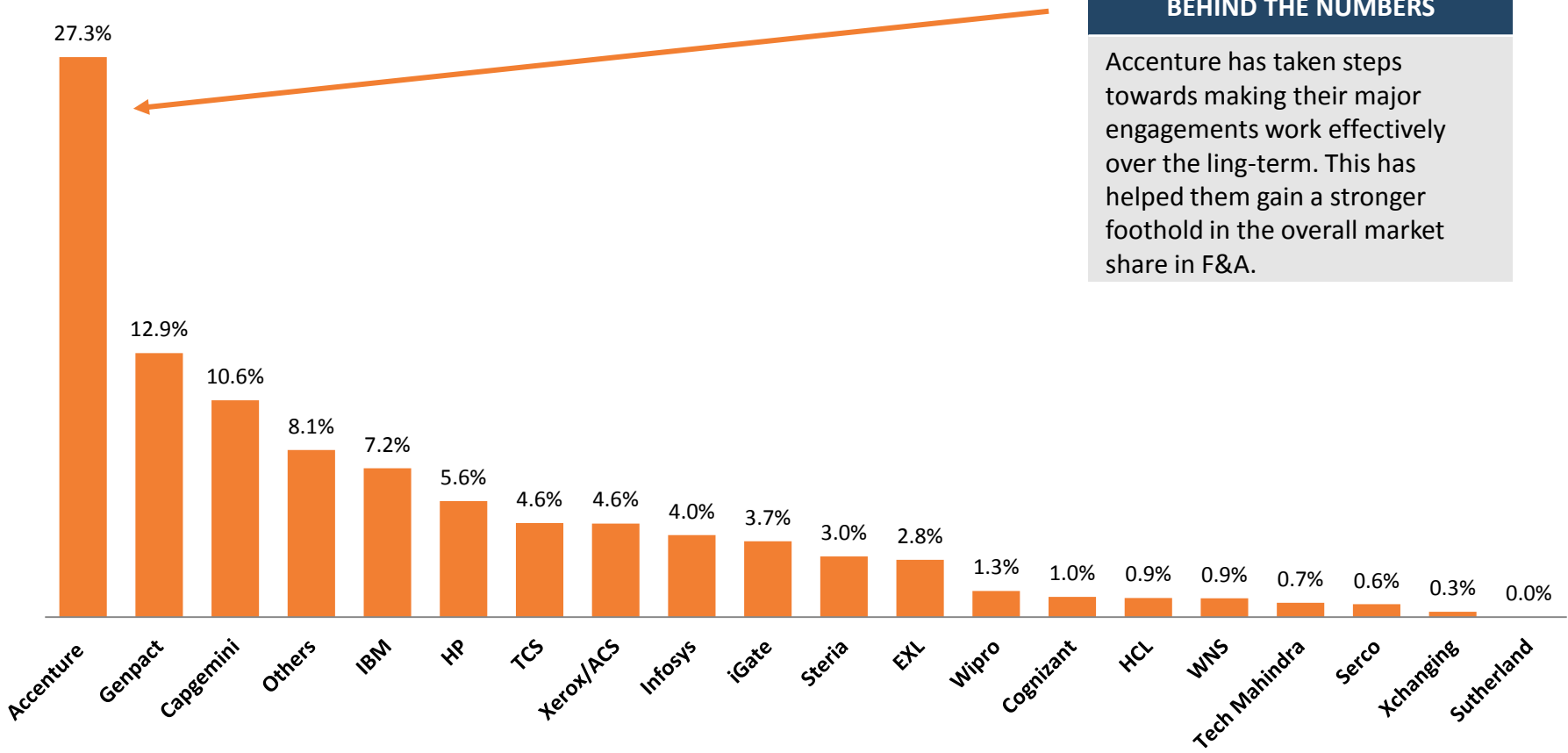
Distribution among service providers is quite even for smaller deals; however, Capgemini, Genpact, and IBM have higher share in mid-market and mid-sized F&A engagements.

Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts  
Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled  
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# Deals as a Percentage of Overall Market Share Show a Significant Difference in the Motivation For Certain Service Providers

**Market Share Percentage: Size of Deal >\$25M TCV**  
 Percentage of Deals (Including Other)



**BEHIND THE NUMBERS**

Accenture has taken steps towards making their major engagements work effectively over the long-term. This has helped them gain a stronger foothold in the overall market share in F&A.

Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts  
 Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled  
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# Multi-Process F&A BPO Market Size and Deal Trends

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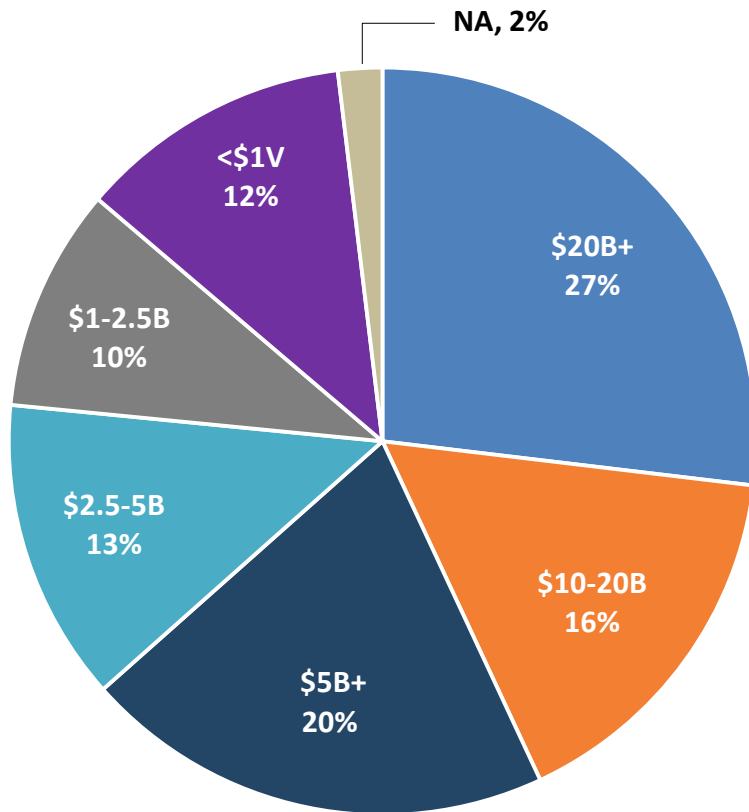




# Large Enterprises (>\$5B) Continue to Dominate The F&A Outsourcing Market; However, Over a Third are Now Mid-market

## Client Organizations' Revenue as % of Deals

Percentage of Deals



- Large enterprises having revenue above US\$ 5 Billion (63%) continue to outsource aggressively to stay competitive and take advantage of offshore scale.
- Outsourcing activity among Mid-market enterprises now comprises one-third of the entire market. As more and more service providers start offering flexible pricing and As-a-Service platforms in the coming years, this share is poised to grow and will comprise half of the total market share of outsourcing buyers.

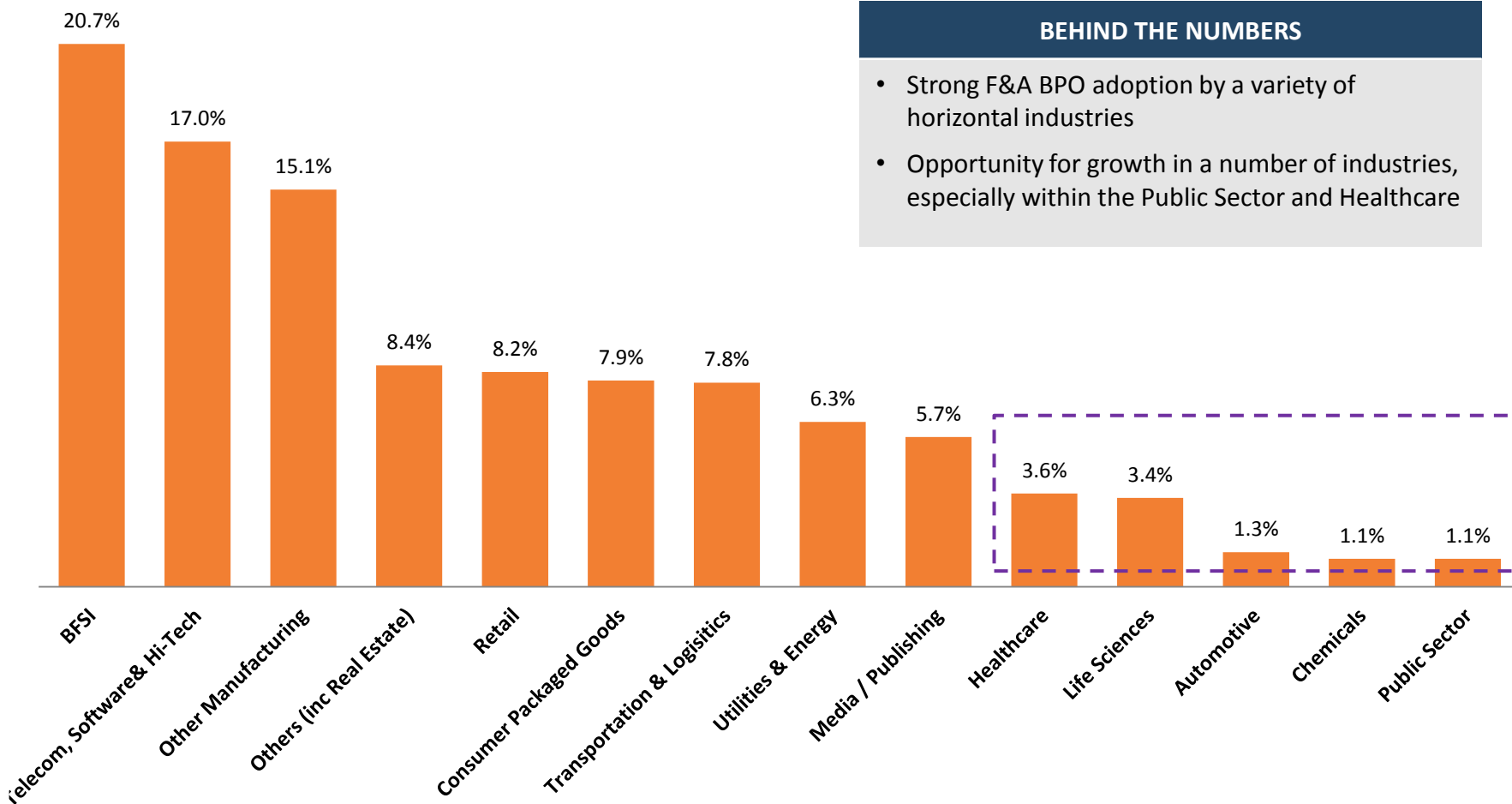
Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

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# BFSI, Telecom, Software, High-Tech, and Manufacturing Lead the Way in Terms of Deal Saturation in F&A BPO



### BEHIND THE NUMBERS

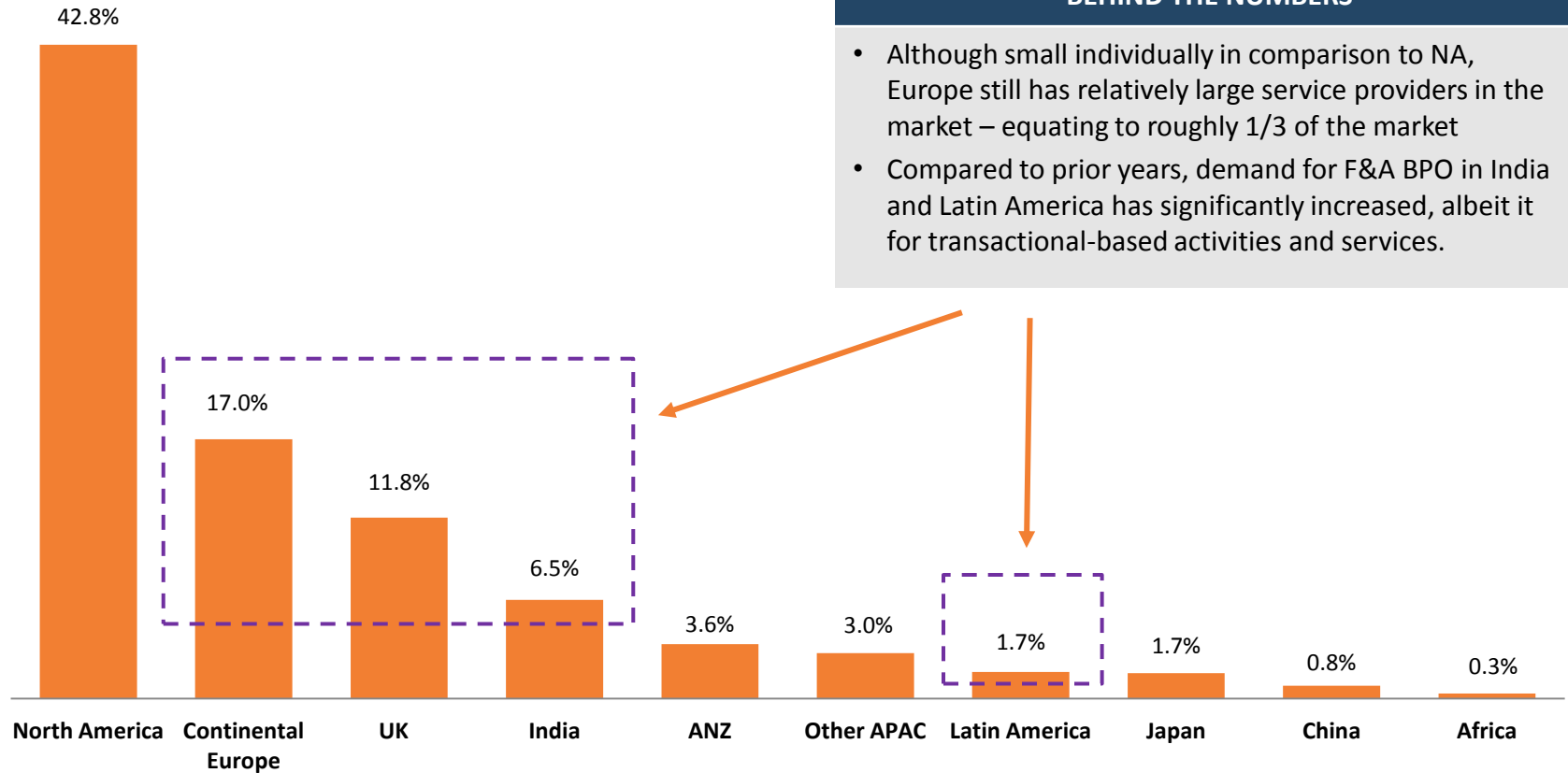
- Strong F&A BPO adoption by a variety of horizontal industries
- Opportunity for growth in a number of industries, especially within the Public Sector and Healthcare

Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

# Multi-process F&A BPO Market Penetration Continues to be Dominated by the North American Market

## Region Contract Signed Number of Contracts



Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

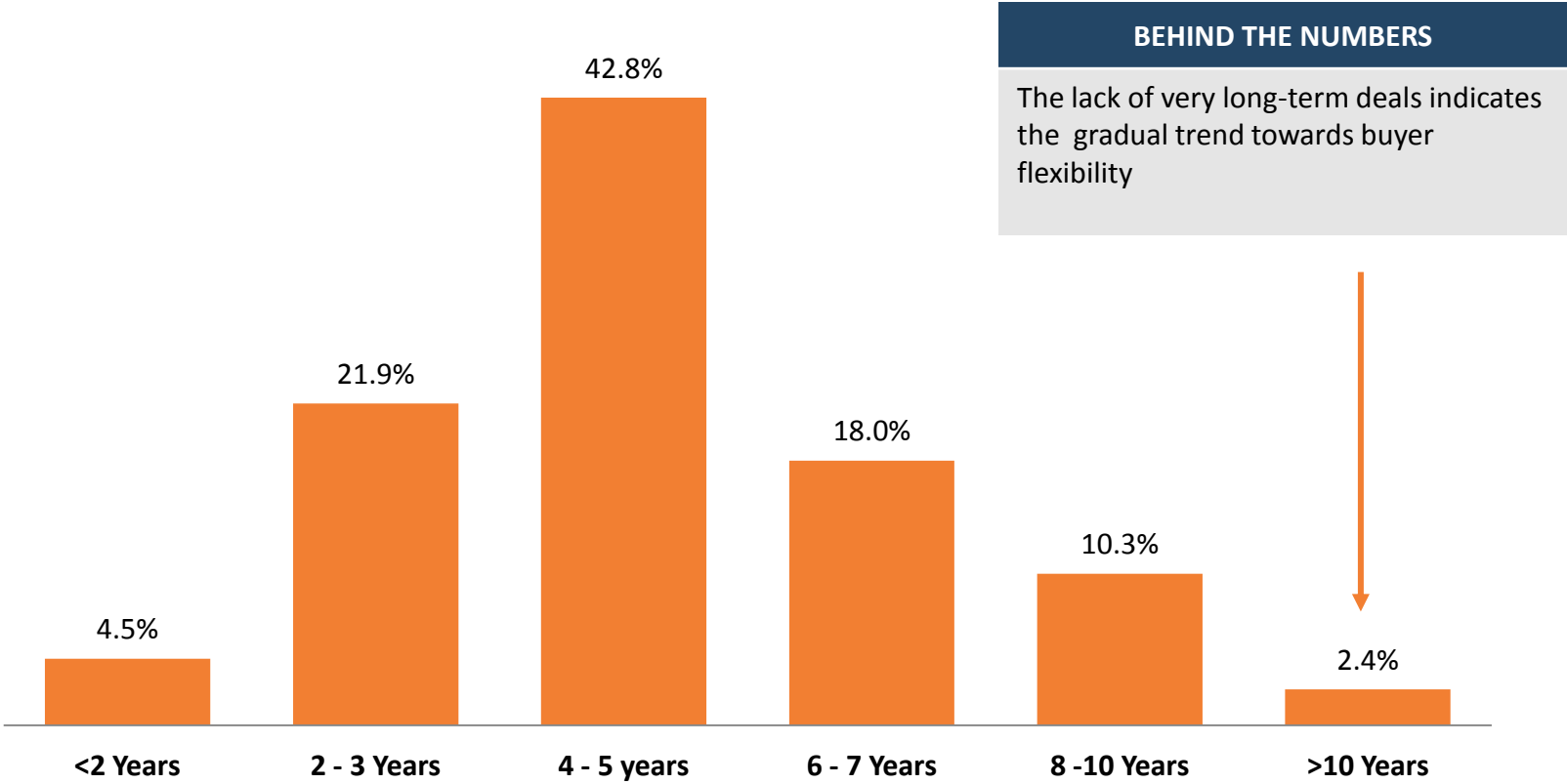
Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

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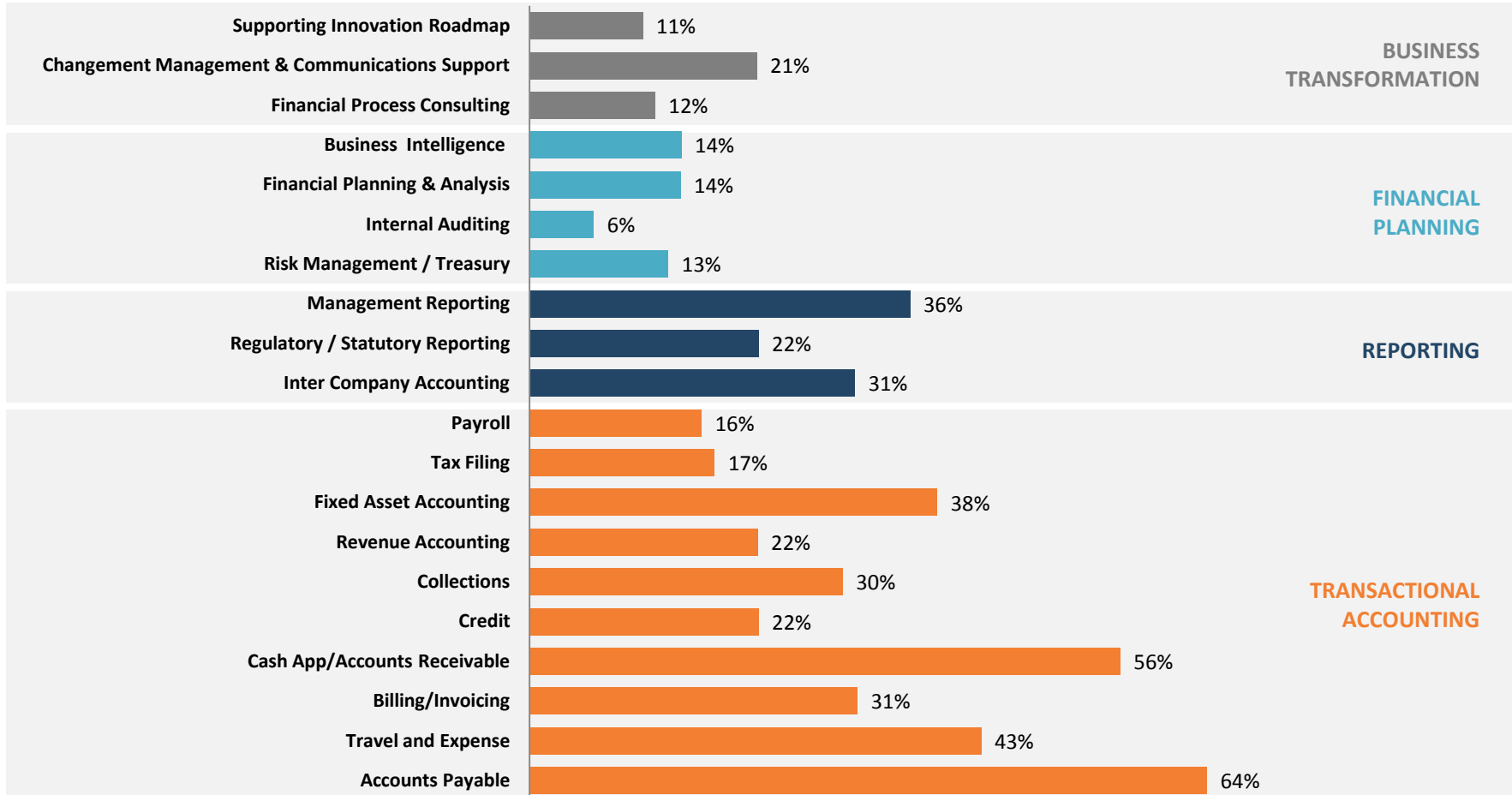
# F&A BPO Deals Have Consistently Fallen Within the 4-5 Year Range or Less

## Length of F&A BPO Contract Term Number of Contracts



Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts  
Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled  
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# Multi-process F&A BPO Engagements Center Heavily on Transactional Accounting Processes With Major Uptick in Reporting Processes



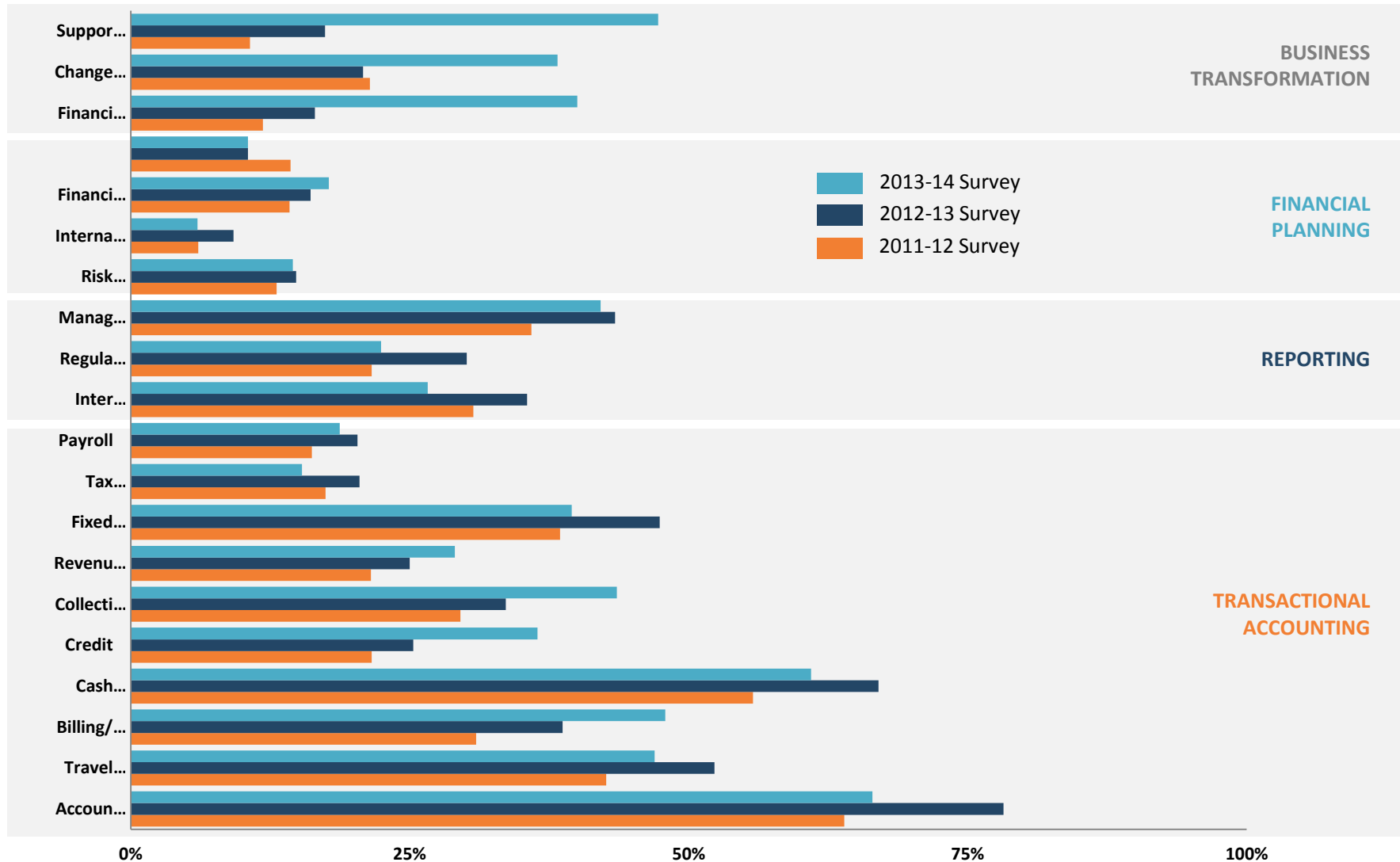
Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

Based on live F&A BPO contracts which are over \$1m in TCv and have a minimum of two core F&A process bundled

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# A Mix of Changes Have Occurred 2011-12: Significant Adoption in F&A BPO Business Transformation Activities Has Increased



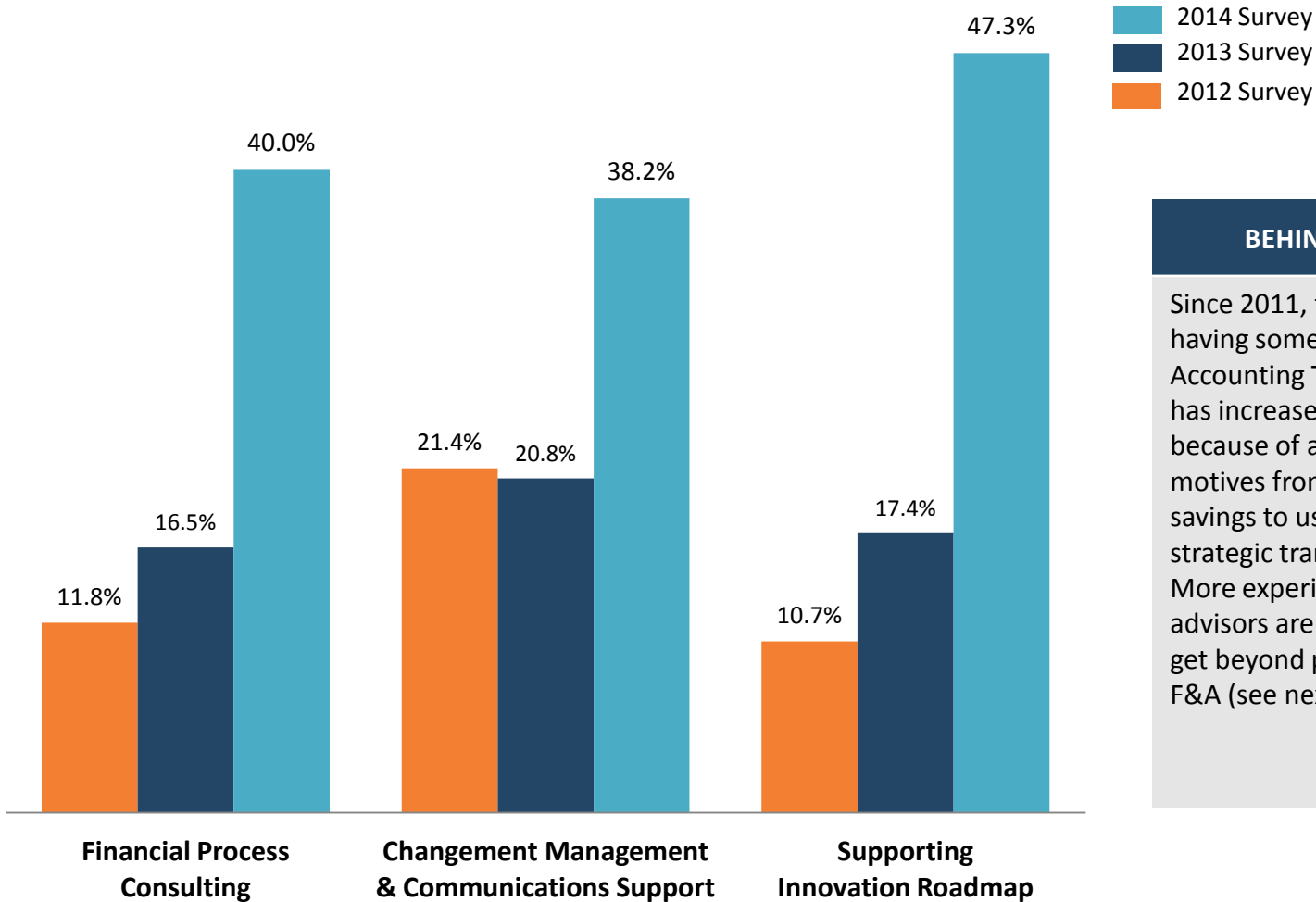
Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

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# F&A BPO Business Transformation Activities Have Quadrupled Since 2011-12



## BEHIND THE NUMBERS

Since 2011, the proportion of deals having some form of Finance and Accounting Transformation activity has increased significantly. This is because of a shifting outsourcing motives from purely achieving cost-savings to using providers as a strategic transformation partner. More experienced buyers and advisors are viewing the needs to get beyond pure labor arbitrage in F&A (see next slide).

Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

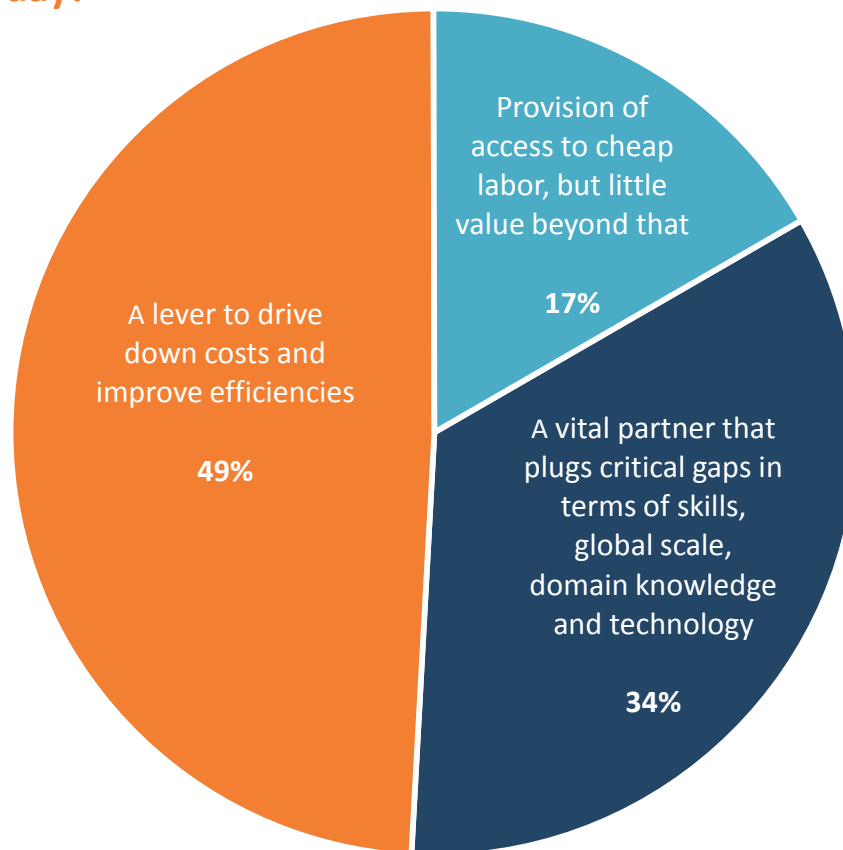
Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

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# The Shift to More Transformative Deals: Majority of Enterprises See Today's Providers as Delivering Value Beyond Cost

## Q. So What Do You Really Think of Service Providers Today?



Source: HfS Research and KPMG LLP, 2015

Sample: 168 Enterprise Buyer Executives from "Achieving Value Beyond Cost" Study, November-December 2014

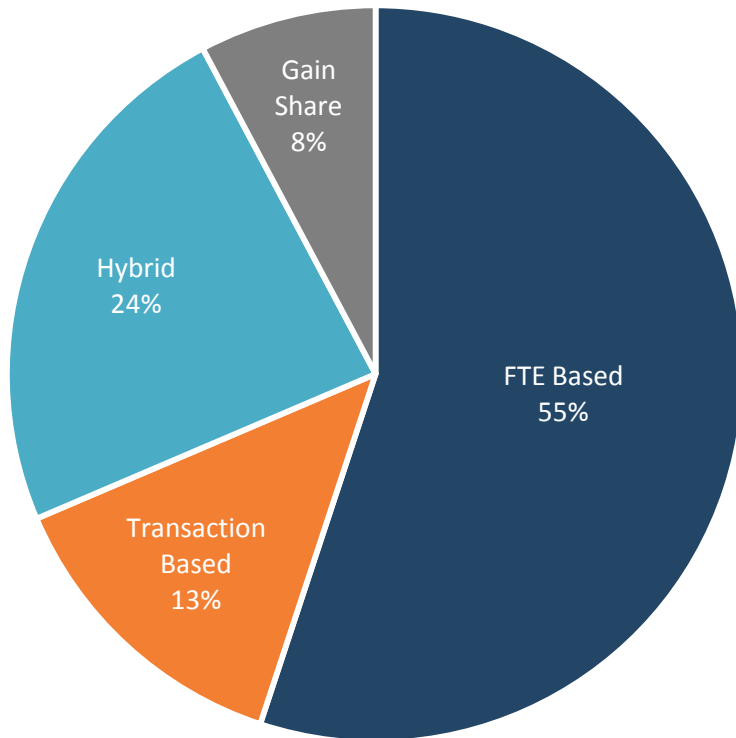
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# Current Pricing Models Deployed in F&A BPO

## % F&A BPO Contracts for Last Two Years



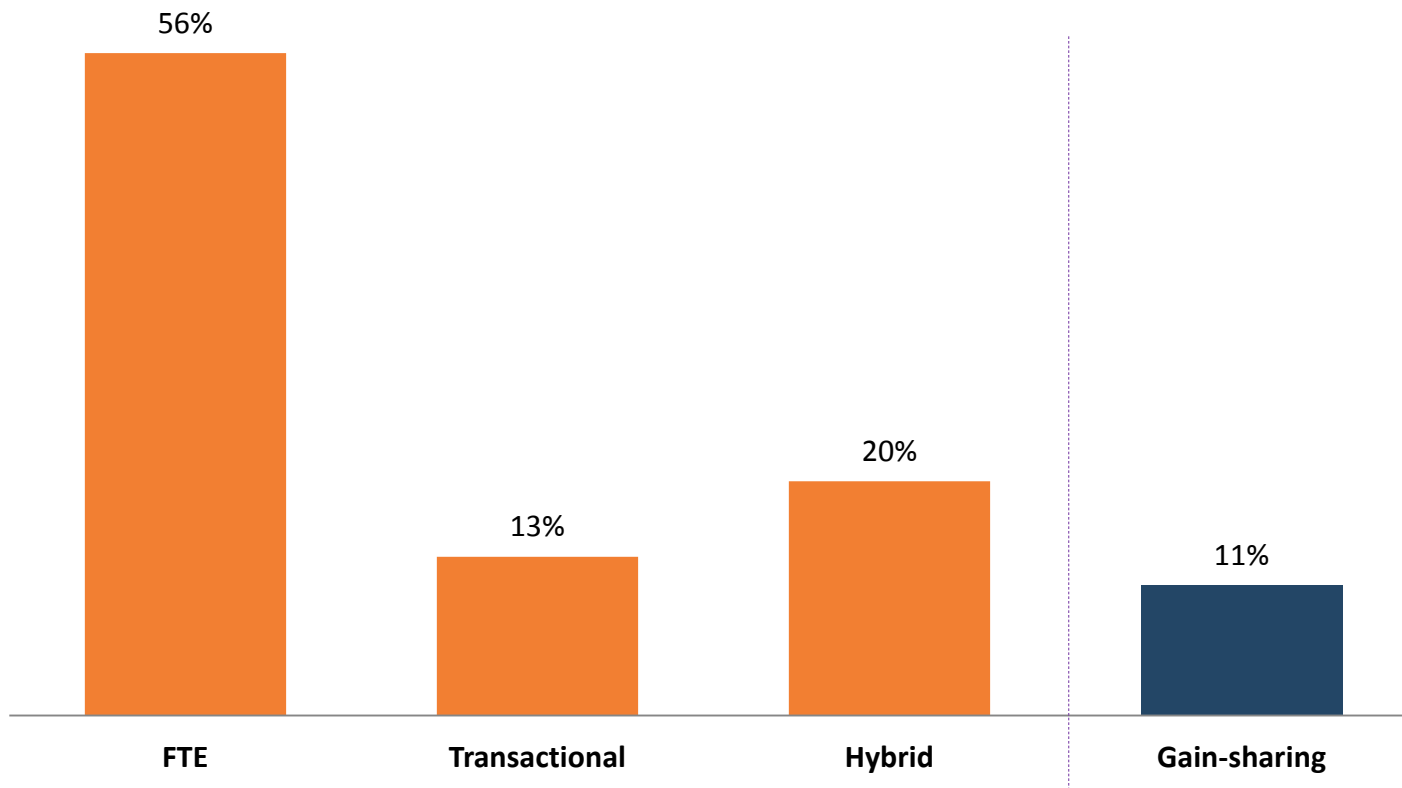
### PRICING FOR F&A BPO

- The pricing in F&A BPO is predominantly FTE-based.
- Gain-share-based pricing model is garnering a lot of attention; however, engineering of these contracts in multi-process engagement needs special consideration.
- During renewals, a deliberate attempt has been made by both buyers as well as service providers to explore models beyond FTE-based pricing.
- Our discussions with buyers and service providers indicate that service providers are more and more confident in recommending hybrid or gain-share-based pricing models.
- The growing use of platforms will enable transaction-based pricing.

# F&A BPO Still Remains Dominated by FTE Pricing Models, While Gain-sharing Is Becoming an Increasingly Attractive Option for Buyers

## Fee Structures of All the F&A BPO Contracts Until 2014

Percentage of Contracts



Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled

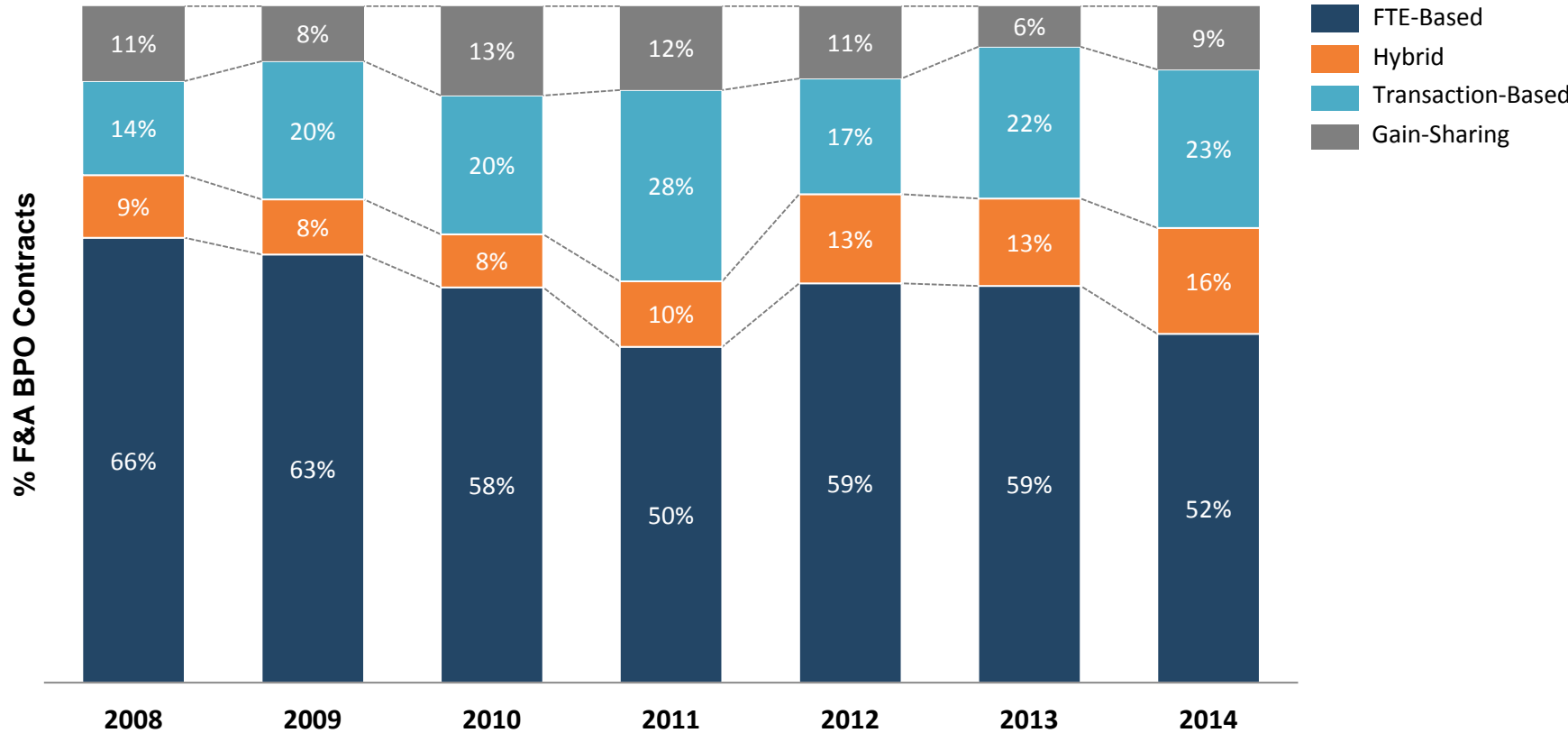
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# F&A BPO Still Remains Dominated by FTE Models While Gain-sharing Is Steadily Becoming an Attractive Option for Buyers

## Fee Structures' Year on Year Change

Percentage of Contracts

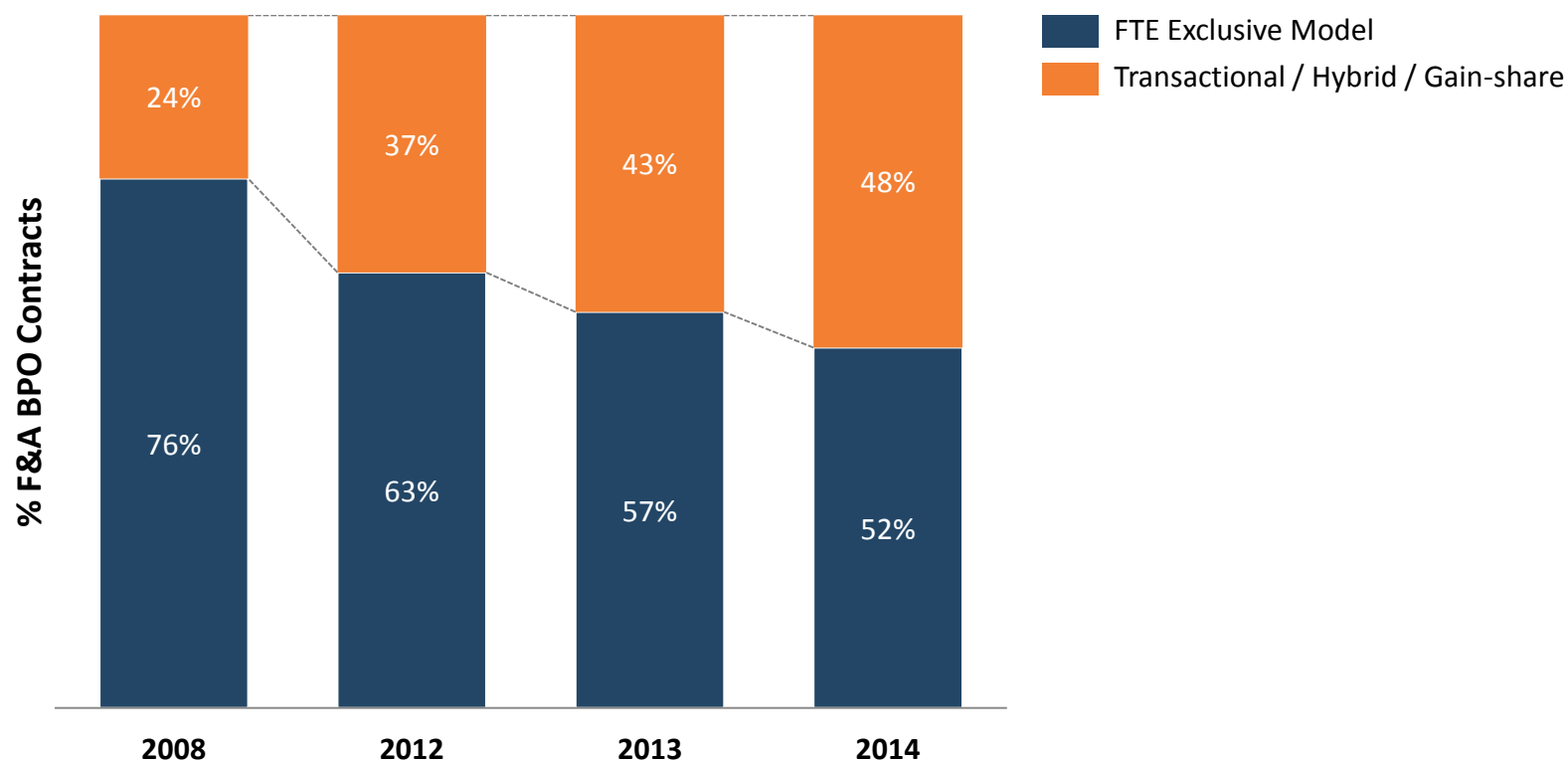


Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts  
 Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled  
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# Although There Is a Slight Percentage Fall in 2013, F&A BPO Is Still Dominated by FTE-based Pricing Due to Type of Work Outsourced – Transactional Accounting

## Fee Structures (Including Gainsharing)

Percentage of Contracts



Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts

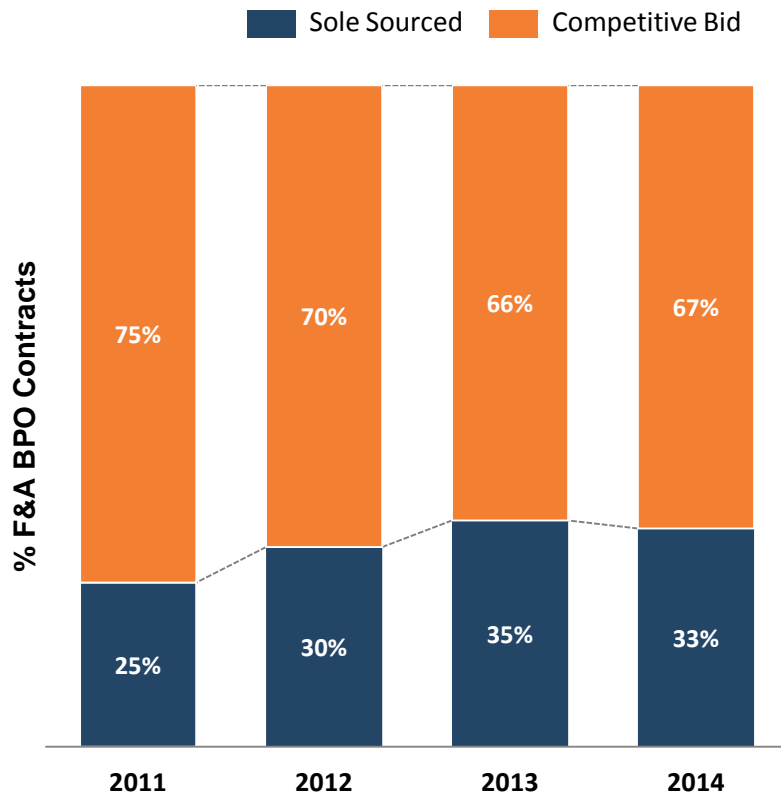
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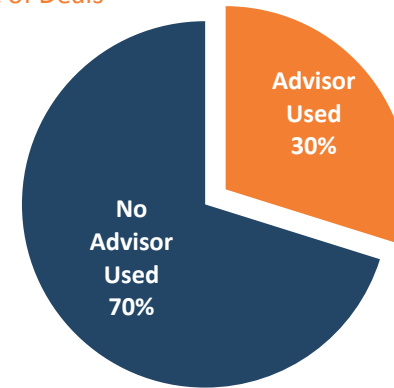
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# Sole-Sourced F&A BPO Deals Have Increased Over the Course of Last Two Years and More Advisors Continue to Look in From the Outside

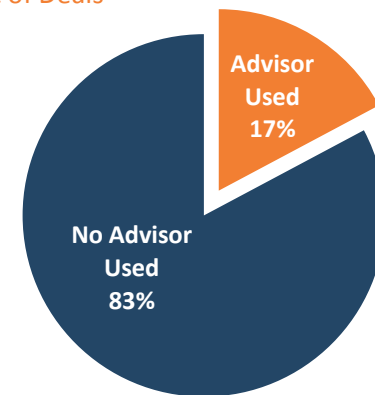
New F&A BPO Deals,  
Percentage Sole Sources vs. Competitive Bid  
Percentage of Deals



New F&A BPO Deals (2013-2014),  
Competitive Percentage Use of Advisors  
Percentage of Deals



New F&A BPO Deals (2013-2014),  
Sole Sourced Percentage Use of Advisors  
Percentage of Deals



Source: HfS Research 2014, N = 957 live Multi-process F&A BPO Contracts  
Based on live F&A BPO contracts which are over \$1m in TCV and have a minimum of two core F&A process bundled  
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# Global F&A BPO Market Size and Forecast

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# IT Services and BPO Market Sizing 2014–2018

## Scope and Method

- Updated December, 2014
- Market sizing based on service provider financials to Q2 2014
- Sizing methodology
  - HfS's market sizing relies on a consistent primary methodology that is used for each service category. HfS's primary method is a supply side model that builds market dimensions by estimating revenues from the most significant service providers in each category. This is augmented by spending models and contract tracking for each specific market.
- Forecasting methodology
  - HfS's forecasting combines historic revenue growth projections, contract run rate projections, demand side survey data, supply side survey data, and economic projections.
- Size and forecast updated quarterly

# Main Assumptions

- HfS's main onward forecast assumptions:
  - Global GDP growth for 2014/2015 will be at least 1.6%, up from approx. 0.2% in 2013.
  - Overall, an approx. 95% renewal rate on existing outsourcing deals – renewal with existing or new provider (rate of insource set at 5%).
  - Renewal rates at approx. average 85% of original contract value (varies by type).
  - Discretionary spending with existing outsourcing projects will drive additional revenues as the economic pressures ease.
  - We currently have a volume prediction of 10% for overall outsourcing during 2014.
  - We anticipate that platform-based BPO (BPaaS) and cloud-based offering will help drive new outsourcing in small and mid-sized organizations in the next 2 years and beyond; however, do not anticipate the top-tier service providers to enter the mid-market until at least 2016.
  - New projects and long-term contracts in the emerging areas of mobility and analytics will provide additional growth, albeit at modest spending compared to broad-based application and infrastructure services.



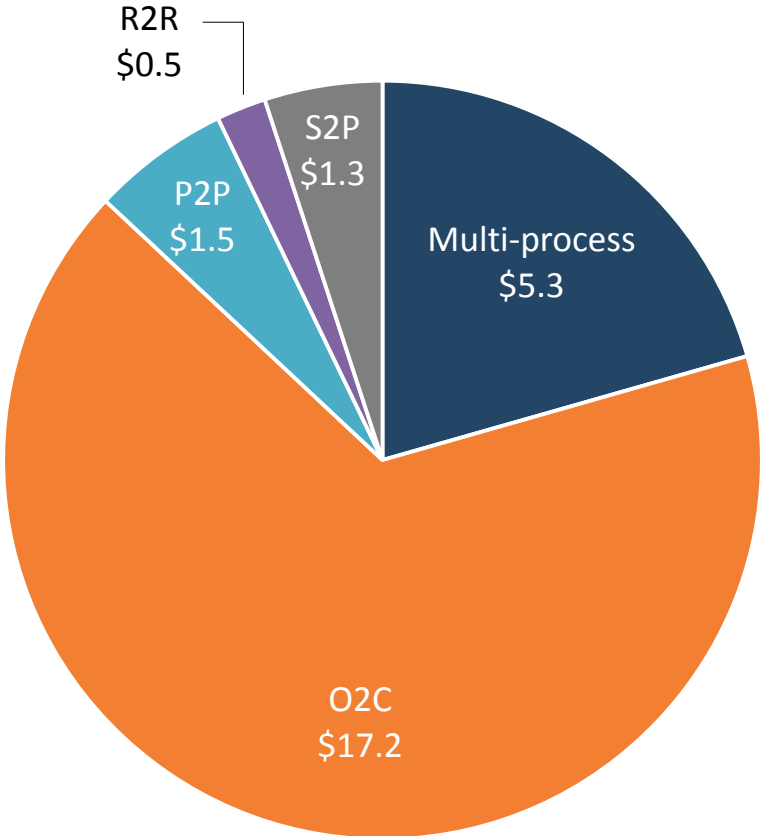
# IT Services and BPO Market 2014–2018

## Highlights

- IT Services to grow 4.0% in 2014, 4.3% CAGR to 2018
  - EMEA market starts to pick up in H2 2014, continues into 2015
  - Discretionary spending restrictions lift as companies spend on new projects
  - IT infrastructure management growth holding up by expansion outside of traditional markets
  - ADM volumes tempered by pricing pressure as market continues to grow in EMEA
- BPO to grow at 5.4% in 2014, 5.9% CAGR to 2018
  - F&A and HR two fastest growing areas as existing clients expand scope, and services expand into lower part of the Fortune 500
  - Increased bundling of F&A and IT, especially in retail and consumer good sectors
  - Slow CRM market picks up in 2014 in spite of poor voice volumes fall, as clients buy more value add services around social media / analytics

# Global F&A BPO Market 2014

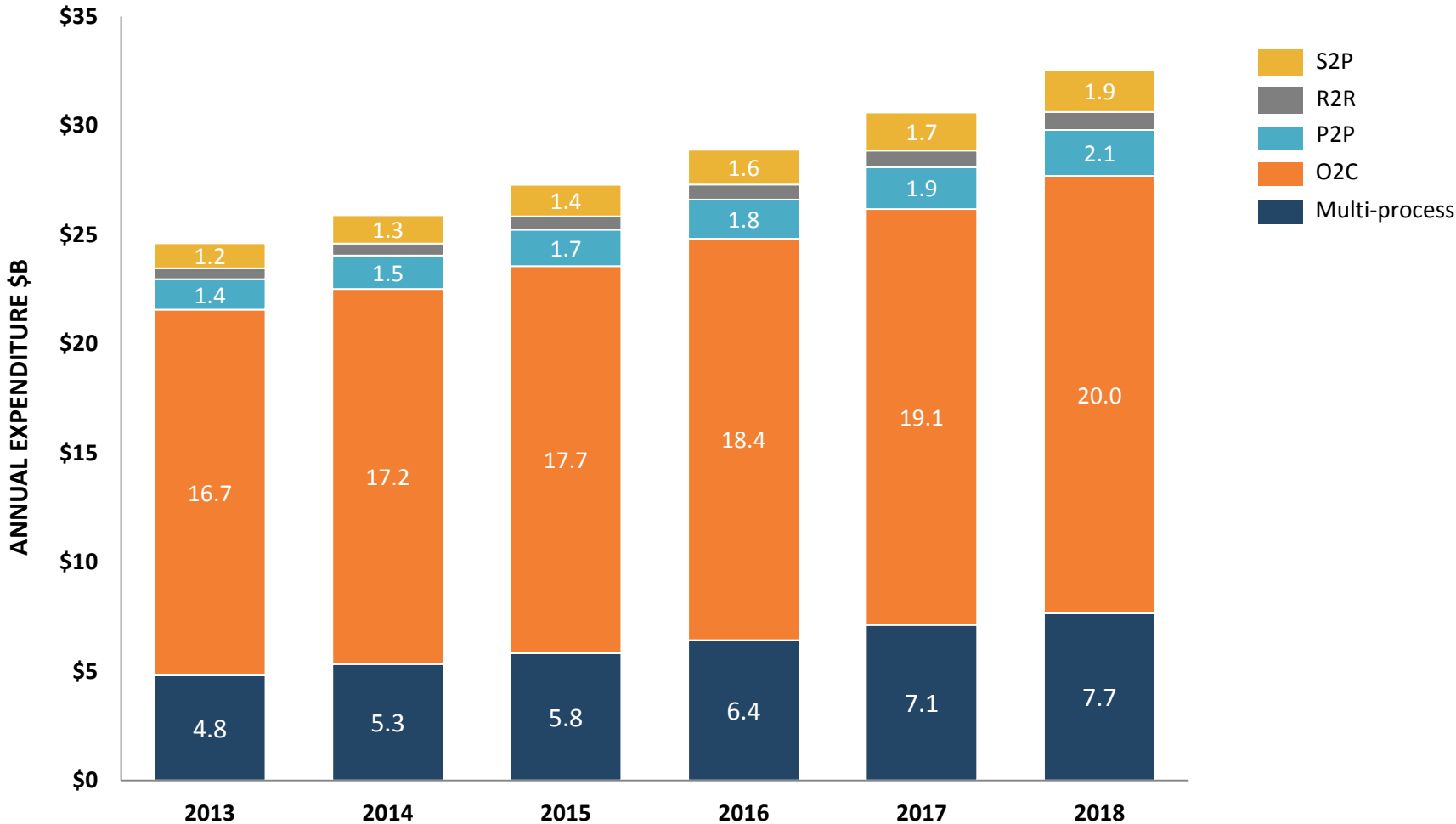
(Expenditure \$B)



Source: HfS Research 2015

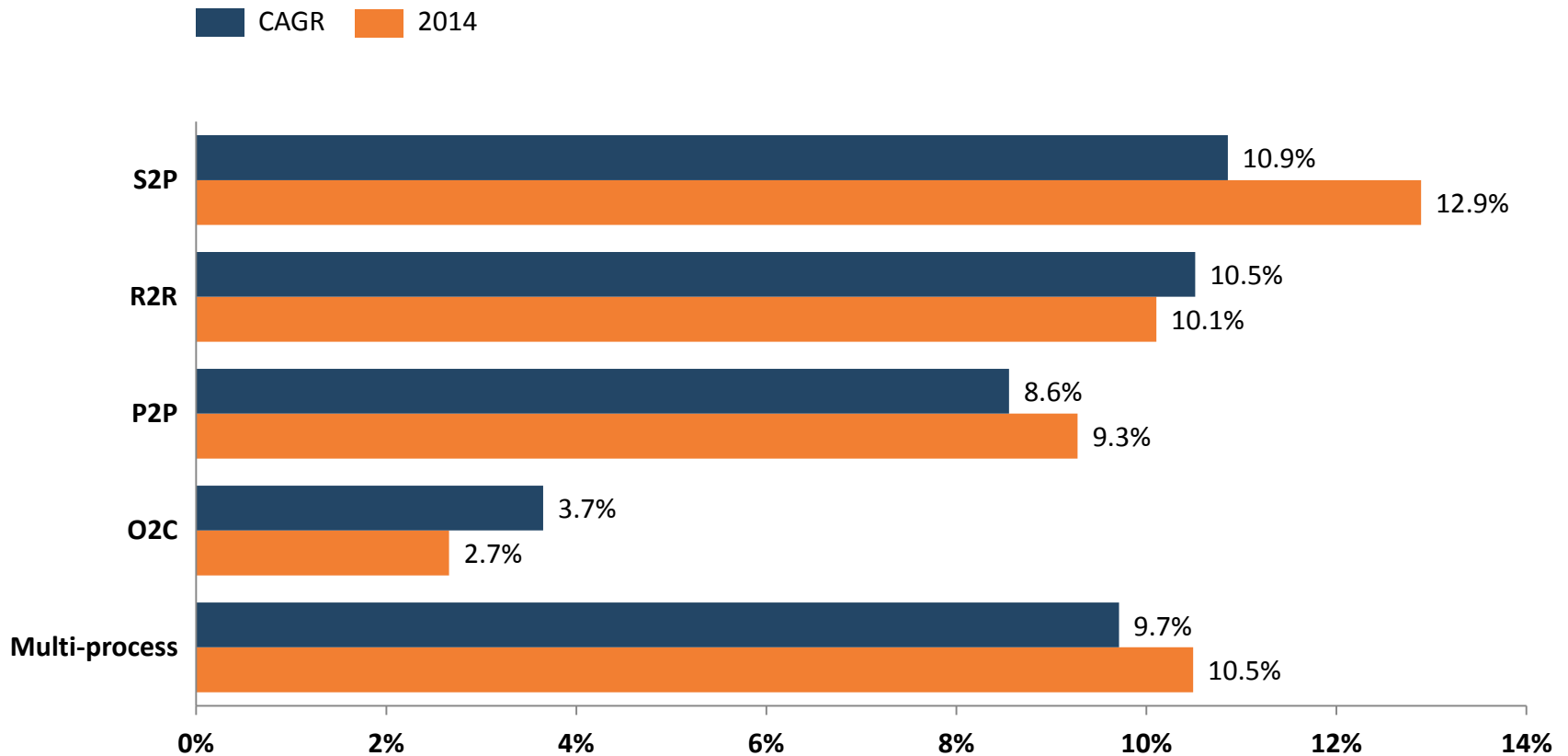
# Global F&A BPO Market 2013–2018

(Expenditure \$B)



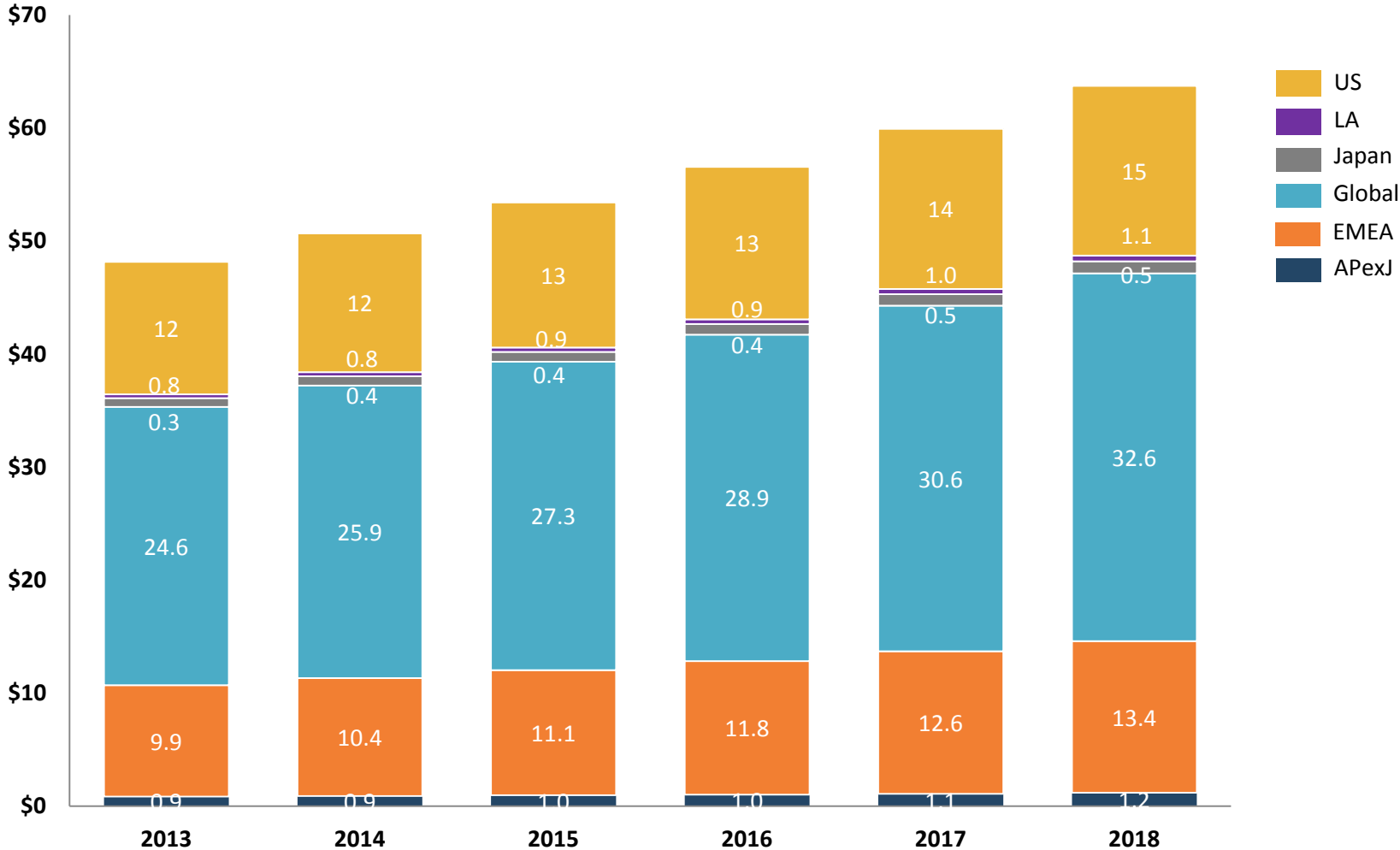
Source: HfS Research 2015

# Global F&A BPO Market Growth in 2014 and 2013–2018 CAGR



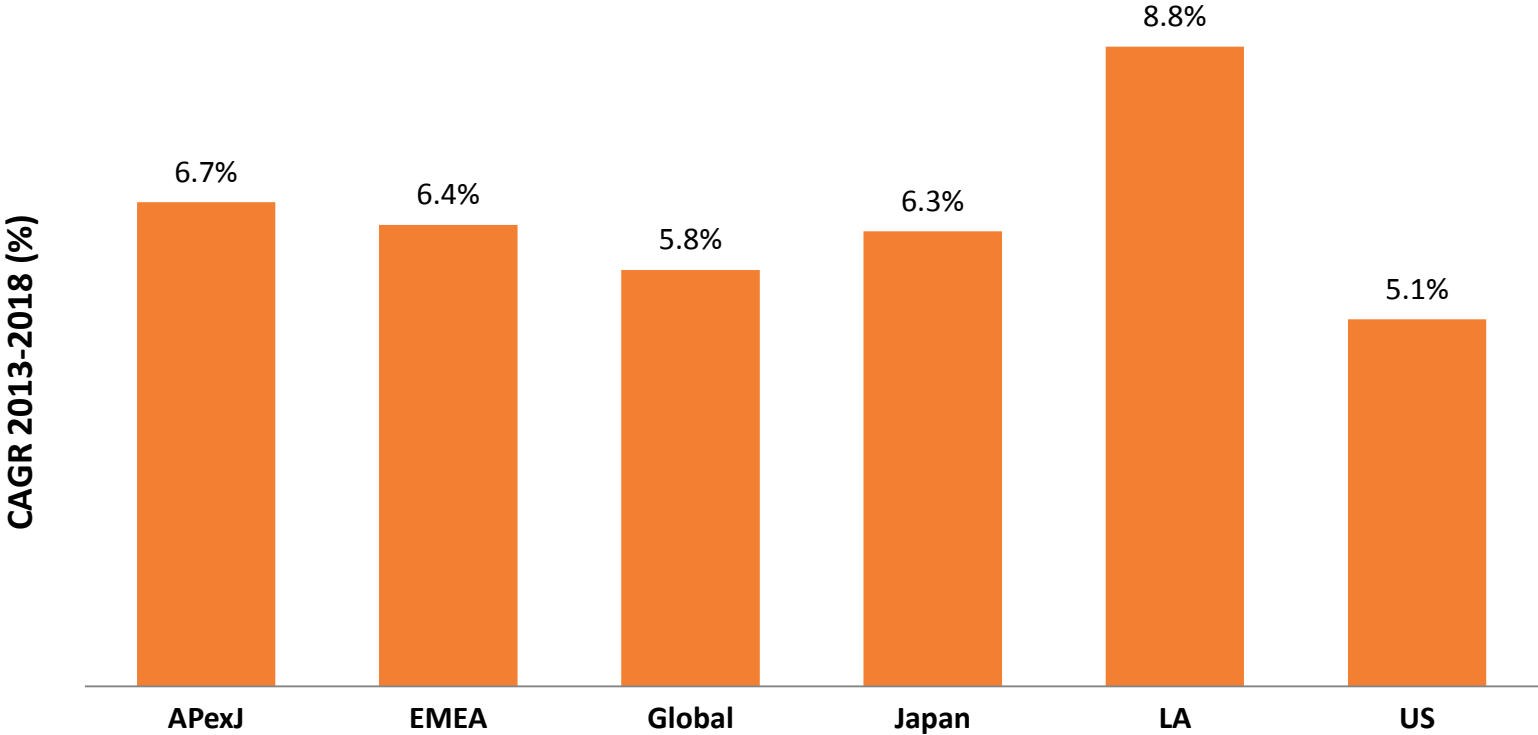
Source: HfS Research 2015

# F&A BPO Services Market 2013–2018 by Region (Annual Expenditure \$B)



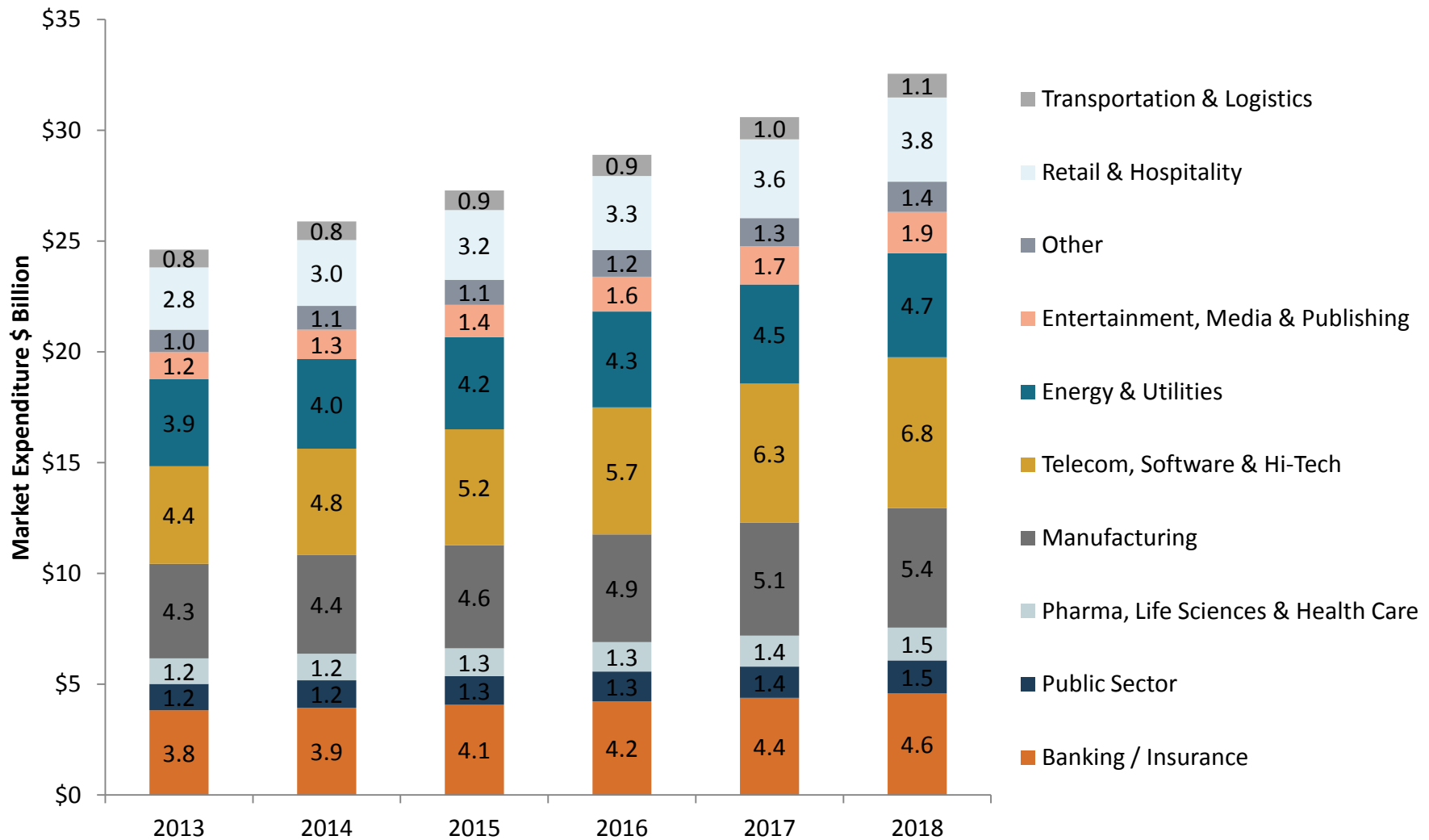
Source: HfS Research 2015

# F&A BPO Services Market 2013–2018(\$b) by Region (% Growth over time period)



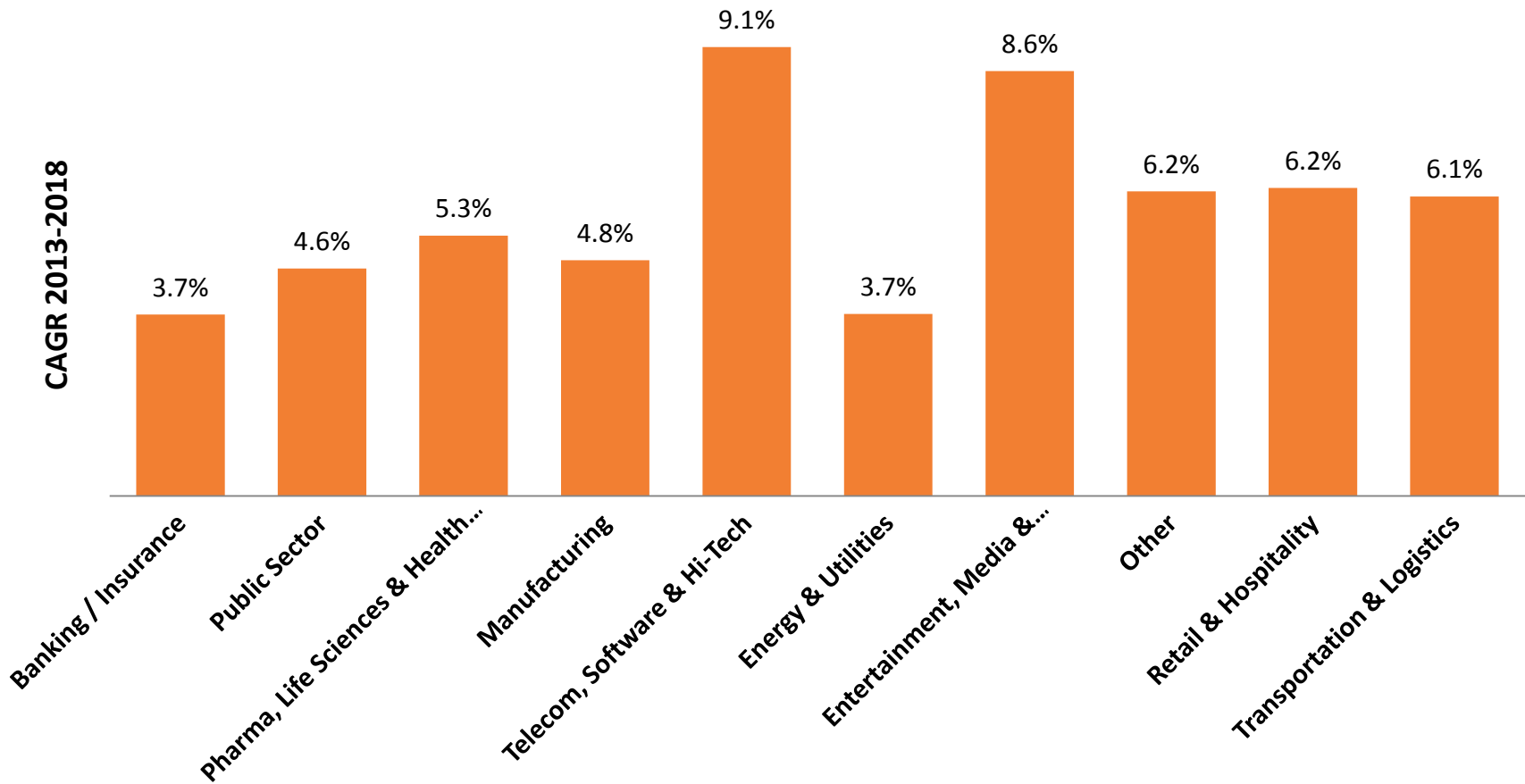
Source: HfS Research 2015

# F&A BPO Services Market 2013–2018 by Industry Sector (Annual Expenditure \$bn)



Source: HfS Research 2015

# F&A BPO Services Market 2013–2018(\$bn) by Industry (% Growth over time period)



Source: HfS Research 2015



# Service Provider Profile



*Strong F&A BPO portfolio with aggressive growth agenda to increase market share and excellent client reputation for flexibility and attention*

Procure to Pay	Order to Cash	Record to Report	Finance Transformation	Blueprint Leading Highlights	Strengths	Challenges
				<p><b>Execution</b></p> <ul style="list-style-type: none"> <li>Engage customers and develop communities</li> <li>Leveraging new technologies, security, social media, etc.</li> <li>Continuous improvement methodology and capability</li> </ul>	<ul style="list-style-type: none"> <li><b>Close interest in BPO from new CEO, Vishal Sikka, in developing As-a-Service offerings.</b> Sikka has been personally spending several days in Infosys' BPO delivery centers to understand the culture better and put in place a new leadership team to drive his As-a-Service vision into the business (see <a href="#">link</a>).</li> <li><b>F&amp;A is the largest horizontal practice for Infosys BPO</b> and contributes over one-third to the organizational revenues. With a strong performance in 2013-14, F&amp;A BPO has become a bedrock for future BPO growth for the firm.</li> <li><b>EdgeVerge initiative helping drive a "product" mindset</b> into Infosys BPO, which HfS views as critical for future As-a-Service models. By creating a separate business entity (see <a href="#">link</a>) dedicated to developing As-a-Service platforms, with early traction in areas such as financial services, marketing and consumer experience, procurement, and supply chain.</li> <li><b>Panaya acquisition shows real "As-a-Service" intent.</b> Panaya (see <a href="#">link</a>) brings real automation capability for ERP customers, namely SAP and Oracle, which should add to F&amp;A BPO potential with complex clients seeking to transform away from the legacy ERP model.</li> <li><b>Strong horizontal BPO breadth.</b> Compelling procurement and sourcing capability to augment a strong horizontal BPO portfolio. With some major client wins, such as AkzoNobel and Atlas Copco, Infosys BPO has a strong horizontal portfolio across F&amp;A, procurement, HR, and customer management services. Most of its competitors have failed to develop a business footprint beyond a handful of F&amp;A and customer management clients.</li> <li><b>Management departures now in the past.</b> After the challenging years of 2012-13 with frequent management turnover, the introduction of Vishal Sikka as CEO seems to have stemmed the tide and brought renewed vision, energy, and passion to the leadership.</li> </ul>	<ul style="list-style-type: none"> <li><b>F&amp;A market share still relatively small.</b> Has not kept pace with the growth of Accenture, Capgemini, and Genpact since its entry in the F&amp;A market; however, recent performance shows signs that the gap with the "Big 4" F&amp;A providers is beginning to close. Moreover, its success with picking up smaller-scale deals puts the firm in a better position to move into delivering more "As-a-Service" offerings in the future.</li> <li><b>Deals overly-focused on FTE pricing.</b> Most clients are based on an FTE model, but this is very typical of most providers, especially with new deals. The real challenge will be moving these clients into outcome/volume pricing models down the road.</li> <li><b>Quality of account management teams is variable.</b> Especially in comparison with other competitors in this space. Over-reliance on C-Sat scores seen rather than a collaborative client relationship.</li> <li><b>Over-reliance on IT rather than process innovation.</b> Like its Indian-heritage rivals Cognizant and TCS, has historically struggled to place BPO at the forefront of the company's growth agenda. However, that may change swiftly under Vishal Sikka's direction.</li> <li><b>Needs smarter account targeting to win new business.</b> Frequently performs well enough to reach a short list, but is often overlooked at the "business end" of deals. A more focused approach to attract new business would benefit, including less reliance on sourcing advisors and a more sole-source approach.</li> <li><b>India-centric leadership and delivery.</b> Infosys BPO has suffered from having most key decision makers and leadership based in India. To add, majority half of Infosys staff is still India-based.</li> </ul>

Client Industry Verticals	Key Clients	Global Operations Centers	Technology
<ul style="list-style-type: none"> <li>Agriculture and Mining</li> <li>Telecom</li> <li>Retail and Consumer Products</li> <li>Financial Services</li> <li>Insurance</li> <li>Capital Markets</li> <li>Media &amp; Entertainment</li> <li>Manufacturing</li> <li>Healthcare</li> <li>Services</li> </ul>	<p>70+ active F&amp;A BPO clients. The services are typically offered for Enterprises with a revenue of over \$1 billion.</p> <ul style="list-style-type: none"> <li>AkzoNobel</li> <li>Atlas Copco</li> <li>T-Mobile UK</li> <li>Large US retail bank</li> <li>Leading American Media &amp; Publishing House</li> <li>P&amp;G</li> <li>Rio Tinto</li> <li>Philips</li> <li>Alcoa</li> <li>Cisco</li> </ul>	<ul style="list-style-type: none"> <li><b>Headcount:</b> 10,400+ FTEs</li> <li>India: Pune, Chennai, Jaipur, Gurgaon, Bangalore, Mysore</li> <li>Poland : Lodz</li> <li>Netherlands Eindhoven</li> <li>Czech Republic: Prague &amp; Brno</li> <li>China: Dalian, Hangzhou, Shanghai, Qingdao</li> <li>Japan: Tokyo</li> <li>Philippines: Manila</li> <li>Puerto Rico: Aguadilla</li> <li>Mexico: Monterrey, Mexico City</li> <li>Brazil: Belo Horizonte</li> <li>USA: Atlanta, Phoenix</li> <li>South Africa: Johannesburg</li> </ul>	<ul style="list-style-type: none"> <li>Proprietary Solutions such as <ul style="list-style-type: none"> <li>Edge Suite (Cloud-based) - BillingEdge, ProcureEdge, AssetEdge, SocialEdge etc.</li> <li>One F&amp;A Suite</li> <li>Recon platforms, Digital Dashboards</li> </ul> </li> <li>Bottomline</li> <li>Brianware AP</li> <li>OB10</li> <li>Panaya</li> <li>Net Suite</li> <li>OpenScan – LockBox</li> <li>Documentum</li> <li>OpenText</li> <li>Skelta</li> <li>RPA – Process specific pre-built robotic components</li> </ul>



Appendices:  
IT Services and BPO Market Definitions, 2015

# BPO

- BPO can be defined as the contracting out of a business function within an organization to a third-party service provider. To be classified as "outsourcing" rather than just a professional service or point service engagement, the service provider will take over management responsibility for the process or set of processes.
- The BPO market can be segmented into two main parts:
  - The outsourcing of horizontal or cross-industry business processes, essentially business functions that exist across most organizations, such as finance and HR.
  - The outsourcing of vertical or industry-specific business processes, for example: the claims management process for insurance companies and payment processing for banks

# Horizontal BPO Categories

- F&A BPO services: The contracting out of all or major parts of the F&A process to a third-party service provider. Includes the following sub components:
  - Multi-process F&A BPO
  - Procure-to-pay (P2P) outsourcing
  - Order-to-cash (O2C) outsourcing
  - Record-to-report (R2R) outsourcing
  - Source-to-pay (S2P) outsourcing
  
- CRM BPO services: The contracting out of direct customer contact activities within an organization to a third-party service provider; includes:
  - Customer acquisition and targeting
  - Marketing
  - Customer services
  
- HR BPO services: The contracting out of one or more HR activities within an organization to a third-party service provider, including :
  - Payroll
  - Benefits administration
  - Recruitment and learning services

# Industry-Specific BPO Categories

- Industry-specific BPO services are those that outsource a process that is unique or sufficiently different from other sectors' processes; includes
  - Banking
    - Securities processing, Payment processing, Mortgage processing
  - Insurance
    - Health payer, Life & pension administration, Property & causality admin
  - Government
    - Welfare benefits administration
  - Healthcare
    - RCM, medical records
  - Government
    - Welfare benefits administration
  - Telecoms
    - Billing
  - Utilities
    - Billing, metering
  - Transportation
    - Ticketing, reservations management

# IT Services

- HfS segments IT services market into 3 distinct groups:
  - Professional services
  - IT Management services
  - Other services (support and training)

# Professional Services

- IT professional services include two main subgroups: consulting and deployment and implementation services.
- IT consulting services are advisory services that aim to provide organizations with plans and strategies on the most effective way to use technology in support of their overriding business and organizational objectives. Services include benchmarking and needs assessment, IT process improvement, IT design, IT support planning, and IT strategy planning.
- Deployment and implementation services include the release, installation and activation, and integration of custom software or a software package.



# Market Sizing Method

- HfS' market sizing relies on using a consistent primary methodology for each service category. The primary method is a supply-side model that builds market dimensions by estimating revenues from the most significant service providers in each category.
- HfS' primary market sizing method relies on the accuracy of its service provider models. These models generate the service provider revenue estimates by primary service category and geography. They are based on a number of different sources, including:
  - Financial reports published by the individual companies, for example SEC filings and annual reports;
  - Presentations and reports from financial analysts;
  - Benchmarks of typical buying behavior in key industries;
  - Service provider responses to financial questionnaires;
  - Government data and data published by industry associations, which provide data on IT industries and education;
  - HfS' contracts database, which provides analysis of service providers contracting activity;
  - Interviews with service buyers across different industries and company sizes
  - Executive-level interviews from the service provider community are conducted by HfS analysts as part of the ongoing research agenda across the service categories. Insights and information relating to revenue performance gathered in this exercise are used as part of the estimation process;
  - Estimations can be validated by service category by comparing them with other ratios. For example, taking the number of clients a service provider has in a particular service line multiplied by the average contract value or looking at expected revenue per employee for a service type multiplied by the number of people working in a particular service category;
  - Market expertise of the HfS analysts

# Market Sizing Method

- We review the output from the revenue database to ensure that revenues by service category are in line with the published data. We remove any double counting between service categories and verify that the total revenues by geography (and industry where applicable) match the analysts' expectations based on all of the information we have.
- Analysts review the service provider data for each market; the database provides a ranking of service providers that HfS tracks. Each analyst estimates the revenue made up by the vendors that is not included in the database. The estimation method varies by service category but is based on the analysts' understanding of the structure of the market and the portion of the market that is tracked in the database. Some markets will have a greater portion of vendors in the database, such as the US market for multi-process F&A outsourcing, which largely encompasses large deals from a pool of well-known and closely tracked providers. Other markets, such as the US professional services market, have a much larger number of small providers and thus a smaller fraction is captured in our database.

# Market Sizing Method

- To help ensure that this part of the exercise is as accurate as possible, HfS uses supplementary methods to triangulate the data in its market sizing. This helps check that revenues are not over- or under-estimated and that the overall market size is accurate.
- To supplement the primary method, HfS uses demand-side models for each primary market category. HfS has a database of over 10,000 demand-side interviews collected every 12 months. These interviews enable HfS to build an analysis of service demand by major industry and geography.
- For the main IT and BPO outsourcing categories (ITO, HRO, CRM, etc.), HfS has an extensive database of BPO engagements gathered from mid-market and enterprise-level service providers. We analyze these data and convert them into monthly run-rate figures for each engagement. Taking into account these deals and estimates for signings that are missing from the contract database gives HfS another dimension for estimating of the size of each of these sourcing markets. It also gives valuable insight into the nature of the current market, showing deal-size trends and the maturity of outsourcing within industry sectors. This method is also an important part of the forecast process for some markets.

# Market Forecasting Method

- Forecasting technology, IT services, and BPO with traditional history-based methods are notoriously problematic when either historical values don't exist or future events don't have any direct correlation with past data. To overcome these shortcomings, HfS selects from a bank of different forecast methods to predict different markets; the starting point for the market forecast is the primary sizing method. HfS predicts the likely future revenue growth of each supplier by reviewing regional data, direct interaction between HfS analysts and service providers, and predictions made in financial reports. This gives HfS a firm basis for its short-term forecast (12-24 months), which is then extrapolated using additional methods for the full five-year forecast period.
- HfS Research market forecasting uses the following factors :
  - Application of market momentum from existing outsourcing deals;
  - Time series forecast growth from existing deal signings provides the base forecast;
  - Application of likely growth by industry from current economic growth forecasts;
  - Assumption forecast based on the likely relationship between economic growth and outsourcing markets;
  - Assumption and cross impact with key drivers and inhibitors in each market.

# Market Forecasting Method

- For each forecast, HfS provides our view of the weightings of the main factors impacting each forecast, dividing these into four main categories:
  - Economic and market structural growth indicators: Analysts look at the historical connections between different services market and economic growth and then use current economic forecasts and past correlations between economic growth and services market growth to predict future services market growth. Analysts determine what factors are changing the structure of the market now and in the future and try to predict major changes in the way the market is going to operate and how they are likely to impact the forecast. For example, is the SME market going to take off in the forecast period? Is the cloud going to fundamentally change the take up of a particular services market?
  - Customer intention growth indicators: As part of its ongoing research, HfS asks buyers about spending intentions. This information is consolidated and used as a guide to forecast growth, particularly by industry and by region.
  - Service provider growth indicators: As part of its ongoing research, HfS asks service providers about likely growth within their markets. It also tracks vendors' revenue performance. HfS consolidates this information and uses it as a guide, particularly to forecast growth in different service lines and regions.
  - Analyst's view: How does the analyst view market growth in the forecast period, taking into account all of these indicators?

# About the Authors



# Phil Fersht, President and CEO, HfS Research



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## Overview

- 20 years' business experience in the global IT and business process outsourcing and shared services industry
- Industry analyst, author, speaker, strategist, and blogger
- Advised on 100s of global IT services, BPO, and shared services engagements
- Facilitates the largest global network of enterprise services ad operations professionals

## Previous Experience

- Practice Lead, IT Services & BPO Research, Gartner, Inc.
- Global BPO Marketplace Leader, Deloitte Consulting
- Consulting Practice Lead, IDC Asia/Pacific
- IT Markets Practice Lead, IDC Europe

## Education

- BS with Honors in European Business & Technology, Coventry University, United Kingdom
- Diplôme Universitaire de Technologie in Business & Technology from the University of Grenoble, France

# Hema Santosh, Senior Research Analyst – Bangalore, India



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## Overview

- Hema Santosh is a senior analyst at HfS supporting research in finance and accounting and related business services, captives, and global in-house centers.
- Over 14 years of research experience supporting leadership on strategic and critical business decisions.

## Previous Experience

- She has held senior research positions for organizations such as Information Services Group, Accenture, Wipro, and ITFinity Solutions.
- Her journey as a research professional has evolved over 14 years by working across facets of MIS, business planning, market forecasting, market analysis, competitive intelligence, and large strategic initiatives for the organizations she has worked with.

## Education

- Bachelor's degree in Commerce from the University of Mumbai
- MBA specializing in Marketing from Manipal University
- Certificate in full-time "Management Program for Women Entrepreneurs" from the Indian Institute of Management (IIM), Bangalore



# About HfS Research

**HfS Research** is the leading analyst authority and global network for IT and business services, with a specific focus on **global business services, digital transformation, and outsourcing**. HfS serves the research, governance, and services strategy needs of business operations and IT leaders across finance, supply chain, human resources, marketing, and core industry functions. The firm provides insightful and meaningful analyst coverage of best business practices and innovations that impact successful business outcomes, such as the digital transformation of operations, cloud-based business platforms, services talent development strategies, process automation and outsourcing, mobility, analytics, and social collaboration. HfS applies its acclaimed Blueprint Methodology to evaluate the performance of service and technology in terms of innovating and executing against those business outcomes.

HfS educates and facilitates discussions among the world's largest knowledge community of enterprise services professionals, currently comprising 150,000 subscribers and members. HfS Research facilitates the **HfS Sourcing Executive Council**, the acclaimed elite group of sourcing practitioners from leading organizations that meets bi-annually to share the future direction of the global services industry and to discuss the future enterprise operations framework. HfS provides sourcing executive council members with the HfS Governance Academy and Certification Program to help its clients improve the governance of their global business services and vendor relationships.

In 2010 and 2011, HfS Research's Founder and CEO, Phil Fersht, was named "Analyst of the Year" by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, and achieved the distinctive award of being voted the research analyst industry's Most Innovative Analyst Firm in 2012.

In 2013, HfS was named first in rising influence among leading analyst firms, according to the 2013 Analyst Value Survey, and second out of the 44 leading industry analyst firms in the 2013 Analyst Value Index.

Now in its seventh year of publication, HfS Research's acclaimed blog "**Horses for Sources**" is widely recognized as the most widely read and revered destination for unfettered collective insight, research, and open debate about sourcing industry issues and developments. Horses for Sources today receives over a million web visits a year.

To learn more about HfS Research, please email [research@HfSResearch.com](mailto:research@HfSResearch.com).