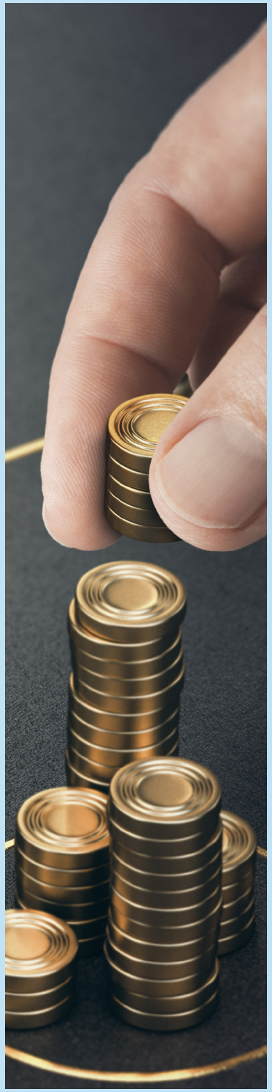
HOW TO MAXIMIZE VALUE FROM YOUR FINANCE AND ACCOUNTING OUTSOURCING (FAO) ENGAGEMENTS

NOVEMBER 2023



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FOREWORD

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In the dynamic landscape of business, Finance and Accounting Outsourcing (FAO) continues to assume significance as a critical strategy for enterprises seeking to build enhanced operational agility, transform functions, and find and unlock new sources of business value. This market report examines evolving trends for CFOs and FAO service providers, as well as the stages of FAO engagement maturity and explores the multifaceted value levers that drive transformative outcomes. Backed by industry research and with a focus on delivering insights and practical guidance, we aim to shed light on value maximization and value measurement in FAO engagements.

We introduce Everest Group's 'Value Capture Matrix' – a proprietary framework for measuring value achieved through outsourcing and discussing the two distinct aspects to focus, while aiming for value maximization and acceleration. We investigate the various value levers at play, dissecting their impact on cost reduction, operational impact, and business impact on enterprises. In addition, a detailed review of key outsourcing factors such as process scope, digital quotient, transformation quotient, pricing model, and performance management provides the basis for a scoring model to assess the current state of value achieved and identify areas to focus for value maximization.

We invite you to explore the intricacies of value levers in FAO and gain insights that can reshape your outsourcing strategies. The pursuit of value creation through outsourcing is indeed challenging and this market report aims to be a compass guiding you through this journey.

How to Maximize Value from Your Finance and Accounting Outsourcing (FAO) Engagements

November 2023

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Executive summary

Evolution of CFO priorities and role of service providers

Amid changing business dynamics, the CFO's role has evolved to that of a strategic partner, while organizations' expectations for their service providers to provide more strategic support have also risen

As cost pressures have emerged as the top concern in 2023, organizations have increased their focus on cost optimization, productivity improvement, and digital transformation to navigate economic uncertainty

In addition to the need to reduce operational costs, rising demand for finance transformation and service providers' capabilities to achieve those goals are driving enterprises to choose outsourcing as a solution

Organizations expectations from their CFOs are evolving – organizations are asking CFOs to serve as business partners and architects in driving agility, resiliency, strategic decision-making, and transformation initiatives across the broader organization

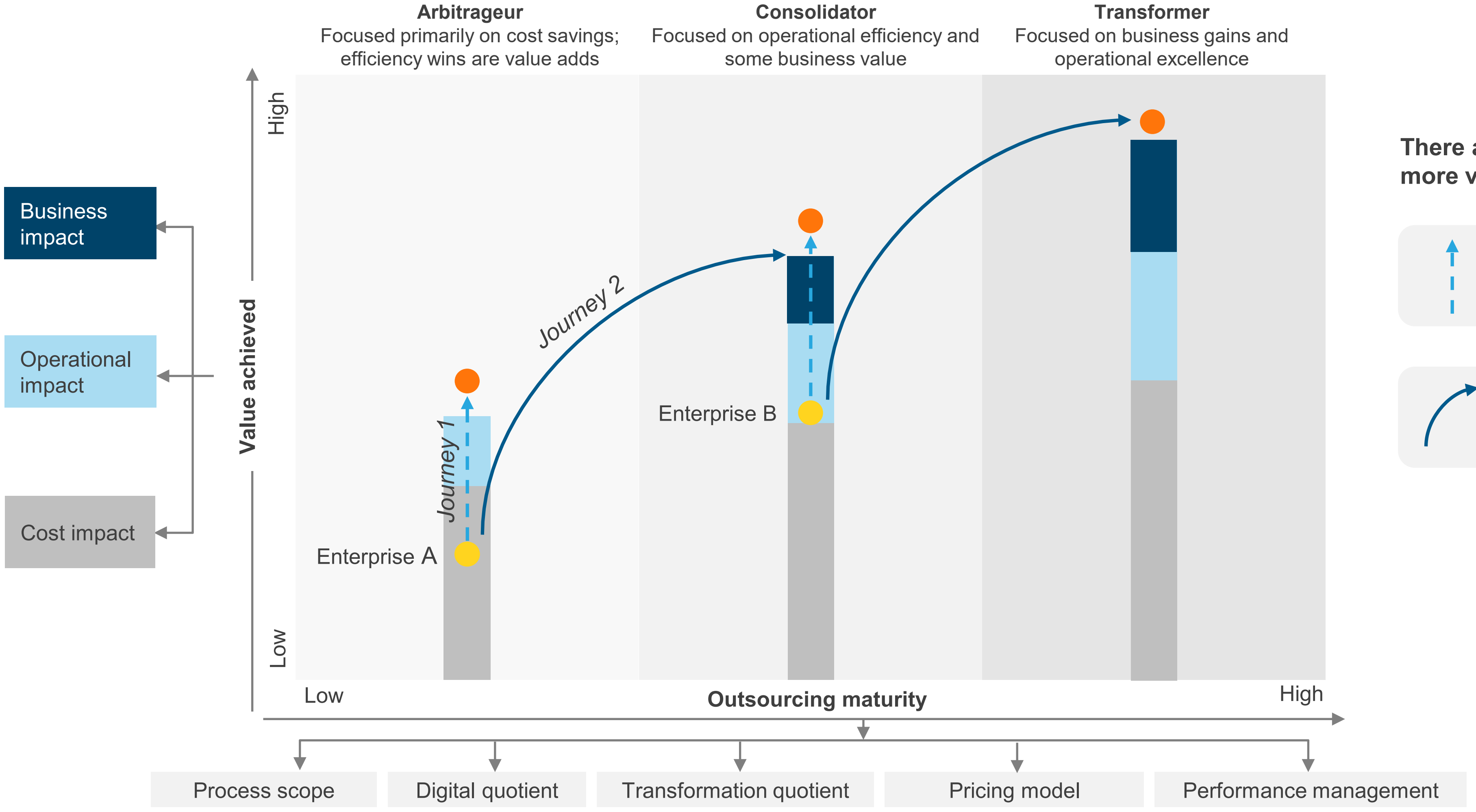
Organizations have become more open to leveraging third-party support; CFOs expect third-party service providers to play a more active role in supporting strategic areas

Outsourcing engagements have shifted from piecemeal transformation-focused pre-COVID to being sustainable outcomes-focused post-COVID

Service providers have moved from the conventional one-size-fits-all approach to outsourcing and are increasingly contextualizing their offerings to meet distinct demands across different buyer types

Value capture matrix – a framework for measuring value achieved through outsourcing

Based on investment and outsourcing appetite, organizations can take various approaches to maximizing value from their F&A outsourcing engagements



ILLUSTRATIVE EXAMPLE

Current state · Future state

There are two primary ways to achieve more value from FAO engagements

Value optimization
Optimizing the value achieved with existing investments

Value creation
Co-investing in capability building to create exponential business value

Value optimization – optimizing the value achieved with existing outsourcing scope

To maximize cost, operational, and business benefits across different outsourcing maturity stages, enterprises need to focus on different value optimization levers

Key optimization levers to drive cost impact

- Leverage **low-cost offshore delivery locations** suited to the processes in scope
- Hold regular and ad hoc **business performance reviews** to mitigate potential risks/bottlenecks
- Leverage provider capabilities and methodologies to **optimize processes** across business units and regions
- Leverage providers' **point solutions** to achieve short-term efficiency gains
- **Optimize resource allocation** through flexible staffing models

Key optimization levers to drive operational impact

- Ask for provider support in **maximizing utilization of existing technology licenses**
- **Democratize data** so providers can introduce meaningful actionable insights
- Explore opportunities for **joint innovation** and value creation with providers
- Leverage providers' process mining tools to **optimize processes**
- Develop a **right shoring strategy** to leverage offshore and onshore/nearshore locations to deliver appropriate processes

Key optimization levers to drive business impact

- **Strengthen Centers of Excellence** (CoEs) to create high value in key focus areas by collaborating with providers
- Take a **one-team approach** across the internal and the outsourced resources by implementing joint KPIs and common business objectives
- **Optimize the service provider portfolio** by rebalancing or increasing scope of outsourced work with strategic providers
- **Leverage providers' assets** such as innovation labs, CoEs, R&D labs, and digital assets to foster innovation
- Leverage providers' internal L&D capabilities and knowledge centers for to upskill/reskill talent
- **Access to new markets** through provider's global network of delivery centers
- Increase the use of innovative pricing and funding constructs to **incentivize providers**

Value creation – co-investing in capability building to create exponential business value

Enterprises can also increase the overall value realized from their outsourcing engagements by elevating their overall outsourcing maturity across outsourcing levers

Process scope

- Outsourcing **more complex** (FP&A and treasury and risk management), **upstream** (revenue cycle management, reinsurance accounting, etc.), and **adjacent processes** (ESG reporting, enterprise risk management)
- Leveraging providers **in niche advisory areas** such as integrated business planning, data management, and GBS transformation

Digital quotient

- Leveraging providers' **cognitive digital solutions** in areas such as smart matching, automated payment reminders, credit risk assessment, DSO analysis, and AML, and intelligent reconciliation
- **Prioritizing the identified use cases** using prioritization frameworks to gauge business value creation for implementation

Transformation quotient

- Understanding the current state, defining the desired future state, and designing a transformation roadmap
- Optimizing processes before transformation and orchestrating digital/process levers together with human intelligence to **create an integrated approach to transformation**

Pricing model

- Including **innovative commercial constructs** such as outcome-based, transaction-based, and hybrid pricing
- Including **innovative transformation funding models** such as by self-funding, setting up innovation funds, front-loading benefits, and digitizing the human workforce

Performance management

- Creating a **robust performance management practice** comprising a transparent governance structure, quality performance monitoring, and a balanced mix of operational and business KPIs/SLAs
- **Optimizing the list of contractual SLAs** through an SLA prioritization framework

Benchmarking exercises – an instrument for diagnosing outsourcing health

Enterprises should conduct periodic benchmarking exercises of their outsourcing contracts to assess the gaps between the as-is state and the optimal state to maximize value realization

Everest Group's Strategic Engagement Review (SER) framework

Solution review

Understand the solution in the context of industry best practices across

- Contract scope coverage (depth and breadth)
- As-is technology maturity
- Global sourcing leverage
- Governance structure

Contract assessment

Identify improvement opportunities in contracts vs. market norms; review

- Key T&Cs
- Service management regime
- Pricing structure
- Incentives and penalties

Delivery and performance review

Operations metrics and insights directly impacting win-win fee and performance discussions

- Staffing mix
- FTE utilization/productivity
- Continuous improvement charter
- Best-in-class service level metrics
- SLA/KPI coverage and stringency

Price benchmarking

Differentiated approach that yields

- Highly contextualized benchmarks
- Base fee and overheads benchmarking
- Calibration per service inclusions and exclusions
- TCV impact (overall and by lever)

Transformation

Highlight and size next-generation disruptive transformation opportunities

- Automation adoption
- Analytics leverage
- Delivery model transformation
- Financial model transformation
- Commensurate contracting regime
- Business case (investment vs. RoI)

Optimize + transform

02

Evolution of CFO priorities and the role of service providers

- Key business challenges and priorities
- Drivers of outsourcing
- Evolution of CFO role
- Evolution of F&A outsourcing programs
- Rise in expectations from third-party service providers
- How third-party service providers are gearing up to meet the evolving demand

Key business challenges and priorities

As cost pressures emerge as the top concern in 2023, organizations have increased their focus on cost optimization, productivity improvement, and digital transformation to navigate economic uncertainty in the market

Key business challenges expected in 2023[1]

	Price/Cost pressure	Adapting to evolving customer needs and business models	Talent/Skills shortage	Slowdown in demand	Slowdown in customer decision-making
2023 Rank	1	2	3	4	5
2022 Rank	2	3	1	10	4
2021 Rank	3	1	5	9	2

Top business priorities going into 2023[2]

1	2	3	4	5	6	7
Cost optimization	Digital transformation	Productivity improvement	Customer experience improvement	Innovation across products and services	Talent acquisition and management	Service delivery resiliency and risk management

- As enterprises face recessionary headwinds, cost and margin pressures are top-of-mind issues, with changing customer demands and business models still plaguing the business landscape
- This reality has impelled enterprises to take a closer look at their finance function and how CFOs can help drive broader organization initiatives

1 Source: Everest Group Key Issues 2023, 2022, and 2021; ranking based on percentage of respondents selecting as highly challenging
2 Source: Everest Group Key Issues 2023; ranking based on percentage of enterprise and service provider respondents selecting as key priority

Drivers of outsourcing

Increasing demand for finance transformation and the attractiveness of service provider capabilities are driving enterprises to choose outsourcing as a solution

Primary drivers for outsourcing F&A	How providers are addressing the demand drivers
Reduce cost of operations	• Flexible staffing models • Offshoring/nearshoring capabilities • Automation solutions across the F&A value chain
Need for process simplification/standardization	Process transformation capabilities leveraging process assessment frameworks, best-in-class process maps, and process mining tools
Access to process best practices and domain expertise	• Knowledge repository and access to industry best practices and partnership network • Multi-disciplinary talent including domain and technology experts
Need for risk management, visibility, and control	Focused offerings and expertise across risk management, SOX compliance, and controls
Demand for analytics, insights, and data management capabilities	Offerings including real-time dashboards, data lakes, and modular solutions leveraging predictive/prescriptive analytics to assist finance stakeholders in decision-making
Availability of increased technology leverage	Robust digital ecosystem with technology solutions contextualized to different buyer personas

Evolving CFO role

Organizations' expectations of their CFOs are evolving; they are asking CFOs to be business partners and architect driving agility, resiliency, strategic decision-making, and transformation initiatives across the organization

Role	Head of the support function	Strategic business leader
Strategy	Domain focus – functional strategy is defined by functional objectives	Strategic focus – functional strategy is aligned with the overall corporate strategy to remain competitive
Objective	Reduce cost and improve operational efficiency	Deliver business impact such as support in working capital optimization, demand forecasting, and improving stakeholder experience
Decision-making	Largely confined to function-specific issues	Broadened to assist in business decision-making along with function-specific decisions
Structure	Siloed – functions work independently, with limited information sharing and collaboration	Cross-functional collaboration among functions to create business value through more informed insights and improved end-to-end process efficiency

Organizations' expectations from CFOs

Business partner to improve strategic decision-making

Architect of more **agile** and **resilient** organizations

Orchestrator of increased **collaboration** with other functions

Custodian of insights derived from organizational data

Owner of organization-wide transformation

Evolution of F&A outsourcing programs

The pandemic was a wake-up call for many organizations, driving a significant evolution in the nature of the outsourcing relationships at scale

Evolving objectives of enterprises from outsourcing programs

Increasing strategic orientation

Post COVID-19 (2022 & beyond)

Sustainable outcome-driven

- Focused on long-term sustainable outcomes and multi-tower large deals
- Increased need for contextualized and high-end niche services

During / immediately after COVID-19 (2021-22)

Cost-focused, liquidity, and visibility

- High demand for solutions with quicker RoI
- Short-term cost-savings or liquidity improvement solutions

Pre-COVID-19 (pre-2020)

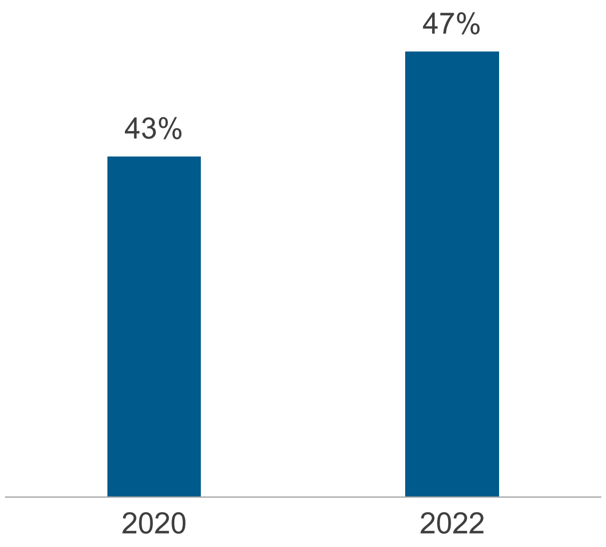
Value aspiration and piecemeal transformation

- Focused on process improvement or standardization
- Increased leverage of next-generation technologies

Increasing expectations from third-party service providers

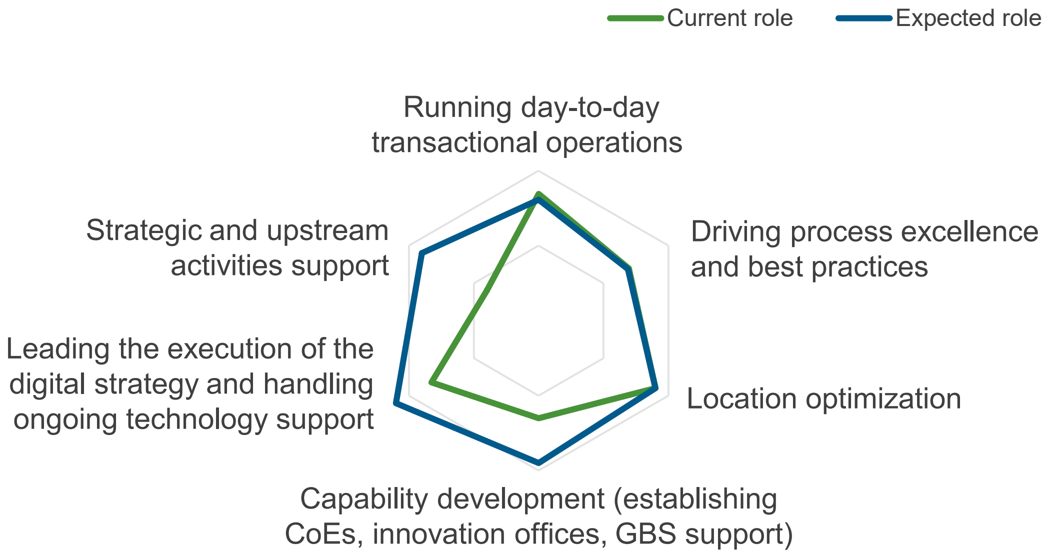
Organizations have become more open to leveraging third-party support, and they expect providers to play a more active role in supporting strategic areas

Organizations leveraging third-party service providers for F&A operations[1]
% of respondents



- FAO adoption rose by **4%** from 2020-22, with increasing first-generation outsourcers, especially across the SMB and mid-market segments
- More **75%** of organizations[1] that are not currently leveraging third-party support have said they may be interested in leveraging third-party support in future

Current role vs. expected role third-party service providers play in supporting finance function / CFOs
Level of involvement



Organizations expect more service provider support across **strategic areas**, such as transformation design and execution, upstream process support, and establishing specialized centers

1 Source: Everest Group 2022 and 2020 Global CFO Survey

How are third-party service providers gearing up to meet the evolving demand?

Service providers have moved from a conventional one-size-fits-all approach to outsourcing and are increasingly contextualizing their offerings to meet the distinct demands across buyer types

Distinct buyer types	Nuances of service provider offerings to suite the needs of different buyer archetypes
Aggressive transformers **Objectives:** Future-proof finance in an accelerated manner **Value levers needed:** Strong capabilities to reimagine the function (consulting, design thinking, digital twin, AI, blockchain)	• Integrated service delivery between technology and operations through organizational restructuring and interdisciplinary talent creation • End-to-end platforms with highly contextualized solutions • Level of provider at-risk investment • XaaS (anything-as-a-service) including offerings such as innovation-as-a-service, insights-as-a-service, CoE-as-a-service, and process-as-a service
Conservative value aspirants **Objectives:** Improve business outcomes through a piecemeal transformation approach **Value levers needed:** Combination of talent, digital levers, and strategic partner (extended arm of retained organization)	• End-to-end offering with advisory support • Global delivery model, with strong coordination and follow-the-sun model • Innovation and R&D labs (but housed separately from delivery) to provide firsthand experience to clients • Flexible, hybrid pricing models with fixed costs and risk/reward mechanism
Cost and efficiency seekers **Objectives:** Reduce as-is labor costs, reduce headcount, and improve operational efficiency **Value levers needed:** Talent at a competitive price, automation, and process standardization	• Tailored point solutions such as rule-based task automation, data ingestion/extraction solutions, and workflow solutions for TCO reduction • BPaaS offerings for SMB to mid-market segments • Flexible staffing model

03

Understanding value in FAO

- Importance of different value levers in outsourcing objectives
- Value capture matrix
- Defining different outsourcing maturity levels
- What value means across the outsourcing maturity spectrum

Importance of different value levers in outsourcing objectives

FAO is no longer limited to cost and operational impact; business outcomes are becoming increasingly important in driving outsourcing demand

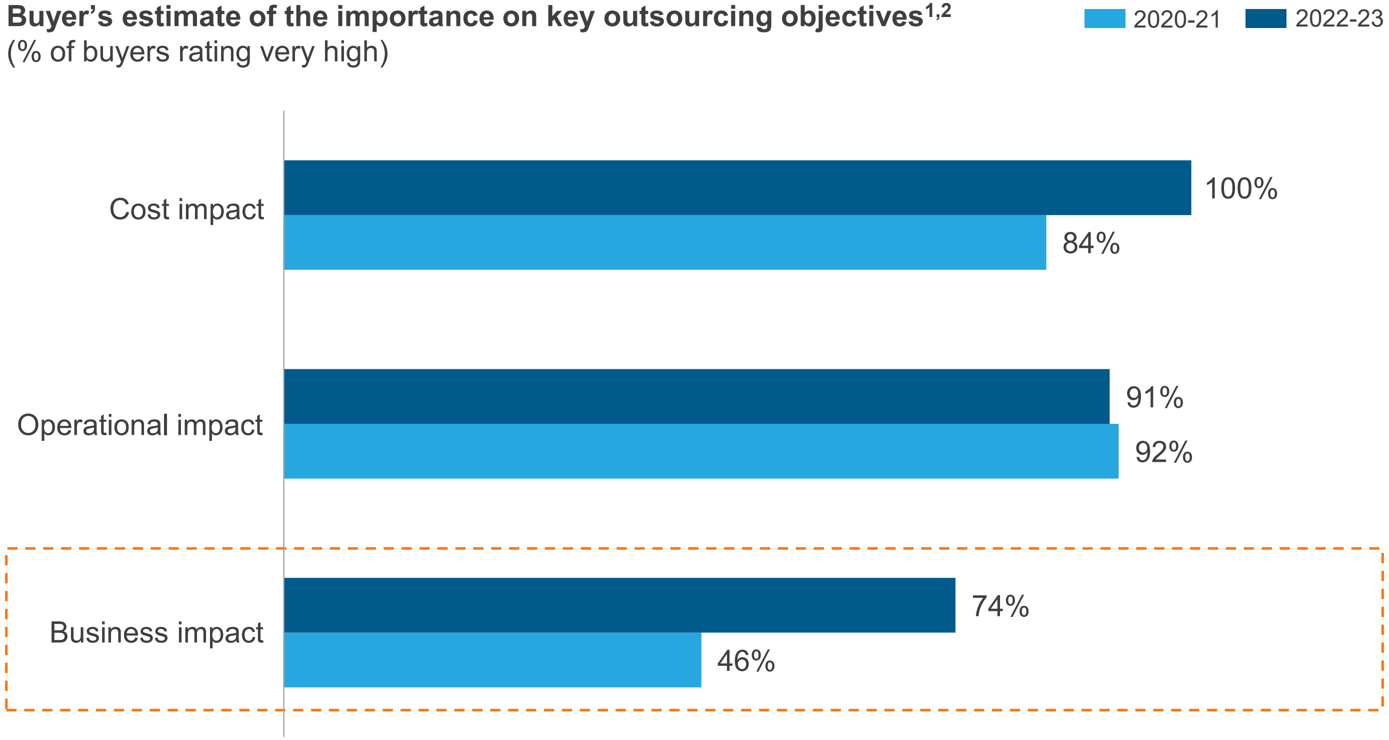
Value achieved through outsourcing

Cost impact
Cost benefits achieved through FTE reduction, shoring mix optimization, automation, and next-generation technology implementation

Operational impact
Improvement in operational efficiency and productivity (including indirect efficiency improvements across the in-house operations due to outsourcing)

Business impact
Impact of outsourcing engagements on the company's top-line growth and stakeholder satisfactions

Buyer's estimate of the importance on key outsourcing objectives[1,2]
(% of buyers rating very high)



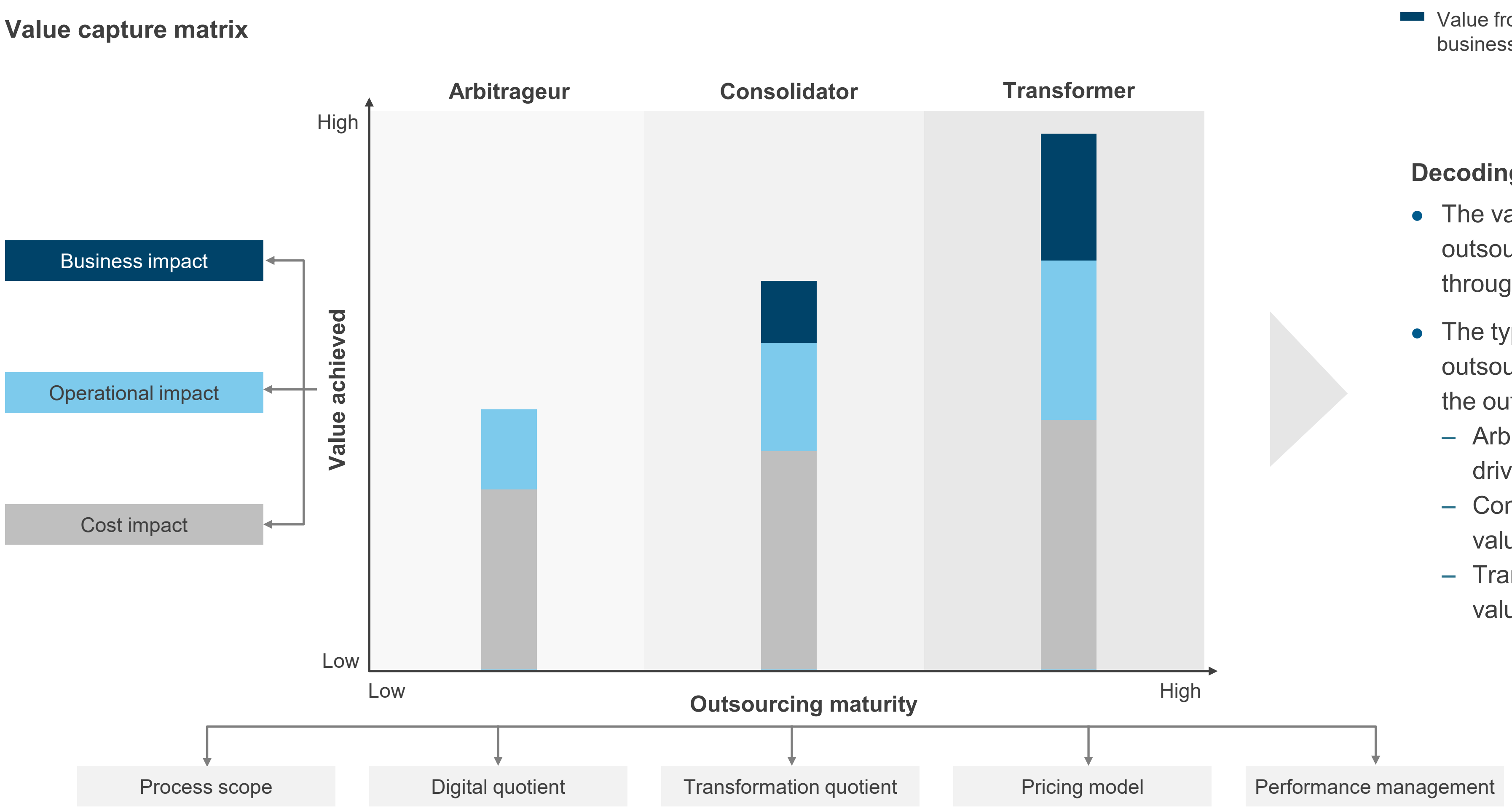
Over the past couple of years, organizations' outsourcing objectives are moving from being extremely cost-focused to placing relatively higher importance on business outcomes

1 Based on feedback collected from 60+ enterprise buyers
2 Source: Everest Group (2021 and 2023)

Value capture matrix

The type and extent of value that an organization can achieve from its outsourcing engagement varies based on the maturity of the engagement and investment and risk appetite

Value capture matrix



Decoding the value capture matrix

- The value capture matrix shows the current state of outsourcing maturity vis-à-vis overall value achieved through outsourcing
- The type and degree of value achieved through outsourcing will depend on the current maturity level of the outsourcing engagement defined as:
  - Arbitrageur (low outsourcing maturity): the key value driver is cost
  - Consolidator (medium outsourcing maturity): the key value driver is efficiency
  - Transformers (high outsourcing maturity): the key value driver is business impact

Defining different outsourcing maturity levels

The following table summarizes how the characteristics of outsourcing engagements evolve as enterprises move up the outsourcing maturity curve from arbitrageur to transformer

Typical characteristics of outsourcing engagement at different maturity levels

Increasing order of outsourcing maturity

	Process scope	Digital quotient	Transformation quotient	Performance management	Pricing model
Arbitrageur	Mostly transactional processes outsourced; typically, low to medium levels of provider ownership of running processes	Limited to basic RPA, descriptive analytics, basic dashboarding	Provider typically maintains enterprise technology landscape to augment its services	Only operational metrics such as timeliness and accuracy contracted	Limited to FTE-based and/or transaction-based pricing models
Consolidator	Judgement-intensive processes along with end-to-end transactional processes outsourced; high levels of provider ownership of running processes	End-to-end process automation, predictive analytics, with introduction of some cognitive elements	Enterprise uses provider's customizable solutions; vision of ERP modernization	Operational metrics primarily contracted with few key business outcome metrics	Increased inclusion of hybrid-based commercial models including fixed fee and output-/outcome-based
Transformer	End-to-end processes outsourced; leverage of providers for advisory and broader IT capabilities	Intelligent automation across the F&A value chain, AI/ML-based exception handling; prescriptive analytics	Business-driven technology and operations transformation including upgrading all layers of IT infrastructure and software applications	A good mix of operational and business outcome metrics contracted	Considerable inclusion of gainsharing mechanisms

What value means across the outsourcing maturity spectrum

While cost and operational impact are key value drivers for organizations in arbitrageur and consolidator maturity, business impact is critical for driving value for organizations in transformer maturity

Typical values of an outsourcing engagement at different maturity levels

Relative focus on value: Low Medium High

Increasing order of outsourcing maturity

	Objectives	Cost impact levers	Operational impact levers	Business Impact levers
Arbitrageur	• Primarily focused on cost savings • Efficiency wins are viewed as value-added aspects	• Savings through offshoring • Savings through RPA adoption in specific tasks	• Savings through offshoring • Savings through RPA adoption in specific tasks	Limited to no scope
Consolidator	• Focused on operational efficiency • Onset of some business value realization	• Savings by automating end-to-end processes • Savings through offshoring	• Process efficiency • Operational agility • Increased accuracy and error reduction • Staff productivity	• Working capital improvement • Top-line improvement
Transformer	Focused on achieving business gains along with operational excellence	• Savings on IT infrastructure optimization • Savings through process redesign • Savings by automating end-to-end processes • Savings through offshoring	• Compliance with regulations • Process efficiency • Operational agility • Increased accuracy and error reduction • Staff productivity	• Stakeholder experience • Meeting sustainability goals • Proactive risk management • Working capital improvement • Top-line improvement

04

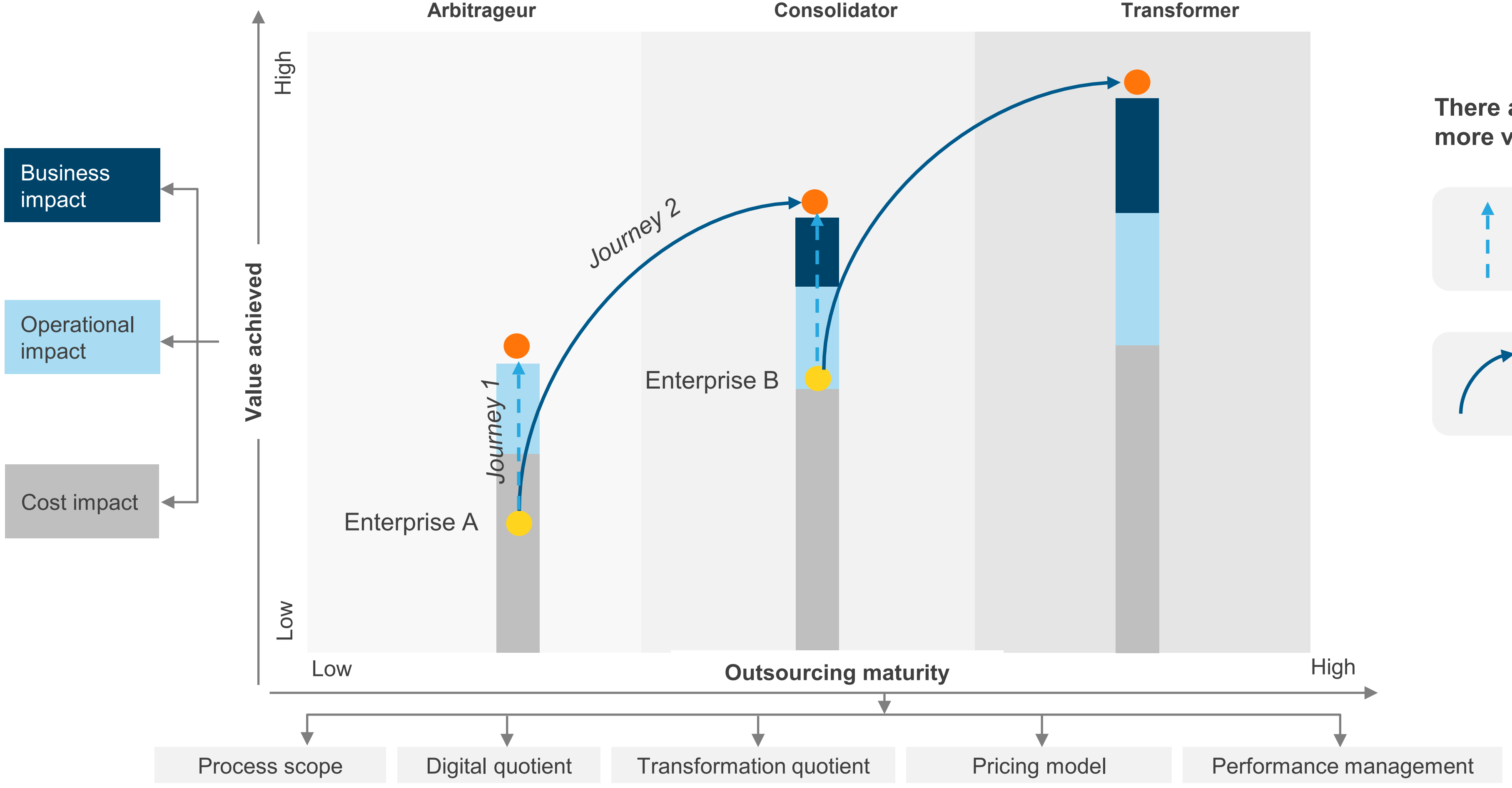
How to unlock more value from FAO engagements

- How to accelerate value from FAO engagement
- Value optimization
  - Arbitrageur
  - Consolidator
  - Transformer
- Value creation
  - Process scope
  - Digital quotient
  - Transformation quotient
  - Pricing model
  - Performance management
  - Performance management

How to accelerate value from FAO engagement

Depending on investment and risk appetite, organizations take either the approach of value optimization or value creation

ILLUSTRATIVE EXAMPLE



There are two primary ways to achieve more value from FAO engagements

Value optimization
Optimizing the value achieved with existing investments

Value creation
Co-investing in capability building to create exponential business value

Value optimization | arbitrageur

Enterprises in this stage of outsourcing maturity should focus on levers such as offshoring, optimizing FTE utilization, and optimizing processes to maximize cost savings and operational gains

Relative impact on value: Low Medium High

Key value optimization levers	Cost impact	Operational impact	Business impact
Offshoring: leverage best low-cost offshore delivery locations suited for the processes in scope based on factors such as talent availability and COLA	High	Medium	Low
Periodic performance review: regular and ad hoc business review mechanisms to mitigate potential risks/bottlenecks	High	High	Low
Process optimization: leverage provider capabilities and methodologies to optimize processes across business units and regions	High	Low	Low
Point solutions: leverage providers' point solutions such as RPA, IDP, and analytics to achieve short-term efficiency gains	High	Medium	Low
FTE utilization rates: optimal resource allocation through flexible staffing models	High	Medium	Low

Value optimization | consolidator

Enterprises in this stage of outsourcing maturity should focus on optimizing processes and investments in existing technologies to maximize operational benefits and get some business gains

Relative impact on value: Low Medium High

Key value optimization levers	Cost impact	Operational impact	Business impact
Optimize investment in technology: provider support to maximize utilization of existing technology licenses	High	High	Low
Data democratization: break data siloes and make data accessible to the providers so they can introduce meaningful actionable insights	Low	High	Medium
Co-innovation and co-creation: explore opportunities for joint innovation and value creation with providers	Low	Medium	High
Process optimization: leverage providers' process mining tools to weed out inefficiencies within workflows	Medium	High	Medium
Right shoring: leverage offshore locations to deliver transactional processes and onshore/nearshore locations to deliver complex processes (FP&A, taxation, risk and compliance management) or specific language support services	Low	Medium	Medium

Value optimization | transformer

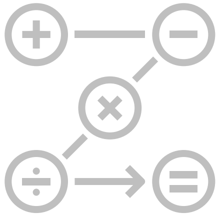
Enterprises in this stage of outsourcing maturity should focus on fostering a one-team approach and better leveraging providers capabilities to enhance CoEs and drive innovation to maximize business outcomes

Relative impact on value: Low · Medium · High

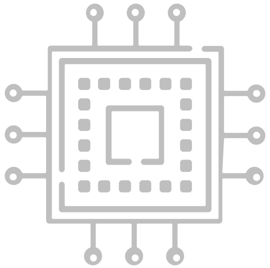
Key value optimization levers	Cost impact	Operational impact	Business impact
CoEs enhancement: strengthen CoEs to create high value in key focus areas such as automation, analytics, risk management, and FP&A by collaborating with providers	Low	High	High
One-team approach: increase synergies across internal and outsourced resources by implementing joint KPIs and common business objectives	Low	High	High
Service provider portfolio optimization: reduce nonstrategic providers and rebalance/increase scope of outsourced work with strategic providers	Low	High	High
Leveraging providers' assets: gain access to providers' niche capability centers such as innovation labs, CoEs, R&D labs, and digital assets to foster innovation	Low	High	High
Talent upskilling/re-skilling: leverage providers' internal L&D capabilities and knowledge centers to upskill and reskill retained resources	Low	High	High
Access to new markets: utilize providers' global delivery center networks to gain access to local expertise in new geographies	Medium	High	High
Incentivizing providers: increase leverage of innovative pricing and funding constructs to incentivize providers to deliver more value and engage in a partnership model	Low	Medium	High

Value creation

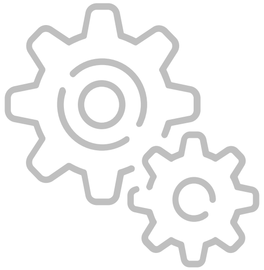
Enterprises can elevate the overall maturity of their outsourcing engagement and advance from realizing cost benefits to operational to business benefits by increasing the maturity in each of the outsourcing levers



Process scope



Digital quotient



Transformation quotient

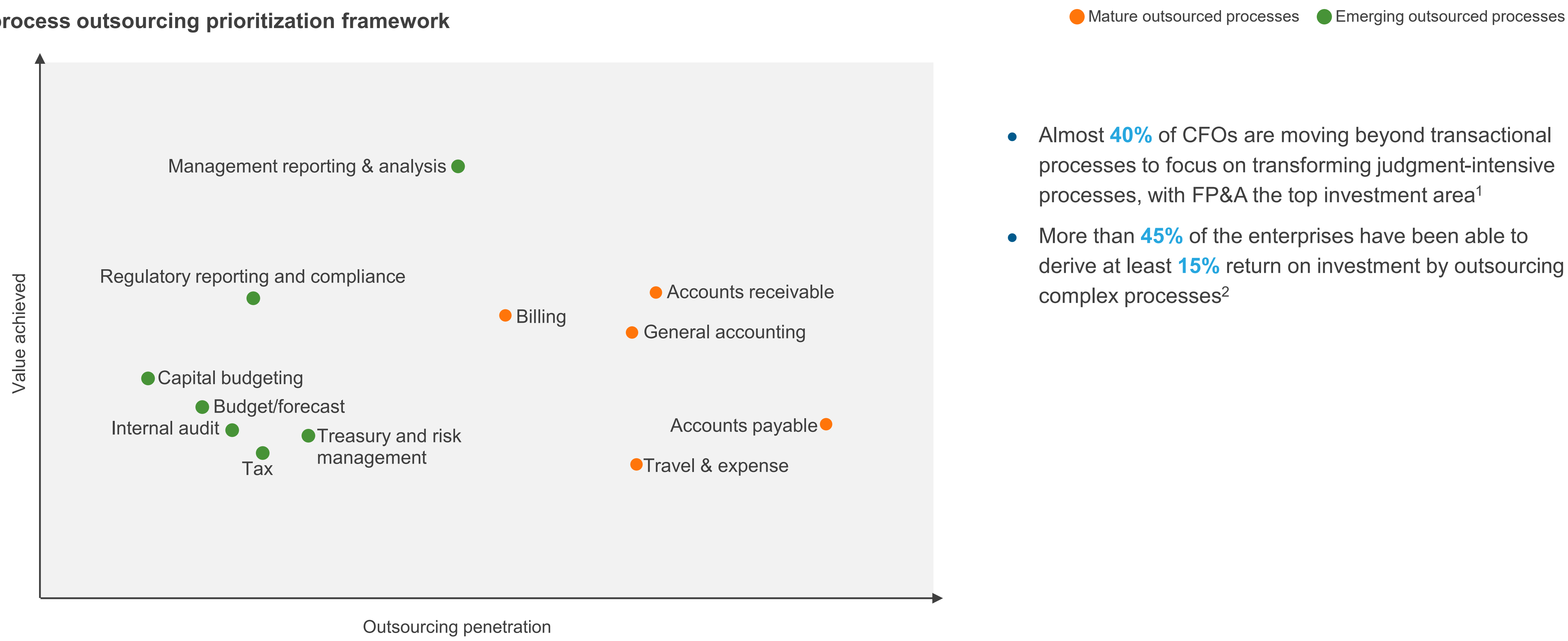
Pricing model

Performance management

Value creation | process scope – high-end F&A processes

Focus on better leveraging service providers' support across judgment-intensive processes such as financial planning and analysis (FP&A) to generate more return on investment (Roi) from outsourcing

F&A process outsourcing prioritization framework



- Almost **40%** of CFOs are moving beyond transactional processes to focus on transforming judgment-intensive processes, with FP&A the top investment area[1]
- More than **45%** of the enterprises have been able to derive at least **15%** return on investment by outsourcing complex processes[2]

1 Source: Global CFO Survey 2022
2 Source: Global FAO Survey 2023

Value creation | process scope – upstream and adjacent value-adding F&A areas

Use service providers' expertise/solutions across industry-specific and nontraditional F&A areas related to ESG, risk and compliance, and performance management

Upstream F&A processes in which enterprises can leverage third-party support

Banking and financial services

- Fiduciary accounting
- Federal reporting
- Loan accounting
- Derivative accounting
- Intangible accounting

Healthcare

- Revenue cycle management (including patient access, coding and charging, and receivables management)
- Premium collections and claims accounting
- Regulatory compliance (HIPAA)

Insurance

- Premium collections
- Claims processing
- Reinsurance accounting
- Actuarial accounting

Media and entertainment

- Franchise accounting
- Royalty reporting and accounting
- Media bill pay

Retail and CPG

- Store accounting
- Point of Sale (PoS) accounting
- Trade promotions and deductions settlements
- Vendor chargeback and SKU management
- Inventory accounting

Travel and logistics

- Passenger revenue accounting
- Fuel and fleet accounting
- ARC/BSP reconciliation
- Fare audit and interline billing
- Cargo revenue management
- Export, imports, and customs accounting
- Demurrage and detention accounting

Areas adjacent to F&A in which enterprises can leverage third-party support

- ESG initiatives
  - ESG impact maturity assessment
  - ESG data management and reporting
  - Responsible sourcing
  - Inclusion and diversity reporting and analysis
- Enterprise risk management
- Enterprise performance management

Selecting the right partner for upstream F&A processes is crucial to realizing higher value. Enterprises should thoroughly evaluate potential service providers based on their expertise, track record, and ability to meet their industry-specific requirements. They should look for providers with industry-specific knowledge, technology capabilities, scalability, and a proven track record in delivering high-quality services to similar peers.

Value creation | process scope – advisory support

Leverage service providers' advisory support across areas such as data management, workforce change management, risk and compliance, and business integration

Niche areas in which enterprises can leverage advisory support to generate greater value

NOT EXHAUSTIVE

- ERP modernization/ migration support
- ESG advisory
- Data management advisory
- Integrated business planning
- GBS transformation
- Workforce change management
- Risk, tax, and compliance advisory
- Liquidity and working capital improvement
- Business integration

Value creation | digital quotient – key automation use cases

Focus on moving beyond RPA and leverage intelligent automation to enable straight-through processing and maximize overall value from automation

XX Cognitive use cases XX Traditional use cases

Key F&A processes	Key automation use cases (not exhaustive): Traditional use cases	Emerging use cases
P2P	• Invoice data extraction • Automated payment requests • Automated vendor payment requests processing • Automated T&E claims processing • Invoice status enquiry	• Smart matching • Automated policy compliance • Touchless invoice processing (including exception handling) • Vendor self-service portal • Automated outlier identification and policy compliance
O2C	• Customer setup and data entry • Automated cash application • Automated Collections	• Automated payment reminders • DSO analysis • Customer segmentation and personalization • Automated billing dispute resolution • Revenue leakage prevention • AI driven fuzzy matches for AR receipts
R2R	• Journal entry automation • Automated trial balance preparation • Automated trial balance	• Intelligent reconciliation systems • AML and KYC analysis • Operational driver-based forecasting • Data retrieval and analyst support • Real-time flux analysis

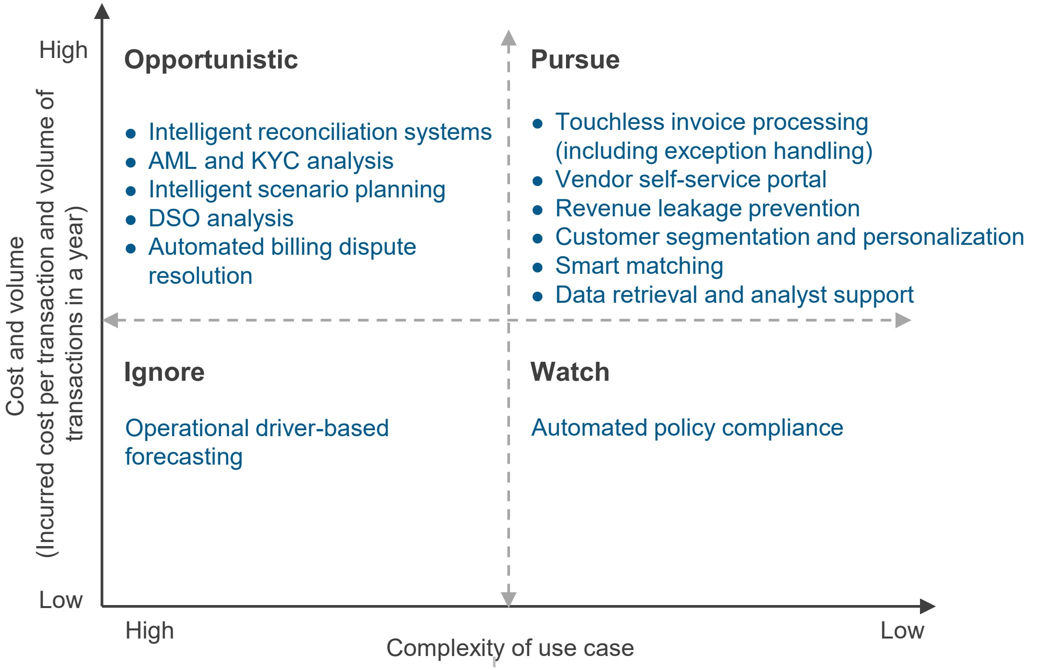
Value creation | digital quotient – how to scale up automation adoption

Enterprises can leverage Everest Group's Enterprise Value Chain Automation (EVCA) framework to prioritize automation use cases to scale up their automation adoption and achieve incremental savings

Enterprise value chain automation framework

XX Cognitive use cases

ILLUSTRATIVE



The EVCA is designed to help enterprises to maximize the benefits of automation by scaling. It is about examining swathes of the enterprise process landscape to develop a list of automation use cases as part of an extensive centralized and managed strategic program. Unlike other approaches that start with one or two processes and put 10 more on a to do list, the EVCA can identify hundreds of opportunities to establish a strong foundation for taking automation initiatives forward. It paves the way for scale, thereby capturing the bigger benefits that come with it.

Process complexity (judgment-intensive)
Degree of human judgment, expertise, and experience required; negatively correlates to the potential to automate

Extent of digitization
Degree of digitized data and digital infrastructure already in existence; reduces opportunities for further automation solutions

Technology fragmentation
Level of fragmentation in technology; higher fragmentation leads to more manual processing, increasing potential for automation

Scale of process/operations
Scale of operations for the process (frequency, volume, etc.); larger scale implies higher RoI for automation projects in particular processes

Existing process health
Measures the extent to which the process is well-defined and structured; better health implies greater amenability to automation

Value creation | digital quotient – key analytics use cases

Focus on unlocking true power of analytics by shifting from periodic dashboarding to real-time, persona-based dashboarding, and predictive & prescriptive analytics use cases that can improve decision-making

Key F&A processes	Key analytics use cases (not exhaustive) – Traditional use cases	Emerging cognitive use cases
P2P	• AP optimization • Overpayments	• Duplicate invoice detection • Policy compliance, advanced fraud detection • Exception handling • Dynamic discounting optimization • Vendor self-service portals
O2C	• Collections optimization • Detecting revenue leakages and disputes	• Credit risk assessment • DSO analysis • Predictive analytics for cash flow forecasting • Customer segmentation and personalization • Automated billing dispute resolution • Revenue leakage prevention
R2R	• Contract compliance • Risk profiling	• Intelligent reconciliation systems • AML and KYC analysis • Operational driver-based forecasting • Continuous assurance • Cognitive auditing • Intelligent scenario planning

Value creation | digital quotient – how to scale up analytics adoption

Enterprises can leverage Everest Group's framework to prioritize future analytics use cases to help CFOs better manage liquidity, enhance cash flows and working capital, and improve decision-making

Data and analytics use case prioritization framework

XX Cognitive use cases

ILLUSTRATIVE

Cost and volume (Cumulative effect of strategic, operational, and tactical impact): High / Low

Complexity of use case: High / Low

	High complexity	Low complexity
High cost and volume	**Opportunistic** • Dynamic discounting optimization • Intelligent reconciliation systems • AML and KYC analysis • Cognitive auditing • Intelligent scenario planning	**Pursue** • Duplicate invoice detection • Credit risk assessment • DSO analysis • Vendor self-service portals • Revenue leakage prevention • AI led financial planning
Low cost and volume	**Ignore** • Intelligent exception handling • Operational driver-based forecasting	**Watch** • Automated policy compliance • Advanced fraud detection • MIS reporting

Process complexity (judgment-intensive)
Degree of human judgment, expertise, and experience required; negatively correlates to the potential to automate

Number of stakeholders
Number of internal stakeholders, such as members of teams or departments, and external stakeholders such as customers and regulatory bodies

Number of data sources
Different kinds of data sources varying from internal sources (ERPs) to external data sources (other companies' ERPs, macroeconomic indicators, regulatory bodies' database); volume of input data

Complexity of integration
Complexity to modernize legacy systems that might arise from enterprises' openness to transform and their investment appetite; connectivity with adjacent systems

Scalability and usage frequency
Repeatability across different contexts with high frequency of usage

Value creation | transformation quotient – transformation approach (page 1 of 3)

Enterprises need to first understand their current states, define the desired future states, design a transformation roadmap, and start their journeys by optimizing processes before implementing digital technologies

"The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. Likewise, automation applied to an inefficient operation will magnify the inefficiency." – *Bill Gates*

Maturity assessment	Process improvement	Digital enablement
Examples of areas in which organizations can leverage service provider support across their transformation initiatives		
• Use service providers' maturity assessment tools/assets to: – Asses the current state of F&A processes and digital ecosystems – Identify gaps between the current and future state – Leverage design thinking capabilities to create a transformation roadmap to reach the desired future state • Make use of the repository of data available to service providers to benchmark KPIs and track operational performance • This as-is analysis is the base to identify opportunities for process streamlining	• Leverage service providers to gain access to a variety of tools such as process mining and monitoring to identify bottlenecks and inefficiencies • This step leads to the discovery of process streamlining opportunities to ensure consistent processes across the organization, which enhances productivity and sets the stage for further value creation through digital levers	Leverage an ecosystem of providers and technology vendors to gain access to solutions such as, monitoring and analytics platforms, AI/ML platforms, automation, and chatbots, to drive F&A operations transformation

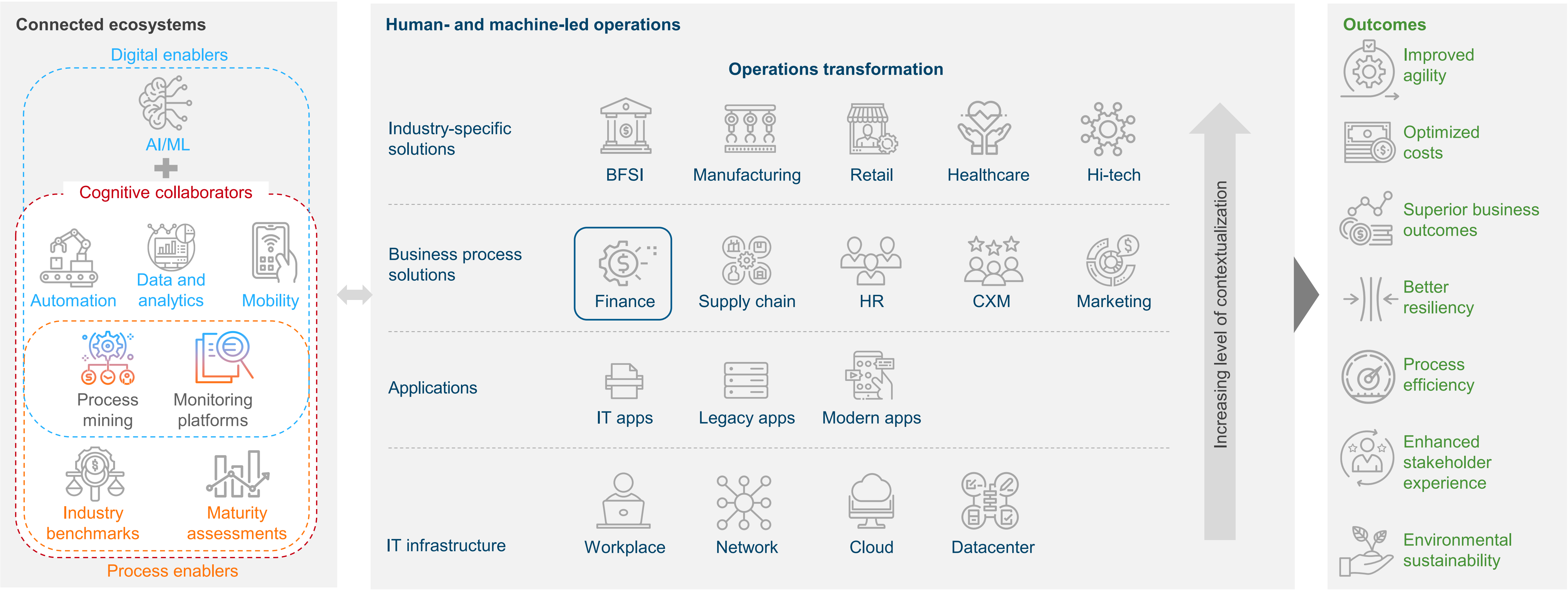
More than 75% of the enterprises are on the pathway to **upgrade their entire IT infrastructure**, and software applications, from the front-end user interfaces to the back-end systems and databases[1]

1 Global FAO Survey 2023

Value creation | transformation quotient – transformation approach (page 2 of 3)

Orchestration of digital/process levers in conjunction with human intelligence and creating synergies among IT infrastructure, applications, and business operations is equally important to achieve sustainable long-term value

Integrated F&A operations transformation framework



Value creation | transformation quotient – transformation approach (page 3 of 3)

An illustrative example of integrated F&A operations transformation for an insurance company

XX Process enablers XX Digital enablers

ILLUSTRATIVE

Knowledge specialists

Industry-specific solutions

Premium collections optimization

AI-/ML-based predictive and prescriptive analytics to better understand customer behavior and devise a premium collections strategy

Intelligent claims reconciliations

Intelligent automation for claims reconciliations and premium accounting

F&A processes

Straight-through invoice processing

- Intelligent OCR to fetch invoices/bills
- RPA to auto-trigger emails for approvals with mobile-based apps for faster approvals
- AI/ML for exceptions handling

Accounts payable optimization

- Interactive CFO dashboards and reporting with drill-down capabilities
- AI-based fraud analytics to reduce revenue leakage
- Payables and working capital optimization using advanced analytics

Vendor helpdesk

A portal with an AI-based conversational bot to help vendors to monitor the progress of their invoices and inquiries

IT applications layer including legacy and modern apps

IT infrastructure layer including cloud, network, workplace, and data centers

Process improvement

Frameworks, process mining, and design thinking to standardize and drive continuous process improvement across the F&A value chain

Outcomes

Optimized costs

+

Superior business outcomes

+

Process efficiency

- Improved customer experience
- Faster turnaround time
- Reduced errors/exceptions
- Improved DPO / DSO / working capital
- Reduced revenue leakage

Value creation | pricing model – innovation in commercial models

Enterprises should consider exploring more contemporary pricing constructs such as outcome-based and hybrid-based pricing models as they move up the outsourcing maturity curve

Transaction-based pricing model

Characteristics

- Customers **pay for the operational output** of the solution
- Pay for deliverables, not time
- **Contingency** on volumes, scale, and complexity
- Relatively **difficult** to implement and track

Examples

- Purely variable on a per-invoice, -policy, -payment, or -remittance basis
- Price Per Pay Slip Per Month (PPPM), Price Per Member Per Month (PMPM)

Outcome-based pricing model

Characteristics

- **Customers pay based on the business outcomes** of the solution
- **High risk, hard to implement**, but immense business impact if done right
- Applicable only where business metrics can be directly linked and quantified

Examples

- Purely variable fee linked to percentage of savings, slabs of FTE reduction, etc.
- Linked to business metrics such as DSO reduction, DPO optimization

Hybrid-based pricing model

Characteristics

- **Includes** the components of **multiple pricing constructs**
- **Medium risk, easy to implement**, better aligned to business objectives
- **High enterprise satisfaction** as they are able to gain advantages of a mix of pricing models
- Need to carefully assess suitability of process areas and data availability for determining commercials

Example

Base fee (fixed or input-based or output-based) along with variable risk/reward fee as a percentage of base fee linked to revenue impact made by provider

Value creation | pricing models – innovation in transformation funding models

Based on their specific business requirements, enterprises should collaborate with their providers to introduce innovative financial engineering techniques to drive digital transformation and foster innovation

Transformation funding models that organizations can leverage

Fully variable digital FTEs

Enterprises are keen to automate more, though without the initial capital expenditure. Some providers are replacing human FTEs with digital FTEs and charging a monthly run fee – zero implementation risk/cost.

Front-loading transformation benefits

While this is considered common, it has declined materially in recent deals. Some providers are front-loading year 2 and year 3 benefits into year 1 financials.

Fully self-funded transformation

For cash-strapped enterprises, providers are funding the transformation program on behalf of the enterprise and recovering the costs through innovative gainshare constructs on business benefits.

Innovation fund to seed projects

An innovation fund is earmarked for implementing various digital projects / Proofs of Concept (POCs) focused on cost savings or business outcomes. The innovation fund in turn is replenished from the cost savings from these digital projects.

Value creation | pricing models – other financial engineering constructs

Enterprises should take advantage of the various financial engineering constructs that service providers are offering to differentiate themselves

Full cost and benefits pass-on	All costs are directly and completely charged to the client when they occur, and the benefits are also passed on completely
Target pricing and fee smoothening	The service provider aligns its fee to the enterprise's quarterly and annual budgets for the program; tier-2 providers tend to be more flexible
Amortization of up-front charges	Some one-time charges that are typically charged in the first year of the deal term – such as technology setup costs and transition costs – are amortized over the deal term instead
Deal bonus	An up-front discount paid to the client to win the deal; serves as a mechanism to reduce the buyer's up-front costs
Acquisition premium discount	In rebadging deals, an acquisition premium discount can provide an up-front discount for skills or centers acquired from the client

Value creation | performance management (page 1 of 3)

Enterprises can design effective performance management strategies by envisioning clear objectives and tracking the right metrics that align with their business goals

Four tenets of an effective performance management system

Define goals and objectives

- Clear definition of objectives and expectations related to what needs to be achieved, reasons for outsourcing, and ways to measure results
- Contractualizing the right metrics as Service Level Agreements (SLAs) – the metrics that matter the most and aligning them with the key outsourcing objectives

Establish governance structure

Creating an effective governance structure includes clear mapping of roles and responsibilities, how often resources will communicate and escalate issues, alignment and coordination between internal and external teams

Monitor performance and quality

- Tracking and evaluating how well the providers are delivering on the committed SLAs through dashboarding
- Aligning on quality of work beyond SLAs being delivered to gauge alignment with compliance and standards and stakeholder satisfaction through reports, audits, and surveys

Provide feedback and manage risks

- Sharing observations and insights on potential improvement on delivery and celebrating providers' success through feedback sessions, performance reviews, and recognition events
- Proactively identifying, assessing, and prioritizing risks, such as changes in scope, budget, and timeline, and having a robust risk mitigation plan in place

Value creation | performance management (page 2 of 3)

Enterprises should have a balanced mix of operational and business KPIs/SLAs to create a holistic view of service providers' performance

Key SLAs that finance organizations should track

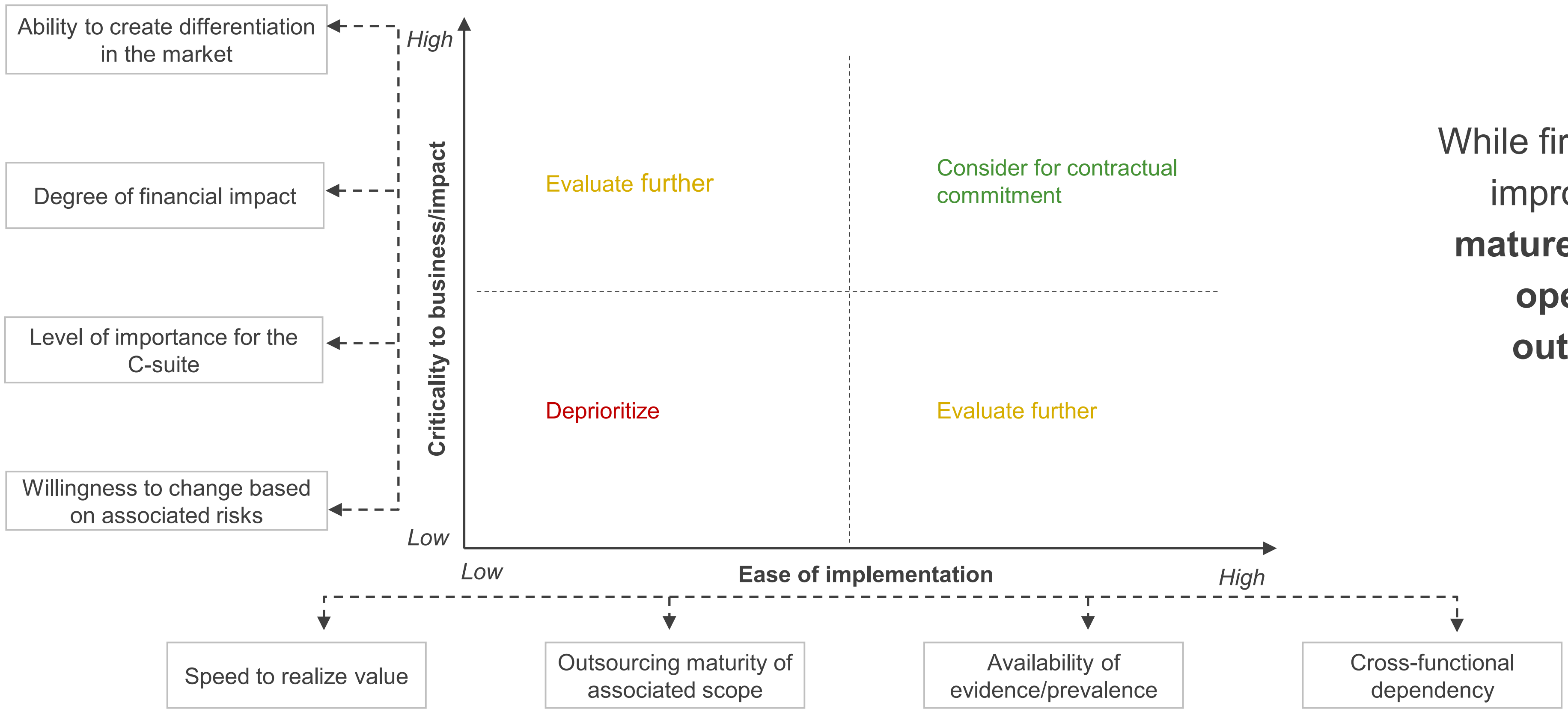
NOT EXHAUSTIVE

Process	Operational SLAs and KPIs	Business SLAs and KPIs
P2P	• Invoice processing timeliness • Invoice processing accuracy	• Days Payables Outstanding (DPO) • Total cost per T&E disbursement in currency • Duplicate payment rate
O2C	• Order management timeliness • AR posting timeliness • AR posting accuracy	• Days Sales Outstanding (DSO) • Percentage of bad-debt recovery • Unapplied cash as a percentage of AR
R2R	• Account reconciliation timeliness • Close process accuracy • Percentage of balance sheet reconciliation completed on time	• RTR process cost as a percentage of revenue
FP&A	• Recurring reports – timeliness • Recurring reporting – accuracy	• Percentage budget variance • Cash forecasting accuracy

Value creation | performance management (page 3 of 3)

Enterprises can leverage the SLA prioritization framework to optimize the list of SLAs to contract in their outsourcing engagements

SLA prioritization framework



While first-time outsourcers prioritize improving operational metrics, **mature outsources** focus on both **operational** and **business outcomes-based metrics**[1]

1 Source: Global FAO Survey 2023

Benchmarking exercise – an instrument for diagnosing outsourcing health

Enterprises should conduct periodic benchmarking exercises on their outsourcing contracts to assess the gaps between the as-is state and the optimal state for maximum value realization

Everest Group's Strategic Engagement Review (SER) framework

Solution review

Understand the solution in the context of industry best practices across

- Contract scope coverage (depth and breadth)
- As-is technology maturity
- Global sourcing leverage
- Governance structure

Contract assessment

Identify improvement opportunities in contracts vs. market norms; review

- Key T&Cs
- Service management regime
- Pricing structure
- Incentives and penalties

Delivery and performance

Operations metrics and insights directly impacting win-win fee and performance discussions

- Staffing mix
- FTE utilization/productivity
- Continuous improvement charter
- Best-in-class service level metrics
- SLA/KPI coverage and stringency

Price benchmarking

Differentiated approach that yields

- Highly contextualized benchmarks
- Base fee and overheads benchmarking
- Calibration per service inclusions and exclusions
- TCV impact (overall and by lever)

Transformation

Highlight and size next-generation disruptive transformation opportunities

- Automation adoption
- Analytics leverage
- Delivery model transformation
- Financial model transformation
- Commensurate contracting regime
- Business case (investment vs. RoI)

Optimize + transform

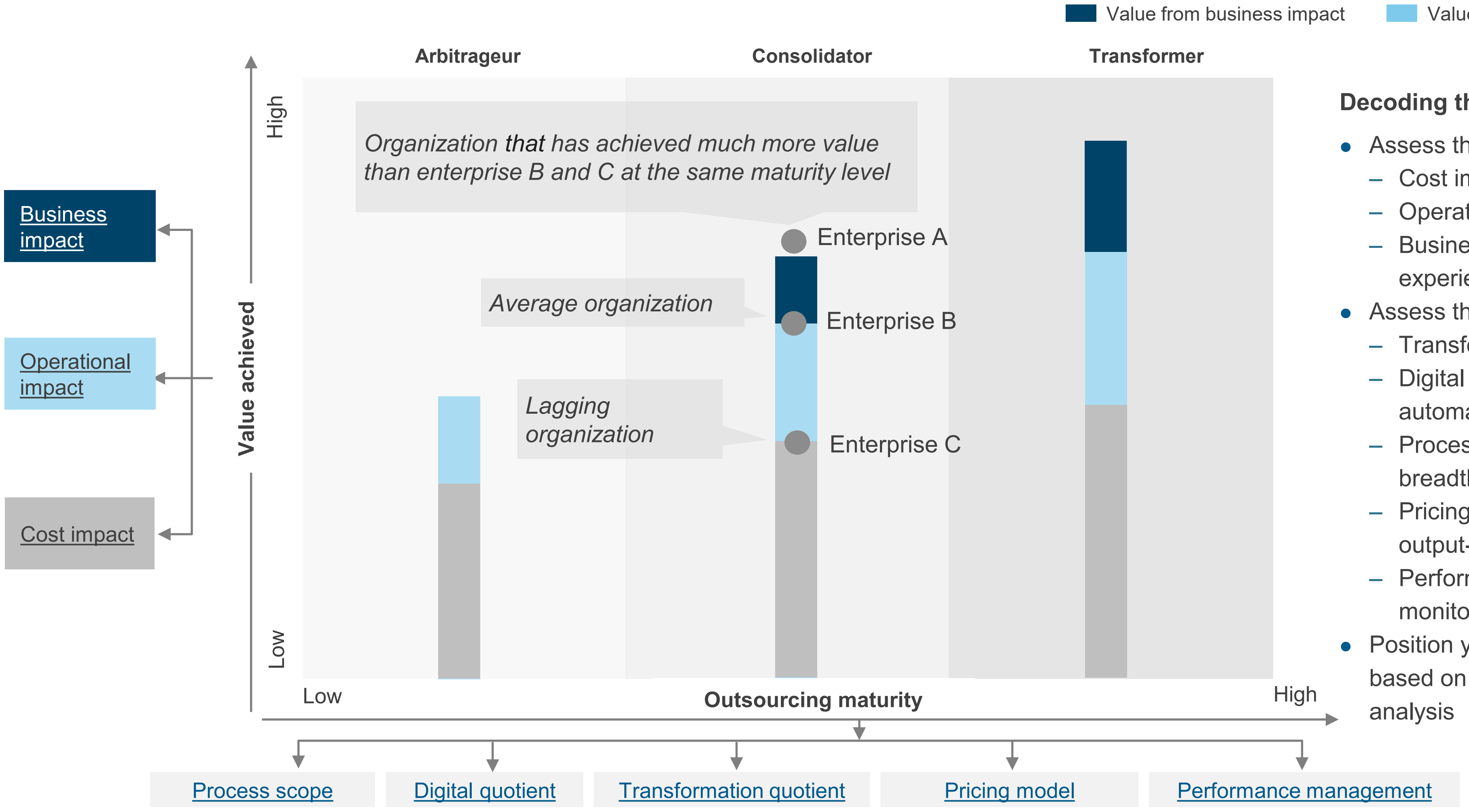
05

Assessment of FAO engagement using the value capture matrix

- Value capture matrix
- Value achieved | cost, operational, and business impact
- Outsourcing maturity | process scope
- Outsourcing maturity | digital quotient
- Outsourcing maturity | transformation quotient
- Outsourcing maturity | pricing model
- Outsourcing maturity | performance management
- Illustrative example

Value capture matrix

Enterprises should start by assessing where they are in their outsourcing maturity, followed by the value they are getting from their current outsourcing engagement using Everest Group's value capture matrix



Decoding the value capture matrix

- Assess the current state of value achieved measuring
  - Cost impact: overall cost savings
  - Operational impact: productivity improvements
  - Business impact: top-line, bottom-line, stakeholder experience, etc.
- Assess the current degree of outsourcing maturity
  - Transformation quotient: transformation model maturity
  - Digital quotient: adoption of technologies such as automation and analytics
  - Process scope: maturity of processes in terms of breadth and depth of scope
  - Pricing model: maturity of pricing model from input- to output-driven pricing constructs
  - Performance management: maturity of performance monitoring from operational KPIs to business metrics
- Position your enterprise on the value capture matrix based on the outsourcing maturity and value achieved analysis

Value achieved | cost, operational, and business impact

Overall value achieved through outsourcing can be determined by the cumulative effect of the cost, operational, and business impacts of outsourcing on the enterprise

Cost impact | Operational impact | Business impact | *NOT EXHAUSTIVE*

Impact levers of value achieved	• Savings on infrastructure • Savings on technology • Savings on labor cost	• Process efficiency • Staff productivity • Compliance • Operational agility	• Top-line impact • Bottom-line impact • Customer satisfaction • Employee satisfaction
Success indicators of value achieved	• Average RoI from outsourcing • Average cost savings from outsourcing • Average time to achieve RoI from outsourcing (in months)	• Efficiency improvement • Improvement in SLA compliance	• Top-line improvement • Bottom-line improvement • Customer satisfaction improvement • Employee satisfaction improvement

- Enterprises can assess their scores on value achieved on a scale of 1-5, where 1 is the lowest and 5 is the highest value achieved
- Achieved value can be based on the actual cost savings, operational improvement in processes, and the business impact created by outsourcing

Detailed scoring guidelines

Outsourcing maturity | process scope

To understand process outsourcing maturity, enterprises need to evaluate both breadth and depth of outsourcing scope as compared to market average

Enterprises can assess their process outsourcing maturity on a scale of 1 to 5, where 1 is the lowest and 5 is the highest process outsourcing maturity, by evaluating two aspects
- The breadth of processes outsourced (based on the 13 processes listed here)
- The depth of subprocesses outsourced across the 13 processes

✓ Most prevalently outsourced subprocesses

Detailed scoring guidelines

Strategy (typically retained in-house)

F&A strategy
- F&A strategy
- Accounting policy and control
- Shareholder relations
- M&As/divestitures

Judgment-intensive (selectively outsourced)

Internal audit
- Audit planning
- Audit execution ✓
- Audit reports and recommendations ✓

Budgeting/ forecasting
- Line-item budget development
- Budget analysis and approval
- Roll-ups and consolidation
- Forecast analysis and approval

Capital budgeting
- Capital investment planning
- Capital budget preparation
- Capital analysis and approval
- Capital project reporting

Treasury & risk management
- Bank relationship management ✓
- Cash management and forecasting ✓
- Investment management
- Debt management
- Foreign exchange
- Treasury risk management ✓

Management reporting & analysis
- Performance analysis & reporting ✓
- LoB analysis & reporting ✓
- Variance analysis & reporting ✓
- Benchmarking
- Action plan development ✓

Regulatory reporting & compliance
- Management Discussion & Analysis (MD&A)
- External reporting
- Compliance program ✓

Transaction-intensive (heavily outsourced)

Billing
- Order receipt and entry ✓
- Review & approval of billing information ✓
- Invoice generation ✓
- Billing query resolution ✓

General accounting
- Journal entries ✓
- Account reconciliations ✓
- Trial balance preparation ✓
- Inter-company accounting ✓
- Cost accounting
- Fixed assets accounting ✓
- Payroll accounting ✓
- Book closings ✓
- Consolidations ✓

Accounts receivable
- Customer setup ✓
- Cash applications ✓
- Credit and collections ✓
- Customer inquiries ✓
- Dispute & deduction management ✓
- Aging and AR reporting ✓

Taxation
- Tax accounting ✓
- Tax planning and analysis
- Tax compliance ✓
- Tax audit ✓

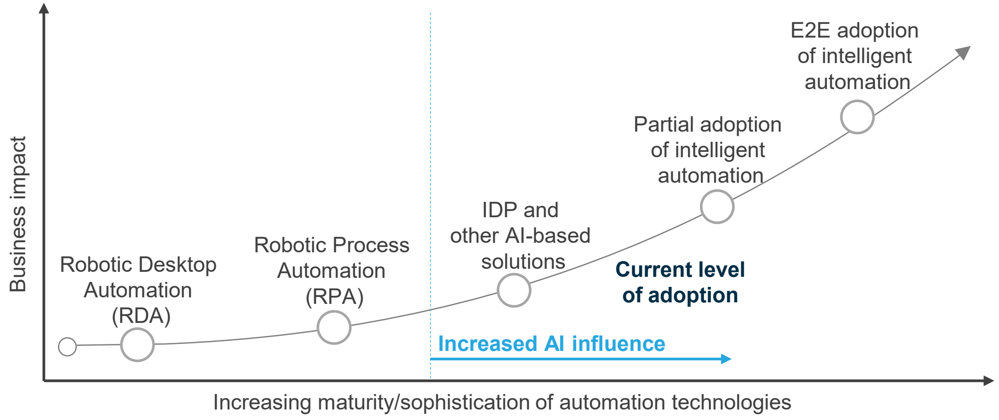
Accounts payable
- Invoice receipt ✓
- Invoice processing and matching ✓
- Payment processing ✓
- Purchasing card administration
- Supplier inquiries ✓
- AP reporting ✓

Travel and expense
- Expense report processing ✓
- Reimbursement processing
- Compliance monitoring and audit ✓
- Travel and expense card administration

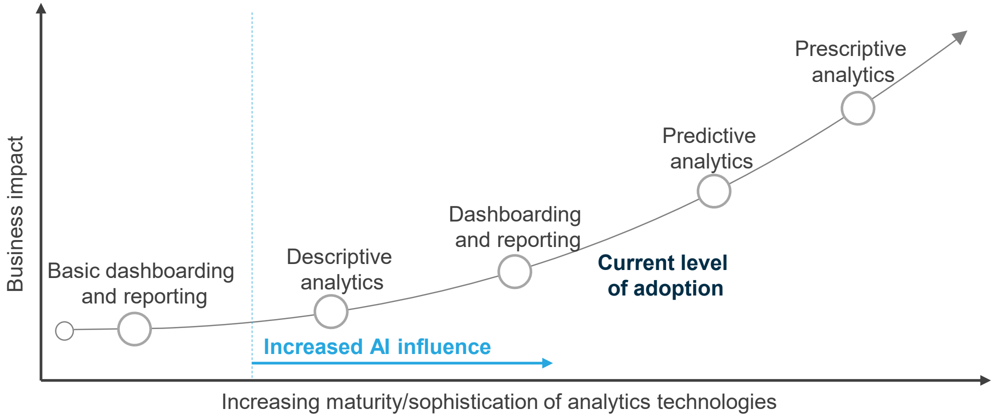
Outsourcing maturity | digital quotient

Enterprises need to understand their existing digital maturity by assessing where they are in terms of adoption of digital levers such as automation, analytics, and chatbots across their F&A outsourcing relationship

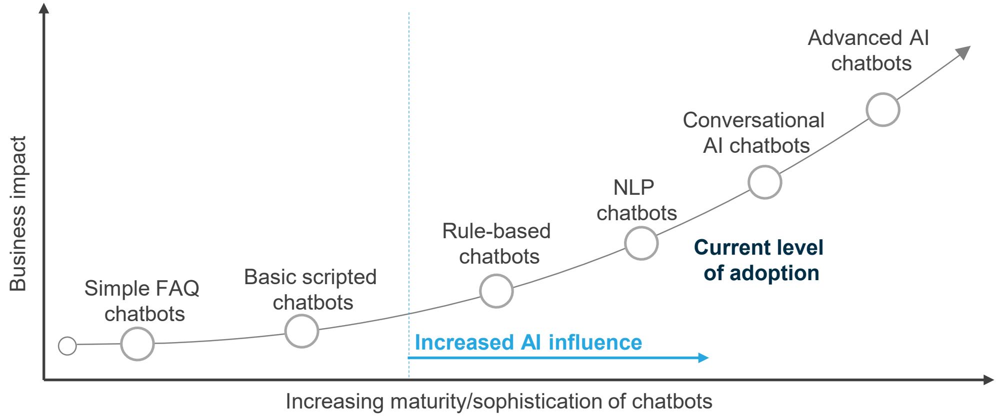
Automation



Analytics



Chatbots/Virtual agents



Enterprises can assess their digital quotient scores on a scale of 1 to 5, where 1 is the lowest and 5 is the highest digital quotient, by understanding the maturity of automation, analytics, and chatbots in their outsourcing engagement based on

- The breadth and depth of deployments
- The sophistication of the digital levers deployed varying from simple digital solutions to AI-based solutions

Detailed scoring guidelines

Outsourcing maturity | transformation quotient

To arrive at a transformation quotient score, enterprises should understand the service provider's at-risk investment across technology and solution models

Solution model　Technology model

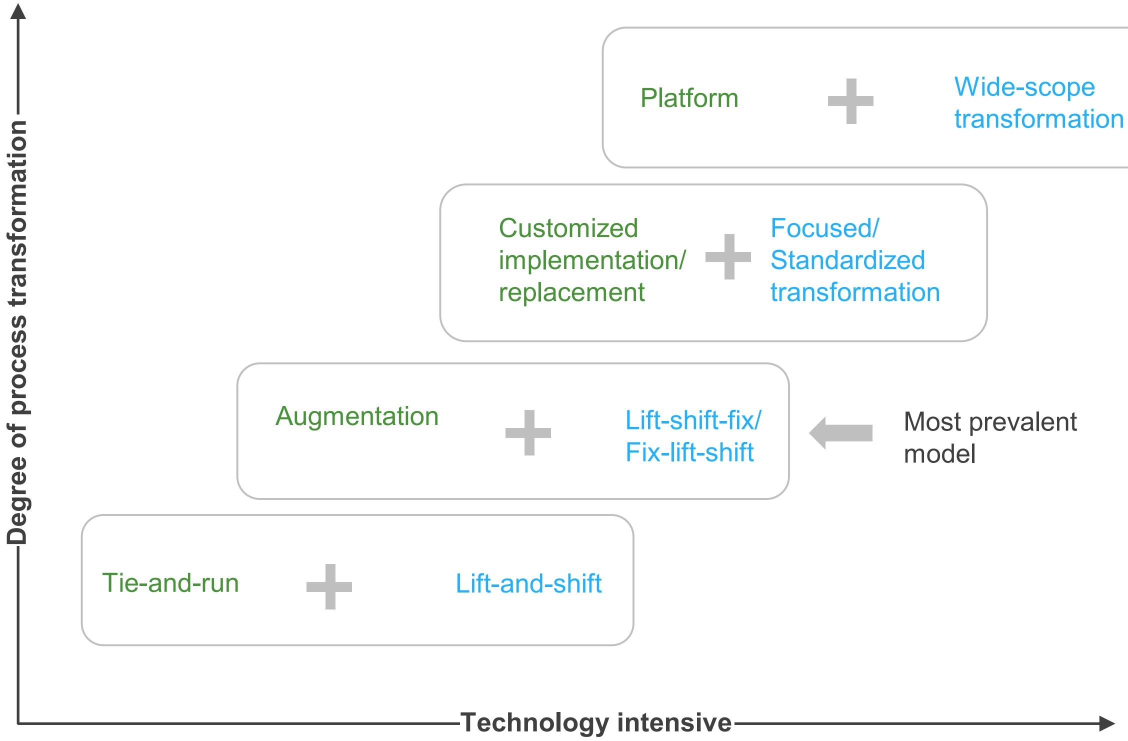
Technology models

Platform
- Existing technology replaced by pre-configured, hosted, and standardized solutions
- Owned and maintained by the provider

Customized implementation/replacement
- Existing technology replaced by customized solutions
- Buyer-owned but implemented and supported by the provider

Augmentation model
- Buyer-owned existing technology maintained by the provider
- Provider may also provide proprietary tools that serve as add-ons

Tie-and-run
Existing buyer-owned technology used by the provider to provide process outsourcing services



- The transformation model shows various stages of transformation maturity of the outsourcing engagement based on
  - Solution model maturity
  - Technology model maturity
- Understand where you would position your FAO engagement on the technology model matrix based on the technology/solution model and determine a transformation quotient score on a scale of 1 to 5, where 1 is the lowest and 5 is the highest maturity

Solution models

Lift-and-shift
Transfer of process, technology, and/or people, to the service provider as-is

Fix-lift-shift/lift-fix-shift
Transfer of process and/or technology to the provider with limited transformation

Focused/standardized transformation
- Incremental adoption through focused/standardized transformation
- Typically, transaction-intensive processes outsourced first

Wide-scope transformation
Complete transformation of process and technology across multiple processes throughout the organization

Detailed scoring guidelines

Outsourcing maturity | pricing model

Based on the degree of leverage of non-input-based pricing models and inclusion of outcome-based constructs in their outsourcing engagements, enterprises can evaluate their pricing model maturity

ILLUSTRATIVE

Input-driven

Increasing degree of pricing model maturity

- **FTE-based pricing** (driven by FTE rate cards across locations)
- **Output-based/transaction-based pricing** (such as per invoice processed)
- **Outcome-based pricing** (such as 5% gain share on bad debt recovered)

Outcome-driven

FTE-based

Output-based

Outcome-based

Hybrid pricing involves more than one type of pricing construct; enterprises are gradually shifting from pure FTE-based pricing models to hybrid pricing constructs

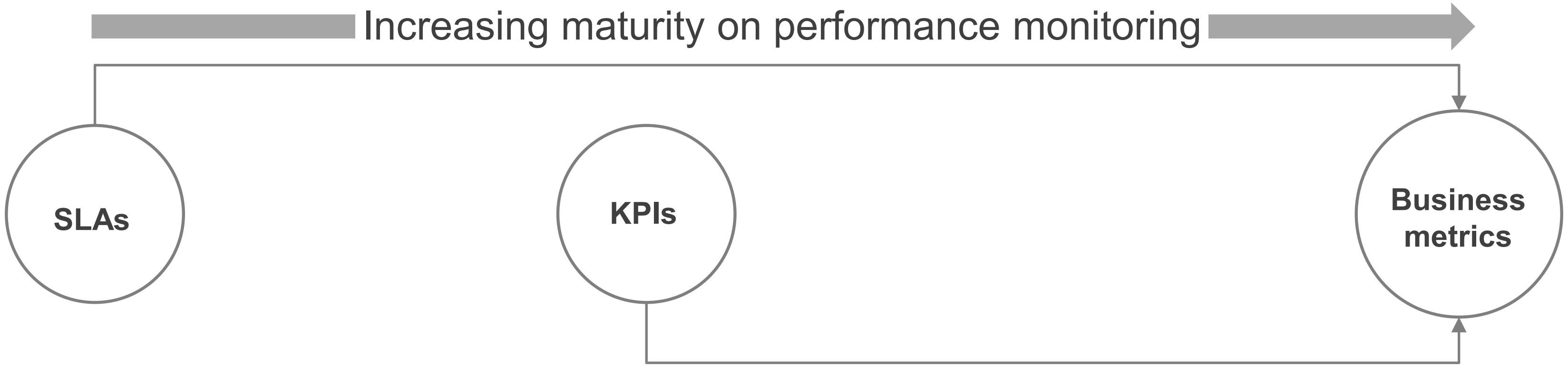
Enterprises can use the following as guidance to rate their engagement's pricing model maturity on a scale of 1 to 5, where 1 is the lowest and 5 is highest pricing model maturity

- The pricing model maturity spectrum can be defined from input-driven to outcome-driven
- Greater share of non-input-based pricing models is typically indicative of higher pricing model maturity
- Best-in-class outsourcing engagements where there is more provider at-risk investment leverage a hybrid pricing model with some component of outcome-based pricing

Detailed scoring guidelines

Outsourcing maturity | performance management

Enterprises can understand their performance management maturity based on their performance monitoring metrics, which can range from traditional metrics (timeliness, accuracy, etc.) to business-related metrics



SLAs: Traditional metrics around timeliness and accuracy that have a contractual commitment
Example: timeliness of first response sent to a query

KPIs: Modern metrics, capturing an end-to-end process view, which are monitored to measure performance
Example: query resolution timeliness

Business metrics: Business-related metrics that could depend on multiple SLAs/KPIs
Example: working capital improvement

Enterprises can use the following as guidance to rate their engagement's performance management on a scale of 1 to 5, where 1 is the lowest and 5 is highest performance management maturity:

- The performance management maturity spectrum can be defined from contracting traditional SLAs to business-driven metrics
- Best-in-class outsourcing engagements where a good mix of operational and business metrics is contracted

Detailed scoring guidelines

Illustrative example

Case example for value capture matrix score calculation across all parameters for enterprise A

ILLUSTRATIVE

Process scope	Key solution levers	Pricing construct and metrics contracted	Key benefits
• Accounts payable (end-to-end) • Accounts receivable (end-to-end) • Financial planning and analysis (variance analysis and reporting)	• Point solutions of provider on top of enterprise technology infrastructure, with some customization of enterprise and functional and contextual knowledge and technology involving • IDP and other AI-based solutions with some IA leverage • Real-time dashboarding and reporting • Rule-based chatbot	• Pricing based on per transaction level because of large volume fluctuations of enterprise A • Timeliness, accuracy metrics contracted	• ~30% efficiency gains • ~25% reduction in operating costs • >100 million business outcomes delivered through – Process efficiency gains – Improved financial metrics

X- and Y-axis score calculations for enterprise A

Process scope scorecard	Transformation quotient scorecard	Pricing model maturity scorecard	Value achieved scorecard	Digital quotient scorecard	Performance management scorecard
• Breadth of process coverage rating (all transactional and few complex processes): 4 • Depth of process coverage rating: 2 • Final rating: (4+2)/2 = 3	• Extent of transformation rating (leverage of point solutions only): 2 • Provider's ownership in technology landscape rating (low ownership): 2 • Final rating: (2+2)/2 = 2	• Pricing model rating (non-inclusion of outcome-oriented pricing methodologies): 2	• Rating of cost savings (cost benefits): 3 • Rating of productivity gains (operational benefits): 3 • Rating of top-line improvement (business benefits): 1.5 • Final rating: (3+3+1.5)/3 = 2.5	• Sophistication of digital landscape rating 3 • Scale of digital landscape rating: 3 • Final rating: (3+3)/2 = 3	• Performance management rating (non-inclusion of business metrics): 2.5

06 Detailed scoring guidelines for assessing FAO engagements using the value capture matrix

Scoring guidelines | value achieved

Enterprises can use value assessment guidelines to evaluate the value achieved through the current outsourcing contract

Back to the framework

Guidelines to assess the value achieved from the outsourcing engagement

ILLUSTRATIVE

Identify and set targets for a set of operational KPIs and SLAs

- Identify a list of business metrics, contractual SLAs, and operational KPIs that are tracked, as indicators, to assess the benefits derived from outsourcing in terms of cost, operation, and business impact (see the adjoining table for guidance)
- Based on the level of impact on each type, rate each type of impact on a scale of 1 to 5, where 1 is below par and 5 is above par adherence
- Depending on the business goal, arrive at the final score by taking an appropriate weighted average of the scores assigned

Type of impact	Illustrative indicators to assess impact	Achieved target	Score across each parameter
Cost impact	• % reduction in cost of operations • Productivity savings through service provider	High	5
Operational impact	• Accuracy of processing • Timeliness (cycle time / turnaround time)	Medium	3
Business impact	• DSO/DPO • Liquidity improvement • Stakeholder satisfaction (customer/supplier/employee)	Low	1.5

Scoring guidelines | process scope maturity

Enterprises can leverage process maturity assessment guidelines to evaluate the current maturity of the outsourced processes in their outsourcing engagement

Back to the framework

Guidelines to assess the process scope maturity

Rate your process maturity breadth and depth

- Rate the breadth of processes outsourced on a scale of 1 to 5, where 1 is limited and 5 is significant outsourcing
- Rate the depth of processes outsourced on a scale of 1 to 5, where 1 is limited and 5 is significant scope of subprocesses within the outsourced processes
- Use your own judgement or the adjacent rating guideline based on best-in-class process outsourcing to arrive at the scores

Determine the final score for process maturity

Calculate the weighted average of the breadth and depth ratings calculated in step1, using suitable weights

Rating = 1 → **Rating = 5**

Breadth of processes

- Limited outsourcing of transactional processes
- End-to-end outsourcing of transactional processes
- Inclusion of judgement-intensive processes along with transactional processes

Depth of processes

- Limited subprocesses outsourced; (typically seen in complex F&A processes such as FP&A)
- Moderate outsourcing of subprocesses; (typically seen in less complex RTR processes such as GA and taxation)
- End-to-end subprocesses outsourced (typically seen in transactional processes such as PTP and OTC)

Scoring guidelines | digital quotient maturity

Enterprises can leverage digital assessment guidelines to evaluate the current maturity of the digital landscape of their outsourcing engagement

Back to the framework

Guidelines to assess the digital maturity of the outsourcing engagement

Rate your digital sophistication

Rate the sophistication of your digital tools (automation, analytics, chatbots etc.) on a scale of 1 to 5, where 1 is basic digital tools with no/little cognitive elements and 5 is more leverage of cognitive components

Rate your digital landscape scale

Rate the scale of your digital landscape based on the number of deployments on a scale of 1 to 5, where 1 is low and 5 is high deployment

Determine the final score

Rate your digital quotient by taking the weighted average of the ratings obtained in steps 1 and step 2

Rating = 1 → **Rating = 5**

Sophistication of digital tools

- Robotic Desktop Automation (RDA)
- Basic dashboarding and reporting
- Simple FAQ bots / basic scripted chatbots

- Robotic Process Automation (RPA)
- Descriptive analytics
- Rules-based chatbots

- IDP and other AI-based solutions
- Dashboarding and reporting
- NLP chatbots

- Partial adoption of intelligent automation
- Predictive analytics
- Conversational AI chatbots

- E2E adoption of intelligent automation
- Prescriptive analytics
- Advanced AI chatbots

Number of deployments of digital tools

Limited deployments	Moderate number of deployments	High number of deployments[1]

1 The baseline for the number of deployments varies based on the enterprise industry and size

Scoring guidelines | transformation quotient maturity

Enterprises can use transformation assessment guidelines to evaluate the current maturity of the transformation landscape of their outsourcing engagement

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Guidelines to assess the transformation maturity of the outsourcing engagement

Rate your transformation initiative's solution model maturity	Rate your transformation initiative's technology model maturity	Determine the final score
Rate the extent to which transformation is implemented on a scale of 1 to 5, where 1 is limited/no transformation and 5 is organization-wide transformation as a part of the outsourcing contract	Rate the provider's ownership of the enterprise's technology landscape on a scale of 1 to 5, where 1 is limited/no ownership and 5 is full ownership and responsibility for maintenance of the enterprise's digital landscape	Rate the transformation quotient by taking the weighted average of the ratings obtained in steps 1 and 2

Scoring guidelines | pricing model maturity

Enterprises can leverage pricing model maturity assessment guidelines to evaluate the current maturity of the commercial construct of their outsourcing engagement

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Guidelines to assess the commercial maturity of the outsourcing engagement

Rate your pricing model

- Rate the maturity of the pricing model of your outsourcing contact on a scale of 1 to 5, where 1 is input-based and 5 is output-based
- Assign higher values to hybrid-based constructs and contracts that has some outcome-based elements

Rating = 1 **Rating = 5**

Input-driven:
- Time and Value Model (TVM)
- Transaction-based pricing models

Output-/Outcome-driven:
- Inclusion of gainsharing mechanism
- Outcome-based add-ons

Scoring guidelines | performance management maturity

Enterprises can leverage the performance management assessment guidelines to evaluate the current maturity of the performance management of their outsourcing engagement

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Guidelines to assess the performance management maturity of the outsourcing engagement

Rate your performance management

Rate the maturity of the mix of metrics contracted in your outsourcing contact on a scale of 1 to 5, where 1 is operational metrics and 5 is more outcome-based, business metrics

- PO processing timeliness AR posting timeliness
- Payment accuracy
- First-pass invoice yield
- Cycle time in days to prepare the financial forecast

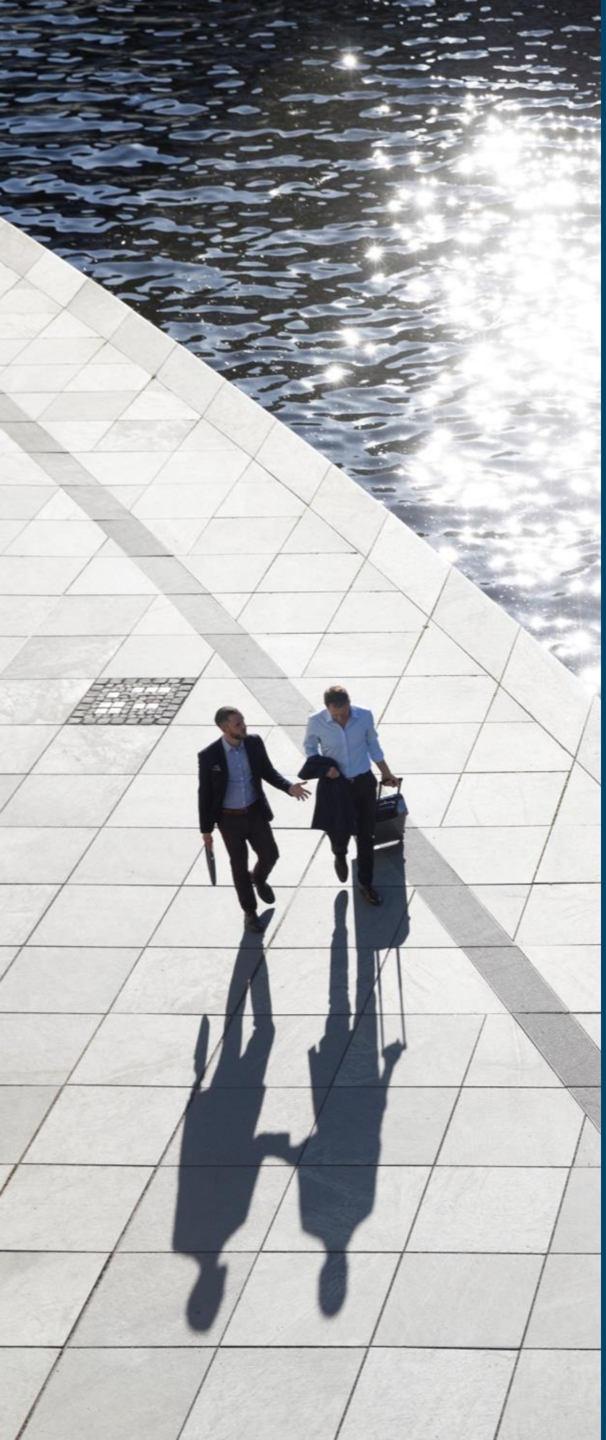
- DSO reduction
- Customer satisfaction
- Working capital improvement
- Days beyond terms
- Timely and accurate processing of fixed asset additions
- Percentage budget variance

Rating = 1

Rating = 5

Operational SLAs

Business SLAs



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