Everest Group RESEARCH

Finance of the Future

Driving Business Results Through a Finance & Accounting Orchestration (FAO) Model

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EGR-2017-1-V-2150

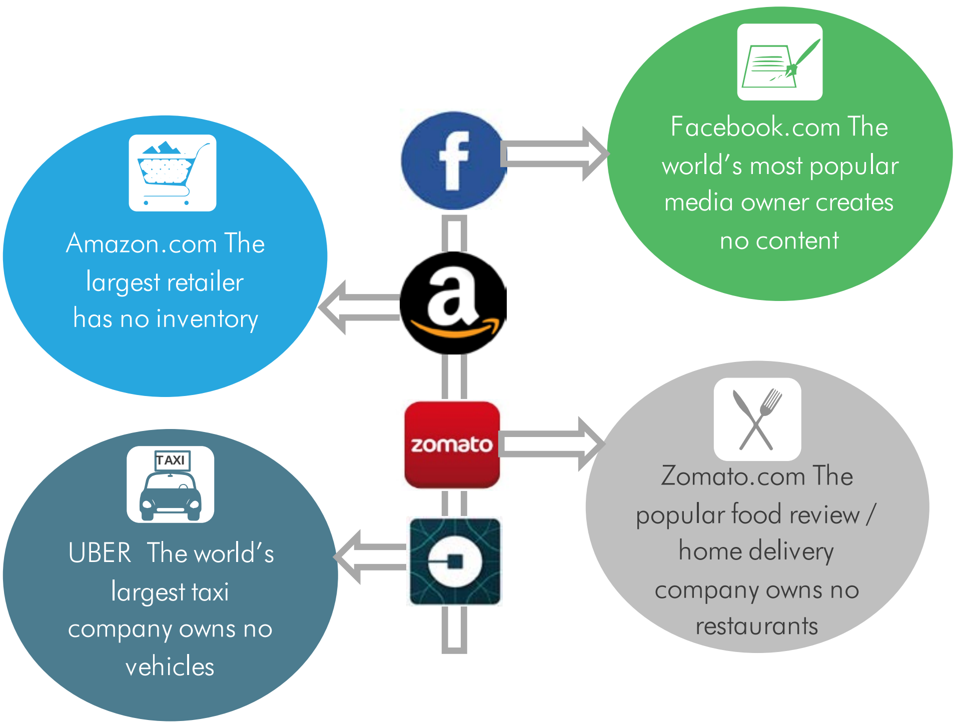
Introduction: An Unprecedented Era of Uncertainty and Disruption

The world around us is changing at a rapid pace. The global business environment is undergoing a transformation unlike any other, spurred on by economic, demographic, regulatory, and technological forces.

China's credit-to-GDP ratio has risen by 58% since the start of 2009, when banks pumped out a torrent of loans to fund the government's enormous stimulus program. In the recent years, the government has tried several times to rein in debt, only to back down when it became clear that deleveraging would be painful. This rapid rise in debt has many people worried that it is a ticking time bomb.

Recent political results around the world hint at the beginning of a trend toward localization over globalization. Many were caught off guard by the United Kingdom's vote to leave the European Union, including the financial market, which reacted swiftly and violently owing to the surprise. Financial markets are likely to calm down in time, but will find themselves settling into an entirely new realm of microeconomic and geopolitical uncertainty. Additionally, political change brought about by the presidential election in the United States may lead to a phase of de-growth and have potential ramifications for the outsourcing market in India.

Never has it been more important to be nimble than in these tumultuous times. Traditional asset-heavy corporations look slow and inflexible when compared to asset-light, innovative companies such as Amazon, eBay, AirBNB, and Uber; and demonstrating further proof of an aversion to physical assets, cloud services are here to stay as evidenced by Oracle's recent acquisition of NetSuite.



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Recessions, the rise of big data, and a general increase in complexity have all prompted CEOs to turn to their finance organizations for the navigation needed to survive. These forces are putting significant pressure on the office of the CFO to be more efficient, agile, integrated, and business aligned. In other words, to do more with less. Finance and accounting is expected to move beyond financial controls and compliance and become a strategic contributor by enabling business outcomes.

Finance Organizations Can Thrive in Uncertainty and Enable Disruption

The benefits of achieving "best-in-class" finance processes are profound for an organization. These organizations are typically able to deliver higher-value services at about half the cost of their average peers by redeploying their finance talent, transforming their service delivery model, and leveraging more effective technology capabilities. From an external perspective, these organizations typically enjoy higher customer satisfaction scores due to fewer billing issues and improved cash flows due to faster collection of receivables and slower disbursement of payables. From an internal perspective, they close their books in fewer days, deliver more accurate forecasts in less time resulting in better decisions, and are seen as trusted partners to the business. They have a clear understanding of how their work is connected to the company's overall strategic goals.

But how do we get from where we are today to what will be required tomorrow? How do we move our financial organization along the capability continuum in order to not only keep up with our high performing peers, but possibly leap-frog them into the future? Many organizations are still struggling with a month-end close that resembles a fire drill, reports that are too late, too difficult to understand and often done in excel, limited capacity or ability to track business metrics and perform root cause analysis and financial systems that are disparate and disconnected, oftentimes requiring manual rekeying of data.

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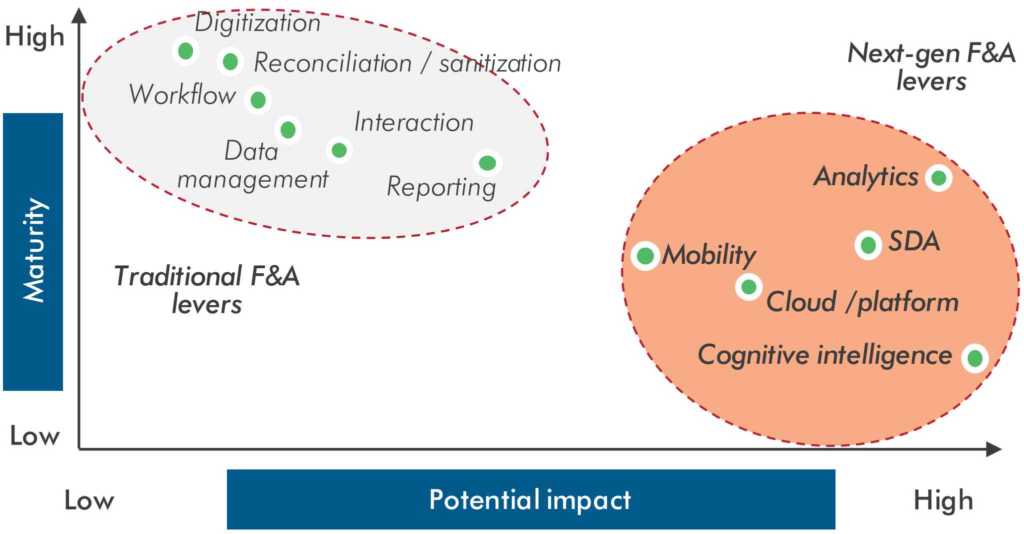
The New Value Creation Levers

Over the past two decades, many organizations have successfully used traditional levers of consolidation and global sourcing, either via outsourcing or global-in-house-centers or a hybrid of the two, to drive cost savings and productivity. However, to keep pace with the new world order and satisfy the ever-increasing demands of the business, it is imperative that organizations leverage new value creation levers that include Service Delivery Automation (SDA), analytics, cognitive intelligence, cloud computing, and mobility.

EXHIBIT 1

Key levers to create best-in-class F&A outcomes, traditional vs. next-gen

Source: Everest Group



These levers play a crucial role in creating the finance organization of the future. The value of each of these levers is explained in **Exhibit 2** below.

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EXHIBIT 2

Key next-gen F&A levers

Source: Everest Group

SERVICE DELIVERY AUTOMATION

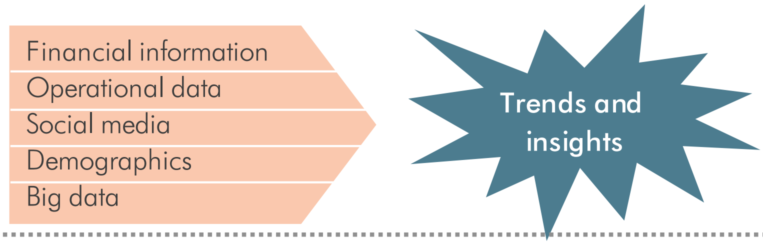
Automation is expected to replace **25-50% of F&A FTEs** in the next two to five years, with more to come as new automations develop.

Examples:

- More than **60% of invoice processing functions** can be replaced
- Approximately 70-80% of month-end processing is consumed by variation explanation, a significant portion of which can be automated

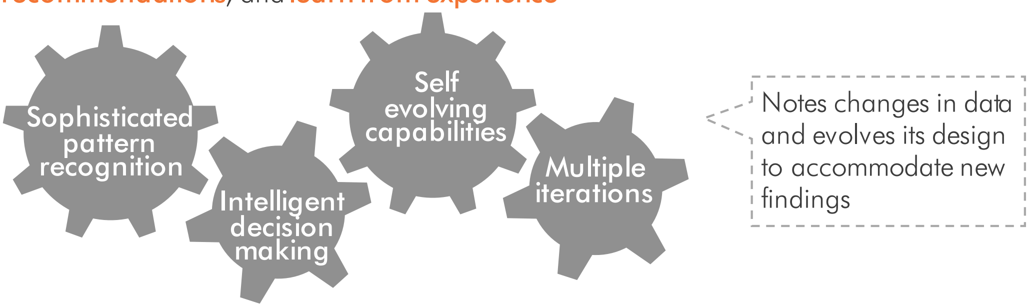
ANALYTICS

Analytics enable F&A to provide forward-looking, predictive insights that can play a part in improving business strategy and decision-making in real time and on demand.



COGNITIVE AND MACHINE LEARNING

Combines automation and analytics to **obtain information**, **find patterns**, **develop recommendations**, and **learn from experience**



CLOUD COMPUTING

The benefits of cloud computing range from **cost savings** to greater **flexibility** to **enhanced performance**

Traditional vs. cloud computing

	Traditional	Cloud
Acquisition model	Buy assets	Buy services
Business model	Fixed	Variable
Access	Internal network or intranet	Internet
Architecture	Single-tenant, static	Multi-tenant, elastic

MOBILITY

Real-time access to data improves **agility** and **efficiency**, enabling **quick decision making**.

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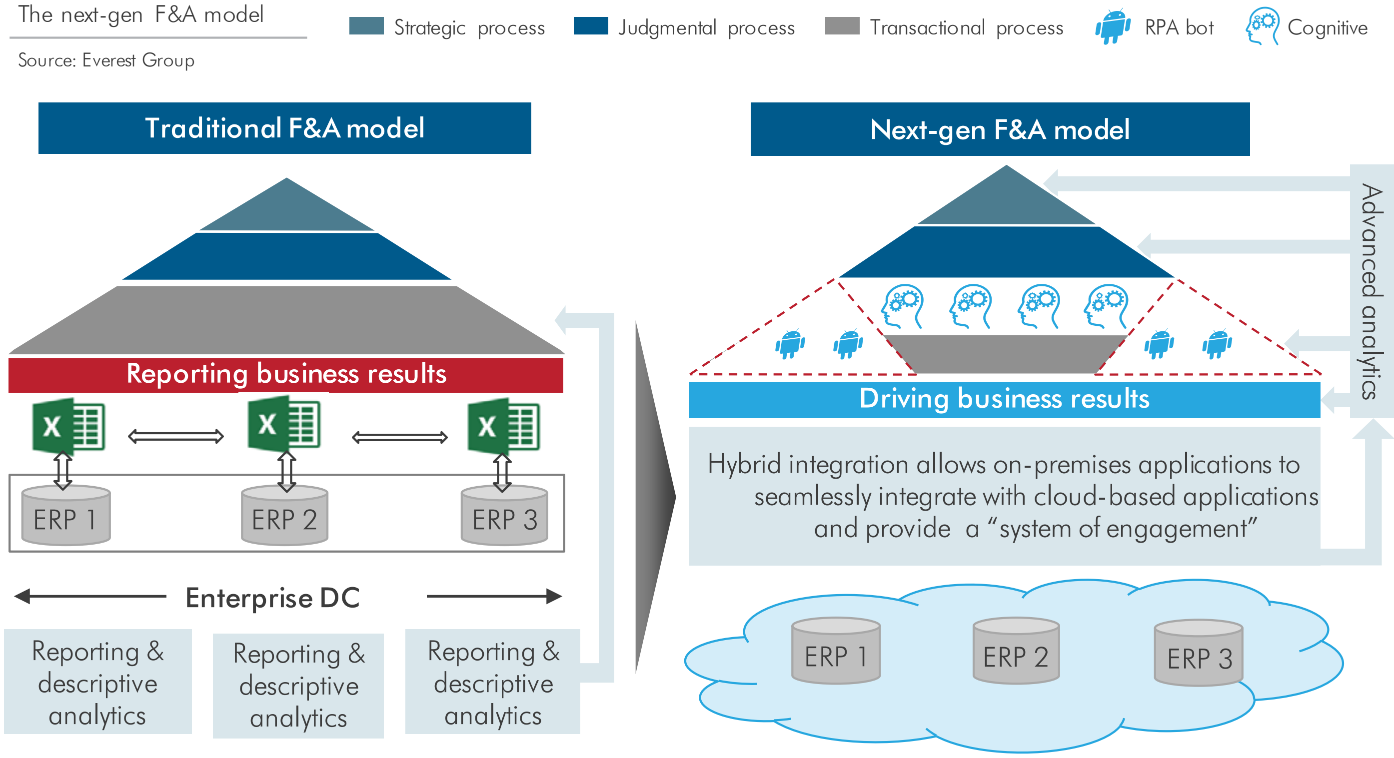
When you bring all of these capabilities together, it represents a shift from the traditional F&A model to the next-generation F&A model as shown below within **Exhibit 3**. The next-generation model brings together cloud-based technologies, RPA, and cognitive to eliminate inefficiencies, improve accuracy, enable better decision-making, and predict issues before they arise while prescribing a set of actions to mitigate potential damages. The traditional F&A model presents an environment where the most that can be achieved is accurate reporting of historical results, the next-generation model represents a shift to partnering with the business to help drive corporate strategy and produce results.

EXHIBIT 3

The next-gen F&A model

Source: Everest Group



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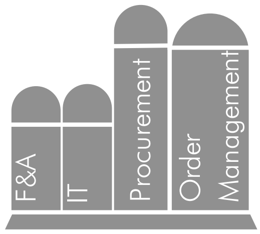
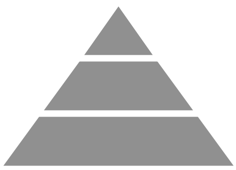
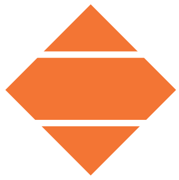
Capturing the Full Value Requires Fundamental Shifts

However, implementing these technologies in an organization that is not fully enabled to leverage them will quickly diminish their return. To take full advantage of the benefits of these new-age technologies, financial organizations will have to undergo fundamental shifts in the way they operate.

EXHIBIT 4

Revitalizing F&A

Source: Everest Group

	FROM	TO	VITALS
REENVISION THE F&A ROLE	Backward-looking Reactive Cost efficient	Forward-looking Proactive Strategic	Reenvisioning F&A requires several specific steps • Understand objectives • Define the path forward • Effectively manage change • Communicate clearly • Engage influential change agents
BREAK UP ORGANIZATIONAL SILOS		Procurement F&A  IT Order Management	Moving to the cloud makes Finance less reliant on IT, freeing time to collaborate on actionable business intelligence; better alignment with procurement and order management enables end-to-end P2P and O2C processes
RETHINK TALENT		Leaders Thinkers Doers 	Talent needs to transition from doers, who perform transactional tasks, to thinkers, who are capable of finding trends in data and making informed recommendations
REVISE LOCATION STRATEGIES	Low-cost High capacity	 Analytic capability Strategic thinking	Changing F&A capabilities drives changes in location strategy to find and attract employees with different skills and expertise
FOCUS ON BUSINESS OUTCOMES	MEASURING OUTPUTS 	MEASURING OUTCOMES Customer satisfaction Business performance	Initiatives and expectations are governed by measurable business outcomes, centered on extensive analytics-based insights and industry expertise, rather than costs savings

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Role of FAO in Paving the Way for the Future

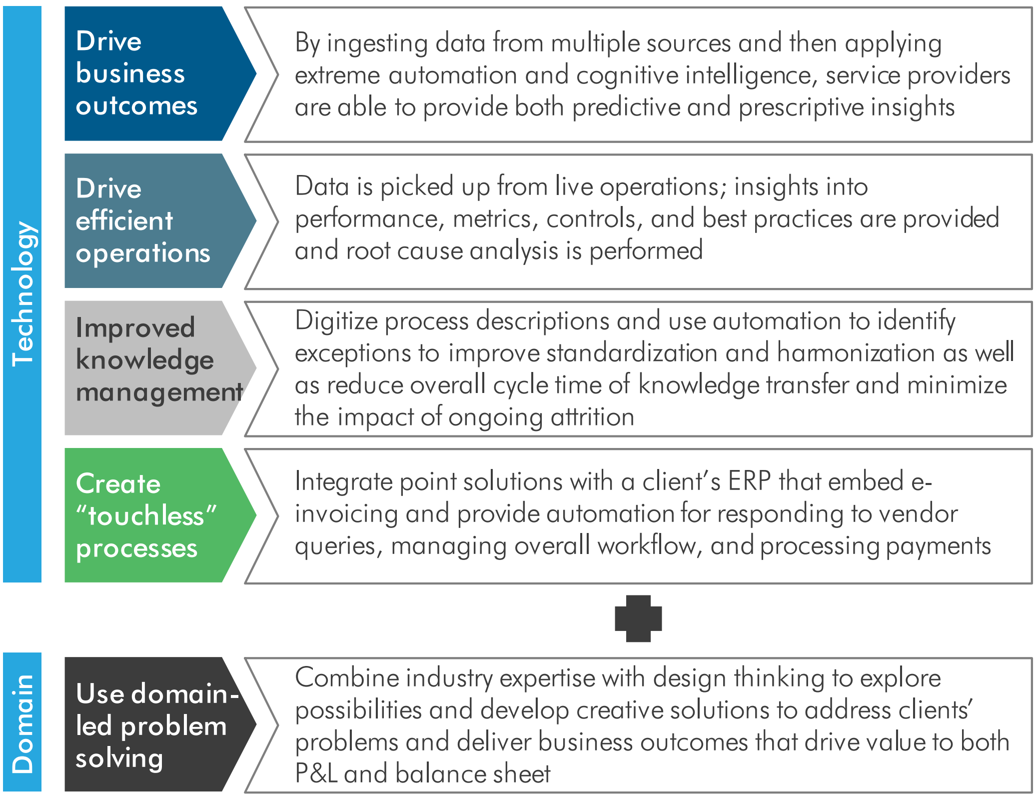
The benefits to a financial organization willing to embrace a new tool-set and a fundamental shift in how they operate are clear. However, for many organizations that are still struggling to provide reliable and timely financial reports, to find and retain qualified resources or to manage disparate data let alone analyze it, the path forward may be unclear. A third-party service provider can be invaluable in helping an organization achieve these benefits in an accelerated way. However, reaping the full benefit requires that an organization seek to partner with service providers that are both capable and willing to engage in a meaningful partnership.

F&A BPO is a mature offering and there are many providers to choose from. On the surface it may be difficult to distinguish one provider's ability from another, but there are some capabilities that differentiate the most proficient. Many are combining digital capabilities with domain expertise to create business outcomes and drive value for their clients.

EXHIBIT 5

Technology + domain expertise = best-in-class FAO

Source: Everest Group



Infact, outsourcing is quickly giving way to what we consider to be more accurately described as "orchestrating" and giving rise to FA<u>O</u> (F&A Orchestration). Today's buyers are looking to providers to improve the overall F&A experience. To meet this need, top providers are delivering consultative projects upfront that utilize design thinking methods to help their clients envision the art of the possible and then helping them to lay out a roadmap to get from current to future state.

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Once the processes are reimagined and transformed, the provider then layers on analytics and cognitive capabilities to provide actionable insights and deliver results.

Lastly, leading service providers are willing to put skin in the game by way of creative pricing models that tie pricing to their ability to deliver business outcomes. Outcome-based pricing models are based on results rather than use, and therefore, align the interests of both service providers and clients.

EXHIBIT 6

Pricing model evolution and pricing innovation

Source: Everest Group

Input-based	Output-based	Business-outcome
• FTE	• Transaction • Fixed	• Outcome based

- Benchmarked process – pricing based on the number of FTEs required to deliver defined volumes as opposed to lift and shift FTE pricing
- Zero-cost AP – outsourcing Source-to-Pay and offsetting the price of AP with the savings driven by sourcing
- Phantom FTE pricing – gainsharing excess savings achieved over agreed productivity
- S-Curve pricing – as volumes increase, the pricing declines
- Bundled services – driving increased savings by bundling IT with BPO

Aligning the interests of both the service provider and buyer drive the behavior necessary to deliver tangible and quantifiable results, results that impact not only the income statement, but the balance sheet as well, such as those described below:

Actual client pain point	Business outcome
Huge unreconciled account balances between trust and beneficiary accounts	• Reduction in cash risk of US$60 million • Improved controllership • Compliance with the licensing requirements of the business
Vendor payment terms negotiated by procurement were not standardized, which made it difficult to maintain adherence	• Improved cash flow of US$750 million • Interest cost savings US$1.6 million per annum (p.a.)
Vendor payment behavior not analyzed for trends and hence poor cash flow planning. Reliance on standard processes without validation	• Improved cash flow by US$138 million • Interest cost savings of US$130,000 p.a. • Changed the cash funding strategy
Over 50,000 tax payers were found with short payment defaults, totaling over US$900 million with default amounts exceeding US$1500 for each payer	• Reconciliation and recovery of US$78 million (reduction of 9%) • Awareness/education to the tax payers across the country
More than 120 vendor accounts had debit balances in their respective account, amounting to cash advances of US$6 million. Additionally the company had a significant amount of receivables greater than 90 days	• Recovered 97% of advances (US$6 million down to US$0.2 million) • Recovered 52%, or US$8.2 million, of receivables aged 90+ days • Reduced average A/R aging from 365 to 50 days • Delivered US$14 million in total value

Best Practices for Developing a Meaningful Partnership

Service providers must demonstrate their commitment to better business outcomes by making substantial investments not only in technology and resources, but in industry knowledge as well. Beyond building platforms and developing talent, leveraging industry knowledge and experience is the key to successful partnerships that translate into better business outcomes.

EXHIBIT 7

Best practices for building meaningful relationships with service providers

Source: Everest Group

SERVICE PROVIDER SELECTION

Key attributes to look for in a strategic partner service provider:

- Robust **technological** and **analytical** capabilities
- **Transformational** capabilities
- Commitment of the leadership, operations, and resources **specific to F&A services**
- Willingness to **put commercials at risk** with few caveats
- **Industry-specific** expertise

NATURE OF THE RELATIONSHIP

An outcome-oriented relationship that drives benefits throughout the finance organization and the enterprise as a whole is deeper than a traditional BPO relationship, and it requires organizations to treat service providers as **true strategic partners**. **Trust and mutual respect** are paramount and can only be established by transparency and effective communication.

CHANGE MANAGEMENT

Because outsourcing F&A significantly impacts the entire organization, a change management program is crucial to ensure a seamless transition. Effective transition is **done in phases** to ensure buy-in and allow mid-course correction. It includes **stakeholder education** on issues such as role changes and what to expect. Managing the natural human inclination to fear change will help support a smooth transition.

PERFORMANCE METRICS

Service provider performance should be monitored over the duration of the contract through **well-defined SLAs and KPIs**. To drive business outcomes, SLAs should be **tied to desired end outcomes**, such as improved working capital, and the FAO provider penalized for missing them.

An ideal performance tracking structure includes a set of **lean SLAs with severity weights based on the criticality of the desired outcome**. Other less important activities can be monitored by including them within KPIs that are tracked but not tied to pricing.

GOVERNANCE/ STAKEHOLDER MANAGEMENT

A robust governance framework is essential to effective service provider relationship management. Best practices dictate establishing a **three-tier governance framework** that includes members from both parties who meet regularly to review service provider performance and discuss issues and challenges. One person should manage the relationship and serve as the single point of contact for the client.

Governance should be divided into the following three tiers

- **Operational:** Ensures day-to-day operations run smoothly and in compliance with regulations
- **Executive relationships:** Drives the overall direction of the partnership and establishes goals and strategies
- **Innovation and transformation committee/board:** Ensures that the most recent tools and technology are in place

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Conclusion

In conclusion, the future of finance looks bright for organizations willing to embrace new technology and make fundamental shifts in the way they operate. In the not-so-distant future we are likely to see F&A organizations, where there are more robots than accountants, and cross-functional teams work together alongside data scientists to enable better decisions and support effective operations. Technology is paving the way for finance to become a partner to the business, to make recommendations that drive business outcomes rather than just report historical results. We are increasingly seeing the convergence of the CFO and COO role, making the CFO’s role more important and strategic, than ever before. The benefits are clear, but the journey to get there is not always easy. Using a third-party service provider that is both capable and willing to partner in a meaningful way to “orchestrate” multiple pieces and deliver outcomes can oftentimes increase the speed to value of the investments required to build a “next-generation” finance organization.

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About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

This study was developed with contribution from Infosys.

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