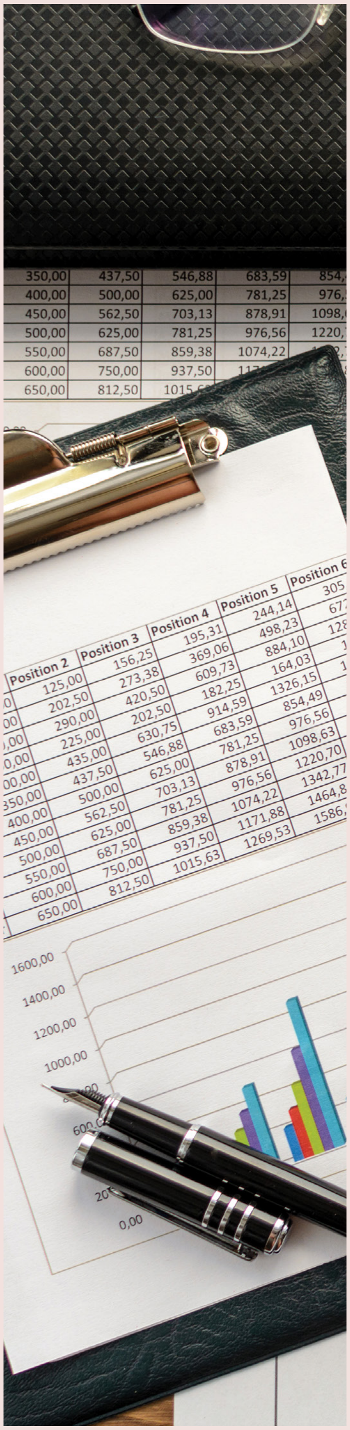
CASE STUDY



OVERCOMING ECONOMIC TURBULENCE IN APAC VIA 3-IN-1 OUTSOURCING

Abstract

Two strikingly contrasting trends — a decelerating economic landscape and an explosion of new age technological solutions — are challenging finance leaders

(chief financial officers, finance heads, controllers, etc.) of the Asia Pacific (APAC) region like never before. As the digital era invades the corporate services sector of all industries, finance leaders can derive significant advantages through the adoption of three new technology trends that will help streamline operations, optimize costs, and enhance decision making. This white paper discusses why APAC's finance leaders are on the cusp of change and details a solution to navigate such economic trends.

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As China's economy tilts sharply towards a single digit GDP growth, alarm bells are ringing not just in China and Asia, but across the globe. The downturns in the Chinese stock market, housing sector, and industrial productivity are decelerating Asia Pacific's (APAC) economic prospects for 2016 through 2018. And economic upheavals in other parts of the globe, such as Brexit, and political updates such as Donald Trump's win in the US presidential elections, are aggravating the region's market volatility.

Thankfully, not everything is bleak. In the midst of such economic gloom, APAC is welcoming the stratospheric rise of smart technologies and their en masse adoption. Growing use of mobile technologies, e-wallets, digital ledgers, and innovative digital services such as Uber are helping to project a bullish outlook for the region.

CFOs must think big

As APAC braces itself for economic fluctuations, enterprises in the region must work under a tight rein to reduce costs, improve liquidity, and minimize risk. This means that a new wave of finance leaders must emerge who look beyond the typical approach followed, which includes:

- Cutting budgets as the only approach to financial success
- Limiting investments to just traditional solutions that do not address current market trends
- Concentrating only on established financial hubs for new business opportunities
- Depending on in-house experts to unearth tremendous cash flow savings
- Having a limited view that only multimillion dollar projects which span multiple years, and turn the company upside down, can help them

Once upon a time, outsourcing within Asia was unthinkable

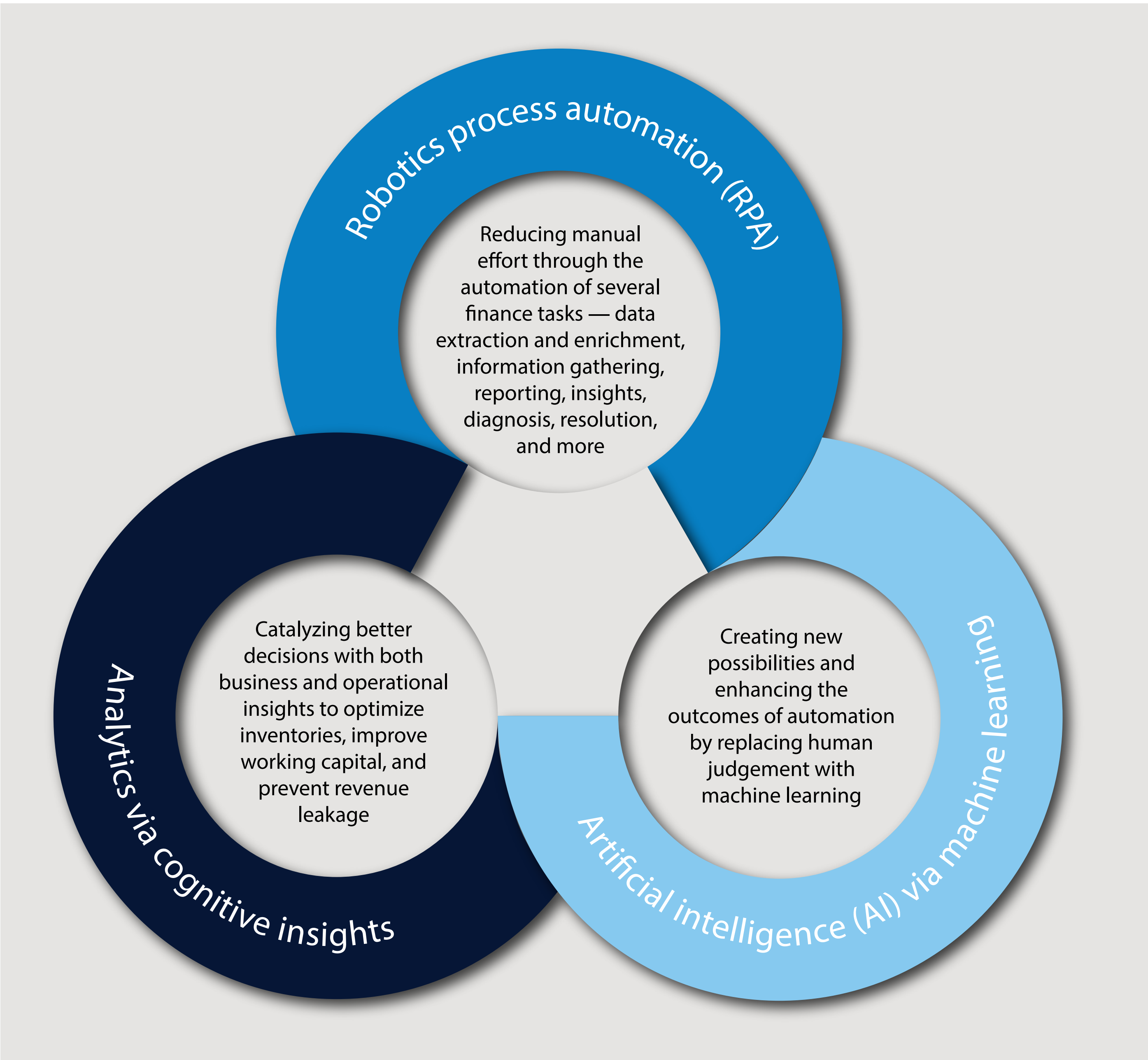
How do finance leaders course-correct the trajectory of their finance function that is diverted by global forces? This is a timeless question that many finance leaders in America and Europe have addressed through established outsourcing models. The western world's finance leaders opted for these on the premise of labor arbitrage and year-on-year productivity improvements, and it has yielded positive results.

However, their counterparts in APAC did not follow suit. Even in the face of macroeconomic headwinds, finance leaders in APAC have not seen value in conventional offshoring-based outsourcing. The business case for such traditional outsourcing has not stacked up, given the following:

- Lack of labor arbitrage: Countries such as Malaysia, Vietnam, Thailand, Indonesia, India, and China have cost-effective labor to manage functions such as accounts payable, accounts receivable, etc.
  In many cases, the business case is negative, i.e., India-to-India or China-to-China outsourcing ends up with a negative business case
- Language diversity: Managing language diversity could be a challenge, especially if enterprises have in-country finance functions that manage all finance operations — procure-to-pay (P2P),
  order-to-cash (O2C), record-to-report (RTR), financial planning and analysis (FP&A), budgeting, and forecasting
- Inconsistent enterprise resource planning (ERP) landscape: Multiple ERP instances could be a challenge in outsourcing. As different countries work using diverse systems, consolidation becomes near impossible. And without a single system running across all regions, outsourcing is more or less ruled out

Three fresh concepts are breaking the stereotypes

The evolution of some new technologies has ushered a positive change into APAC's finance landscape. Three new concepts are gaining rapid momentum. These concepts can help stitch a process end-to-end, thus, minimizing the impact of scattered F&A operations across multiple countries. They also make it possible to introduce technology without disrupting underlying systems and thus make extreme automation viable even if a single system doesn't exist across the landscape. Finally, these concepts enhance business value through insights and analytics and thereby minimize the labor arbitrage disadvantage inherent to this region. These three concepts are depicted below.



Three concepts breaking the outsourcing stereotypes

The need of the hour in APAC: 3-in-1 finance outsourcing models

While these three concepts (RPA, AI, and analytics / insights) have been around for a couple of years now, they have gained momentum and are now available on one single platform. However, organizations must try and opt for a single vendor, as research indicates that multiple vendors often cause duplication of activity, poor coordination in operations, haphazard knowledge sharing, and redundancies. In order to avoid such loopholes, APAC's finance leaders and business process management (BPM) service providers are redefining their strategies.

This explains the meteoric rise of finance and accounting (F&A) BPM service providers who offer bundled solutions. What's more, the trend of single outsourcing partners who offer cutting-edge solutions across the three technologies of RPA, AI, and analytics is gaining traction. Enter 3-in-1 outsourcing models.

While outsourcing organizations have the people, process, and technologies to drive successful 3-in-1 models, finance leaders must govern such partnerships through clear expectations on outcomes. Subsequently, outsourcing models are being redefined to focus less on full-time employees (FTEs) and more on outcomes. For instance, at Infosys, the success of such partnerships with finance leaders is governed by outcomes such as:

- Reduction in the cost of the finance function by 200 basis points in 18–24 months
- Optimization of working capital through:
    - Redu®ction in day sales outstanding (DSO) by 'X' number of days*
    - Optimization of day payables outstanding (DPO) by 'Y' number of days*
    - Analysis of insights to achieve 75 percent higher debt collection success rates
- Reduction in period close timelines by 50 percent with an insights-driven, period-end closing with zero post-closure adjustments

Why the 3-in-1 outsourcing model is the APAC CFO's best bet?

For finance leaders who are on the cusp of transforming their finance functions, opting for the 3-in-1 outsourcing model provides the following compelling advantages:

- Streamlining of the end-to-end finance process: By leveraging extreme automation with artificial intelligence, organizations can gain from upfront productivity increase and offset disadvantages of 'no labor arbitrage'
- Smart pricing models: New-age service providers have versatile commercial models, which make hefty one-time investments and fixed-price rates redundant. Instead of a traditional outsourcing arrangement where X roles are transferred offshore to be managed by 0.7X resources, finance leaders can now finalize the top four outcomes and let service providers figure out how to achieve these outcomes, i.e., number and region of service delivery centers, appropriate delivery models (onshore, offshore, nearshore, etc.), technologies, and more
- Consolidation of Southeast Asian operations: Using the 3-in-1 platform, finance leaders in APAC can consolidate their Southeast Asian operations through a single service provider through shared service centers or delivery centers
- Increased accuracy in decisions: A single service provider can offset in-house challenges such as isolated operations
  and shortage of expertise to derive valuable business insights for finance leaders in a timely manner
- Better compliance: Finance teams can reduce the burden of keeping up with changing regulations by outsourcing compliance to get real-time alerts and suggestions for corrective action to avoid surprises during internal and external audits

* The number of days is dependent on current DSO and DPO baselines. For 'unhealthy' clients it could be >10 days and for reasonably stable clients it could be in the 1–5 day range.

How can finance leaders govern such change?

Many finance leaders offload the success of the outsourcing model to service partners. As a rule of thumb, they must do more and manage the partnership through these three Cs — Clarity, Comprehension, and Command:

- Clarity: Medium- to long-term initiatives must be clearly marked out and an approval from key stakeholders must be pocketed, if they want to avoid a bumpy outsourcing ride
- Comprehension: A number of individual experts can provide valuable insights into process optimization, technology augmentation, analytics, and more. Finance leaders must actively seek expert advice to understand the nitty-gritties of the process
- Command: A core team that controls the journey of such projects with a clear mandate to achieve tangible business outcomes

Case in point: Infosys capabilities in transforming APAC's financial landscape

Infosys has worked with multiple organizations in driving such 3-in-1 transformations. One such client is a global leader in electronics. We partnered with this organization to optimize its operations through RPA, AI, and analytics. The following lists the primary business outcomes of our partnership:

- Completed 27 projects in 18 months to help achieve €40 million in savings
- Reduced the cost of the finance function from 4.5 percent of revenue to 1.51– 0.8 percent of revenue
- Improved timeliness of payables by more than 85 percent
- Enhanced quality and timeliness of the month-end closing process

Conclusion

The finance functions of organizations in the APAC are on the cusp of a great change catalyzed by the deluge of digital technologies and the unstable economic landscape. Forward-looking finance leaders would reap most benefits from this change by partnering with a single F&A BPM service provider with proven capabilities in the three cutting-edge technologies of RPA, AI, and Analytics. Moreover, the success of such a partnership would depend on how these leaders play the primary role in the relationship – laying out a road map upfront that clearly defines expected business outcomes, proactively managing progress, and clearing roadblocks along the way.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Saleem Ahmed is the Infosys Finance Transformation Lead in APAC. He is based in Singapore and has over 14 years of experience working with CFOs in transforming their finance function via consolidation, process improvement, automation, and insights.

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