Finance and Accounting function outsourcing analysis
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Today’s realities
Today’s realities (1/2)

Finance functions are under significant pressure to drive productivity improvements and maximize the ROI of the organization’s resources and capabilities.

Demands
- Investors
- Company Strategy
- Internal Customers
- Competitive Pressures
- Regulators

Trends Impacting Finance Functions
- Business Performance
- Management and Predictability
- Cost Focus
- Risk Management
- Earnings Transparency
- Adaptability

Value of Finance

Cost of Finance

= Finance ROI
Having a clear vision of how finance and accounting function should support the business is critical.

Today’s realities (2/2)
Major global trends in the finance and accounting function
What should be within Finance and Accounting?

- Finance and Accounting (F&A) account for business activity as opposed to undertaking it - but it should be process focused rather than create transactions.
- F&A support decision making – but is not the decision maker.
- F&A focuses the business on long term profitability and shareholder value - but the business is responsible for making it happen.

What are the main trends?

- Smaller finance and accounting function (cost of Finance Function moving towards 0.4% of revenue)
- Shifting emphases from 75% Transaction Processing and 25% Decision Support, to 25% Transaction Processing and 75% Decision Support.
- Decentralise Decision Support and integrate with business team.
- Create shared services or outsource transaction processing.
- Create centre of excellence for tax and treasury.
- Organise around the processes and outcomes:
  - Revenue Cycle
  - Expenditure Cycle
  - General Accounting and Reporting
  - Profitability and Cost Management
  - Tax management
  - Treasury Management
Trends in F&A Function (2/2)

• Smaller Finance Function challenging against best practices.

According to the best practices, companies which incur high revenues, operate the finance and accounting function at a cost that is only a small percent from the revenue and require up to seven times fewer full time equivalent staff (FTEs) within the finance function than an organisation with smaller revenues.

• Focus on value creation and business performance enhancement:
  ✓ focus finance on its internal business customers.
  ✓ develop business analysis and communication skills.

• Strengthen role in shareholder value creation and decision support. The major elements include:
  ✓ lead the organisation in developing a shareholder value in decision making.
  ✓ build business adviser relationships with the business units.
  ✓ provide additional decision support capacity within treasury and tax to capitalise on their high impact on shareholder value.
  ✓ build stronger linkages between treasury and tax.
  ✓ support a centralised financial strategy capability seeking internal and external major opportunities.

• Strengthen control of policy and standards through:
  ✓ deliver greater control of policies and standards.
  ✓ provide stronger control over balance sheet assets.
  ✓ centralise business planning cycle to ensure consistency of planning.
  ✓ control standard cost concepts, tax and treasury.
Why do companies outsource?
Benefits of outsourcing (1/2)

**Financial**
- Generates shareholder value:
  - Up-front premium
  - Cost reduction
  - Economies of scale
  - Fixed to variable cost
  - Release of capital

**Technological**
- Scaleable platforms
- Facilitates greater systems development and infrastructure upgrades

**Strategic**
- Focus on core competencies
- Better morale
- Defined service standards

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Benefits of outsourcing (2/2)

Outsourcing finance and accounting function plays a central role in the business transformation:

- Catalyst for change
- Source of skills:
  - Transformation and other specialist skills
  - Secure existing skills
- Delivery of financial benefits:
  - Deliver lower cost base
  - Share / pass on attrition risk
  - Secure investment commitment
  - Share / mitigate one off costs
  - Secure underwritten economics
What do companies outsource?
It Depends...

- Company Risk Profile
- Strategic Aims & Objectives
- Prior Exposure to Outsourcing
Light Option

Only low risk, manually intensive, transactional processes are considered for outsourcing.

Typically Includes:

Transaction management functions such as order-to-cash, purchase-to-pay, etc.
Regular Option

Extended scope of processes considered for outsourcing including reporting and compliance functions.

Light Option

+ 

  • Business risk functions such as treasury and tax.
Deluxe Option

All finance sub processes below CFO and core strategic functions are eligible for outsourcing.

Regular Option

+  

• Business support functions such as management reporting, planning & forecasting etc.
Insights from 2012 global outsourcing survey
Which option best describes your company’s current and future sourcing plan for the following business functions?

- The expected future state of all business functions shows an increase in outsourcing.
- Finance and Human Resources functions are expecting the largest percentage increase in outsourcing activity.
- Information Technology led all functions categories with a combined 76% of respondents partially outsourcing the function.

Source: Outsourcing, today and tomorrow - Insights from Deloitte’s 2012 global outsourcing and insourcing survey
What factors/components do you feel are most critical to a successful outsourcing relationship?

- The ability to partner and clearly communicate expectations are the most important success factors to respondents.

- Contracts and the joint client/outsourcing company management team are generally seen as somewhat important, but ineffective without the other key components.

Source: Outsourcing, today and tomorrow-Insights from Deloitte’s 2012 global outsourcing and insourcing survey
How effective is the management of your outsourcing service provider company organization/function in meeting the following objectives?

- While most respondents believe their internal organizations are competent across all dimensions, several areas stand out for improvement.

- Generally, the management of the outsourcing services providers organizations are viewed as being effective at “transactional services”, but fell short when it came to more strategic, “advisory services”.

Source: Outsourcing, today and tomorrow-Insights from Deloitte’s 2012 global outsourcing and insourcing survey
What were the objectives of your most recent outsourcing initiative?

- Reduce operating costs is chosen as very important by the most respondents.
- The next important factor is improved customer service, demonstrating there are more drivers to outsourcing than just cost reduction.
- Overall, actual cost reductions through the most recent outsourcing experience are lower than expected with 53% of respondents anticipating significant savings (greater than 10% cost reduction), while only 42% experienced significant cost reductions.

Source: Outsourcing, today and tomorrow-Insights from Deloitte's 2012 global outsourcing and insourcing survey
Did the most recent outsourcing experience live up expectations?

• Most respondents (76%) are either extremely satisfied or satisfied with their most recent outsourcing initiatives.

• Underestimating scope is the most often reported problem with most recent deals, followed by outsourcing service providers being unable to meet service levels.

Source: Outsourcing, today and tomorrow-Insights from Deloitte’s 2012 global outsourcing and insourcing survey
How TPG can help you?
TPG provides a holistic view of benefits derived from F&A outsourcing

Promote a holistic view of outsourcing benefits, which includes base costs plus better practices and accounting and finance management

Main cost of the finance and accounting function:

- Employees’ cost
- Processing cost
- F&A applications
- IT infrastructure
- Facilities
- Telephony

Better accounting and financial practices.

Quantifying the additional business benefits, for example:

- Avoiding duplicate invoice payments.
- Collection and applying cash more efficiently.
- Capitalizing on negotiated discounts.
TPG can provide professional accounting and finance services for F&A processes

TPG offers cross-functional processes for free which can ensure a smooth outsourcing and high quality services:

- Finance and accounting procedures and controls aligned with global best practices.
- Adequate systems and tools.
- Highly specialized personnel.
Thank you!