



## Next Wave In the BPO Tide

BY MICHAEL GANT

Finance and accounting outsourcing has come of age as the top deals of 2003, which are chronicled here, fully attest. Known as F&A BPO (business process outsourcing), or just FAO, this BPO segment is following the same evolutionary pattern as HRO did before it. As HRO continues to develop, FAO is taking its place as the next major development in the trend toward function-specific BPO industry segments.

Before BPO, there was information technology outsourcing (ITO)—an industry that has been developing for more than a decade and has now become mainstream. In ITO, the tool (that is, technology) is the focus. ITO is all about data centers, hardware, software, and millions of instructions per second (MIPS). BPO is about the domain (e.g., human resources, finance, and accounting)—that is, it's about the processes and the people and technology necessary to execute and improve them. In ITO, the tool is primary and the domain is secondary. In BPO, it's the opposite. As Greg Gould of Goldman Sachs has said, "BPO is the evolution of traditional data-center outsourcing into a more comprehensive service offering."

The first domain to be successfully addressed by a BPO industry was HR. Exult has been the company that defines the industry for HR BPO. As the *Wall Street Journal* said earlier this year, "When Exult, Inc. was created in 1998, the founders were banking on the belief that big corporations could be persuaded to loosen the apron strings and outsource the most mundane human-resources tasks to outside contractors. After 4 years, the gamble may be paying off." *HRO Today* magazine and the HRO World Conference are ample evidence that HR BPO, specifically, and BPO in general, are no longer mere theories—they are

accepted and growing parts of the business landscape.

FAO is similarly establishing itself as a main choice for successful companies. Mark H. Chairman and Founder of EquaTerra, and many call "the father of BPO," expects 2004-2005 to highlight the end of the "early adopter" phase of BPO and the beginning of more widespread adoption by progressive corporations. He notes, "To date, Payroll, T&E, A/P, A/R, and Fixed Asset Reporting have been outsourced on an a la carte basis. However, comprehensive FAO relationships, such as those of GM and BP, will become more frequent."

Other industry observers agree with the assessment that FAO is ready for prime time. Rebecca S. is a widely followed BPO analyst for Gartner Group and she expects that "FAO will be the next big wave of BPO adoption. Although the number of large companies is quite small, the combination of new technology tools and the rollout of global delivery models will fuel growth, leading to an \$18B market in 2007."

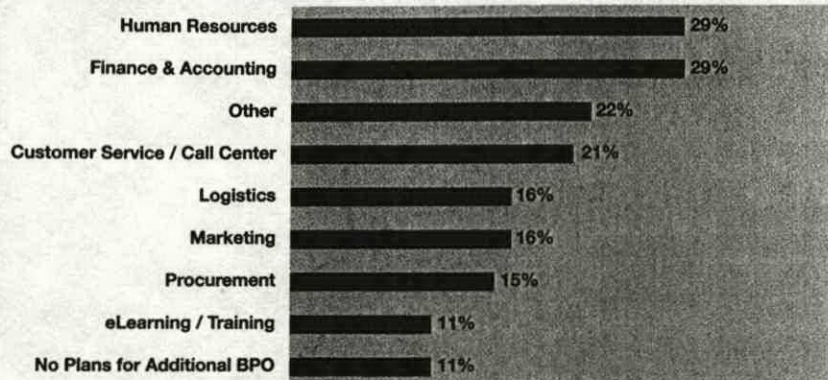
Sizing of the market by analysts can vary substantially depending on how FAO is defined and delineated from other BPO spaces such as HR and Procurement. Payroll, for example, is a common point of contention—is it HR or F&A? No matter, however, is pegging FAO as a small market.

Service providers fall into three general categories. First, there are the generalists—that is, companies who perform FAO in addition to other kinds of outsourcing. This includes consulting firms such as Accenture and ITO stalwarts, such as Next. Next, there are specialist providers such as Cre or Equitant who focus on a particular aspect of finance and accounting. In between would be

that focus exclusively on F&A but comprehensively on all aspects of it, such as Ephinay.

The first wave of BPO, HRO, has made a huge splash. The next wave, FAO, is about to crash the beach as well. In the words of industry observer Lisa Ross, "Finance and accounting functions are expected to be the most widely outsourced business processes for the near future (see graph). In addition, over one quarter of senior executives at firms surveyed from around the world believe the anticipated timeframe for outsourcing these processes is within the next twelve months." **HRO**

### BUSINESS PROCESSES ANTICIPATED TO BE OUTSOURCED: ALL FIRMS RESPONDING



## Top Finance & Accounting Outsourcing Deals of 2003

F&A outsourcing began with managing traditional F&A department processes, but is now moving into high-volume transaction processing, and becoming a business utility that is transforming the way companies and entire industries do business. A good example is the Unisys check processing operation for a consortium of leading banks in the United Kingdom where it handles over 70 percent of the country's check volume.

— Joseph Vales, Senior Partner,  
Vales Consulting Group

FAO BUYER	SERVICE PROVIDER	CONTRACT SIZE (IN USD MILLIONS)	LENGTH OF CONTRACT (YRS)
Air France	ACS	\$50	ND
Provider responsible for handling passenger revenue accounting processing.			
AT&T	Accenture	\$500	5
Responsible for handling risk management and collections.			
Barclays and Woolwich Life	Liberata	\$332	ND
Responsible for handling policy administration for the closed life assurance portfolios.			
BC Hydro	Accenture	\$1 Billion	10
Contract covers broad range of BPO, including financial management, procurement, disbursements, HR, IT, CRM, and facilities management.			
Blue Cross Blue Shield Rhode Island	Perot Systems	\$570	10
Managing cash disbursements, claims, and document services.			
City of New York	American Management Systems	\$156	7
BPO contract to operate and maintain the city's parking violation data processing system. Manage the end-to-end process, including systems/software, data entry lockbox transactions to ensure daily payment updates, and customer accounting.			
Desjardins	CGI	\$148	10
An extension and expansion of original 1997 contract. The expansion part involves the companies' joint marketing of payroll services offering to expand their reach.			
Gateway	ACS	\$400	ND
Part of a larger BPO deal (including IT and HR support), F&A responsibilities include benefits processing, payroll, and expense processing.			
HBOS plc	Intelligent Processing Solutions Ltd	\$140	10
IPSL, the Unisys subsidiary formed with bank partners Barclays, Lloyds, TSB, and HSBC, manages check clearing and remittance processing.			

## TOP F&A DEALS

FAO BUYER	SERVICE PROVIDER	CONTRACT SIZE (IN USD MILLIONS)	LENGTH OF CONTRACT (YRS)
<b>Lucent Technologies</b> Responsible for accounts receivable.	<b>Equitant</b>	ND	ND
<b>Malayan Banking Berhad</b> Provides check-clearing services for Maybank, the nation's largest financial institution.	<b>Unisys</b>	\$26	4
<b>NCR</b> Contract covers AP, AR, and general accounting labor.	<b>Accenture</b>	ND	ND
<b>Neptune Orient Lines</b> Handling transaction-based finance functions including AP, AR, and accounts reconciliation processes.	<b>Accenture</b>	\$90	8
<b>Northern Arizona Healthcare</b> Transforming the health system's operations through the implementation of advanced clinical and financial applications.	<b>Perot Systems</b>	\$62	10
<b>O2</b> Contract covers AR, fixed assets, ledger services, AP, purchase and procurement, supply chain and inventory management, project accounting, cash management, business expenses, payroll, and business reporting.	<b>Xansa</b>	\$34	5
<b>Office Depot</b> In addition to HRO functions, contract covers billings.	<b>Convergys</b>	ND	5
<b>Premier Inc.</b> Extension of previous contract to improve management and HIPAA compliance, as well as billing insurance solutions.	<b>Xerox</b>	\$170	3
<b>RAMS Home Loans</b> Manage mortgage processing for Australia's second largest non-bank mortgage originator.	<b>Unisys</b>	\$80	7
<b>Royal &amp; Sun Alliance</b> Manage the processing and administration of more than 2.4 million life insurance and pension policies.	<b>Unisys</b>	\$450	10
<b>ScotiaBank</b> Manage all check and bill payment processing including, check clearing, exceptions, charge-backs and tracing services, as well as associated statements, and report printing.	<b>Symcor</b>	\$1.1 billion	12
<b>Southern Company</b> BPO agreement to manage customer care and revenue cycle activities, including billing, collections, and contracts.	<b>Accenture</b>	\$80	7
<b>State of Illinois</b> BPO contract to provide child support payment processing services, including receipt processing, payment disbursement, IT, and project management.	<b>ACS</b>	\$109	3.5
<b>Telecom Italia</b> In addition to handling payroll for Telecom Italia, Accenture will acquire TESS, Gruppo Telecom's payroll services company for approximately \$8 million.	<b>Accenture</b>	\$200	7
<b>US Dept of Education</b> IBM was hired to modernize and centralize procurement, accounting, and financial management systems and processes. Under the contract, they manage financial systems and processes including procurement, accounting, budgeting, grants management, payment collection, travel, and processing.	<b>IBM Global Services</b>	ND	ND
<b>Vivendi/Universal</b> Covers payroll, AP, and other accounting functions.	<b>Exult</b>	\$60	10
<b>Washington Mutual</b> Hosting and managing a new check processing operation that makes it possible to capture check images and transaction tickets in house. Additionally, Unisys will create and staff regional processing centers to handle item processing.	<b>Unisys</b>	\$400	7

ND indicates not disclosed; AP, accounts payable; AR, accounts receivable.

Information was developed based on research by Ephinay, HRO Today, and Vales Consulting. Deals listed occurred within 12 months of press time (October 2003.)

F&A outsourcing is becoming more industry-specific to meet the specialized accounting needs of different industries and to generate business value. For example, claims processing for insurance companies, mortgage/loan processing for banks, and passenger revenue accounting for airlines. F&A service providers must have vertical industry knowledge to compete successfully.

— Gilbert Parker, Director,  
Vales Consulting Group

Outsourcing the financial aid function has enabled us to focus our financial resources and management efforts on growing the business and improving the student experience, not on managing the back office.

— Senior VP of Student Finance,  
Career Education Corporation