

GOING AWAY

After years of tepid interest, US and European CFOs are finally embracing finance outsourcing.

By Randy Myers

Frank Cocuzza's first visit to an outsourcing vendor in India seven years ago left him intrigued but not ready to jump. "Nice story," the senior vice president of finance for Penske Truck Leasing recalls thinking. "But we weren't going to trade our processes for a nice story." Eighteen months later, Cocuzza flew back for a second look, stuck around for a five-day visit, and left dazzled. The vendor's 600-person workforce had swollen to 3,000, service offerings had been expanded, and best-practice processes were in evidence everywhere.

"We came away so impressed with what they had built that we realized we needed what they were doing," Cocuzza recalls. He soon began shipping bits and pieces of his finance operation to the outsourcer, which was then a subsidiary of General Electric but is today an independent company operating as Genpact. It now handles some 40 different finance processes for US-based Penske, including collections, various accounting and financial-reporting activities, and even on-demand data analysis for the business units.

Penske's experience mirrors that of a growing number of US and European companies (Asian companies have been far slower to outsource finance, an issue we'll address next month). TPI, a US-based outsourcing advisory firm, says that while the total value of business-process-outsourcing contracts signed in 2006 was down for the second consecutive year, the total value of outsourcing contracts for finance services nearly doubled. Don't look for the latter trend to end anytime soon. US-based consulting firm The Hackett Group predicts that over the next three years the overall percentage of US finance costs that are spent on outsourcing will double from an admittedly low 4% to 8%.

Two factors are behind the rise in finance and accounting outsourcing. First, cost pressures continue to drive companies to take advantage of cheap labor in developing countries like India, Poland, and China. Depending on how efficient a company's finance operations are to begin with, net cost savings can reach 20% to 40%. Susan O'Day, chief information officer and vice president of global shared services for US\$17.9 bn Bristol-Myers Squibb, says that just 18 months into a finance, accounting, and information-management outsourcing agreement with Accenture, her company is realizing about a 30% return on its investment, in line with expectations.

Second, as outsourcers refine their capabilities and processes, companies want to take advantage of the productivity and quality improvements outsourcers can offer. "For us, the cost of labor arbitrage was secondary," Cocuzza says. "It's there, but the primary goal has been to improve what we do." So, while Cocuzza is happy to acknowledge the US\$20m a year he is saving on labor by outsourcing to Genpact, he gets excited talking about the 2,000 "lean" operating improvements his organization has made in the past three years by "shamelessly stealing" from Genpact's own Lean Six Sigma program, and about reducing his company's delinquent receivables rate to 6% from 14%, which he estimates is allowing him to carry between US\$40m and US\$50m less debt on Penske's balance sheet.

For Bristol-Myers Squibb, says O'Day, the goal for outsourcing finance and accounting work – part of a broader, enterprisewide initiative aimed at saving hundreds of millions of dollars each year – was both cutting costs and improving processes. "We think about standardization of processes as a means of driving greater integrity to our reporting," she says. "We found that an outsourcer could help drive that standardization as effectively or more effectively than we could. An outsourcer also provided a scale and access to labor markets we would not necessarily have."

A focus on "whole processes"

Five years ago, that wasn't the "good story" most outsourcers were pitching. Back then, the standard offer was a simple one: Give us your most basic transaction-processing work – accounts payable, accounts receivable, payroll, travel, and expense processing – and we'll do it cheaper in India. Today, outsourcers are also opening and closing bank accounts for their clients, managing their bank credits and payment processes, accounting for cash transactions, doing some compliance reporting, helping out with general ledger and close activities, and, as the Penske experience illustrates, even crunching some of the basic

numbers business managers need to support their decision-making. That change is certainly good for the service providers, since rising wages in India and China are making it harder to achieve dramatic cost savings.

“We don’t talk about accounts payable, accounts receivable, or accounting anymore,” says Mike Salvino, global managing director of Accenture’s finance, accounting, and procurement outsourcing services. “We talk about whole processes. In the procure-to-pay cycle, for example, we get involved as far up as sourcing and inputting the order and go all the way through payment. For a consumer high-tech client, Accenture gets similarly deep into the order-to-cash process. It supports the customer’s salespeople by providing them with information they need to make pricing decisions, for example, then enters orders, tracks customer payments, and, if they are late, contacts the customer to work through the problem.

For clients like Bristol-Myers Squibb, these broadening capabilities suggest the possibility of outsourcing increasingly complex finance activities in the years ahead. “As the marketplace continues to evolve, and the outsourcers develop capabilities, we will continue to evaluate those capabilities,” says O’Day. “To the extent the market is capable, and we consider them to be in the appropriate risk level, we will continue to consider outsourcing more functions.”

Not just India

In addition to expanding their capabilities, outsourcing vendors are extending their geographic reach, too. While India remains the predominant offshore-outsourcing location worldwide, says Lisa Ross, CEO and founder of FAO Research, outsourcers also are setting up shop in Eastern Europe, China, Canada, Brazil, Chile, Uruguay, Argentina, the Philippines, and even parts of Africa and the Middle East. When Bristol-Myers Squibb transferred a passel of finance activities (payroll, HR operations, bank payments and account reconciliations, accounts payable/expenditures, T&E processing, fixed assets, balance-sheet reconciliation, intercompany accounting, master data maintenance, and vendor payable inquiries) to Accenture in 2005, it saw that work farmed out to Accenture locations in Slovakia, the Philippines, Brazil, and China. Even though Bristol-Myers Squibb had organized its finance activities into shared-services centers years ago, observes CIO O’Day, it couldn’t duplicate either the scale or the access to worldwide labor markets that Accenture could offer.

Accenture also is doing some of Bristol-Myers Squibb’s work in the distinctly nonexotic US cities of Houston, Texas and Wilmington, Delaware. O’Day notes that today, for services that include more-complex and time-zone-dependent transactions, it is common to have a small onshore component to an outsourcing contract. In her own company’s case, she says, Accenture has US payroll-tax experts located in Houston, and accountants with a deep knowledge of pharmaceutical accounting in Wilmington – people whose expertise can’t easily be duplicated in, say, India’s Bangalore or the Czech Republic’s Brno, two popular offshoring locales.

Shankar Narayanan, a principal with business consulting firm McKinsey, notes that such cities as Juarez, Mexico, are becoming popular locations for originating workflows that involve processing large volumes of paper documents generated in North America. For example, in Juarez, which is just across the border from the US city of El Paso, Texas, Genpact employees collect the mileage, tax, toll, and fuel data logged manually by drivers of rented Penske trucks and enter it into a Penske computer system that is accessed in India.

Making it work

For all that outsourcing vendors have to offer, companies still can’t expect to wash their hands completely of the processes they hand off. “They have to continue to manage that area,” says Tom Schramm, managing director and head of the finance and accounting practice at EquaTerra, a Houston-based outsourcing consultant, “and understand that there are going to be issues that they will have to work out with the outsourcer to fix them.”

One of the biggest challenges many companies face is transferring institutional knowledge – information about the company and its culture – to the outsourcing vendor. “It’s important that an outsourcer understand that,” says O’Day, “because often they’re the face of the company.” They are the face of the company when suppliers call about invoices, for example, or when employees receive paychecks.

To help with that effort, O'Day says, Bristol-Myers Squibb continues to spend time visiting with its outsourcing vendor's managers and operators. "We visit the sites at least once a year, and sometimes more often," she says. The company also asks the outsourcer's management representative to sit in on operational meetings in the US. During the first six months of the contract, Bristol-Myers Squibb employees continued to perform the outsourced tasks in parallel. "Entering these relationships is not trivial," summarizes O'Day. "It should be part of your strategic perspective and part of a broader program, not just an isolated activity. It should be leveraged across multiple outsourcing opportunities."

Penske is serious about the issue of maintaining oversight of and responsibility for outsourcing activities. In June and November, the company sends account managers to India to conduct training and review processes. Where Cocuzza deems it appropriate (usually at the supervisory level), his domestic managers will participate in HR reviews and hiring activities in India.

He also expects his domestic process owners to visit the overseas teams handling their work if there's a problem. "Early on, we made the decision that if you were to set up a shared-services center in, say, Michigan, you'd go out there and it would be your shared-services center," he explains. "Well, this group happens to be in India. I tell my people, 'If you've got a problem, don't tell me about Genpact; you go fix it. If the problem were in Chicago I wouldn't let you off the hook, and if it is in India I won't let you off the hook.'" Cocuzza also goes to extraordinary lengths – hosting semiannual awards banquets in India, for example – to make Genpact workers assigned to his account feel a part of the Penske team.

That is undoubtedly more than many CFOs are willing to do for workers who are not, after all, on their payrolls. Then again, not many CFOs are happier than Cocuzza with their outsourcing experience. Current trends suggest, however, that many more soon will be. **CFO**