Getting into outsourcing top gear

In accounting for 70% of the global market, the US shows no signs of taking its foot off the pedal when it comes to leading the shift to financial outsourcing and shared services

America prides itself on being the birthplace of the best ideas in business efficiency. Outsourcing and shared services – which both aim to lower the cost of routine functions – are no exceptions. Businesses in the US were the first to embrace the ideas back in the 1990s, according to Everest, a Texas-based consultancy. However, even after several decades, experts believe the trend is still far from over.

Last year alone US companies spent $4bn farming out routine finance and accounting functions, an increasingly popular form of outsourcing. That was a 10% increase on the previous year, HfS Research calculates, suggesting that finance outsourcing is growing about five times faster than the US economy as a whole. Everest believes this market has roughly doubled in size over the past five years.

Shared services, in which companies consolidate their own routine functions like book-keeping in a single location, is harder to monitor since it is an internal business decision. Still, observers believe the practice is increasing even more rapidly.

The US still accounts for 70% of the global market in finance and accounting outsourcing, says Saurabh Gupta, vice-president at Everest Group. 'Firms in the US have been especially eager to reduce costs for very basic rule-based finance functions,' he says. 'These are activities where no real judgment is involved, so obviously the financial planning and analysis would remain in-house.' The areas in which companies see most room to trim costs is in the core functions of collecting money, paying suppliers and book-keeping. More adventurous firms, Gupta explains, can get outside help in managing taxes, ensuring that the correct information is sent to regulators and even managing fixed assets, such as equipment and buildings.

The initial motivation has been cost saving. 'Economies from getting a specialist firm to perform these basic functions can be huge, especially if they do the work from overseas,' says Gupta. 'A clerk in the US might be paid $60,000 a year, while an equally competent Indian would do the job for a third of that.' For this reason, much of America's outsourcing work is done overseas. HfS estimates that about 60% is done in India, with 15% from Eastern Europe and 5% in Latin America. Only about 15% would be done within America.

Despite this, companies founded in the US remain the dominant providers of finance outsourcing. The three biggest outsourcing firms – Accenture, Genpact and IBM – command an imposing 50% market share. Each has US roots. Genpact, for example, which now has its headquarters in India and employs about 55,000, was formerly part of US industrial titan General Electric. Meanwhile, Accenture, now based in Ireland, was once a wing of Arthur Andersen, the now defunct Chicago-based accounting firm. Both companies still list their stock on the New York Stock Exchange. The third outsourcing giant, IBM, is even more clearly American, with a headquarters in New York state. Still, rival service providers are doing more than nipping at the heels of these market leaders. Infosys and TCS, both Indian in origin, have been growing fast. While it seems impressive that the top-three firms control half of the market for finance and accounting outsourcing, their share is down from 64% in 2005 and 80% in 2000, according to Everest Group.

The likes of IBM may be facing intense competition, but they can at least take comfort from a growing market, says Rand Havens, research director at HfS Research. Their studies show that even after years of growth only one in six businesses with annual revenues over $3bn is outsourcing traditional accounting activities. Meanwhile, about 13% of firms are planning to do so over the coming year.

'The pace of outsourcing is picking up again after the recent recession,' Havens says. 'We saw a "deer in the headlights" effect after 2008, with firms reluctant to try something new at such a critical moment. Now this kind of timidity is dying away and firms are more willing to experiment.'

A recent HfS survey conducted with ACCA sought to explain the motivation behind firms for selecting a third-party provider. 'Until quite recently the main reason people were doing this was simple labour arbitrage, moving to cheaper wage locations,' says Havens. In the survey of 436 senior finance executives in 2012, the top motive for outsourcing was 'to deliver finance process efficiency', along with a desire to improve finance service quality and boost overall business performance.

Surprisingly, cost-cutting ranked only fifth in the list of priorities. 'Quality is becoming as important as cost,' says Havens. 'Firms want to ensure that invoices are paid more accurately and incoming payments processed as quickly as possible.'

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Freeing up talent

Managing reporting to regulators in many different countries also appears to be spurring outsourcing for some multinational firms. Meanwhile, other firms want to free up talent for higher value-added tasks in the business.

The second major shift in US outsourcing in recent years is the growing interest of smaller businesses. 'Until recently the big outsourcing firms were only interested in taking on chunky contracts, since small deals weren't worth the trouble,' says Gupta. 'But as the outsourcing providers become increasingly efficient and their scale increases, they are more able to take on more modest contracts.' The most vigorous growth in demand is now coming from middle-sized firms, with turnovers between $1bn and $3bn. Everest research shows that contract sizes are still falling as service providers become more efficient.

In the loop

Finally, finance and accounting outsiders are increasingly being brought into the loop on strategic decisions, says Havens. 'Normally the outsourcing service providers were kept at arm's length,' says Havens. 'Now, for example, they may be told in advance when a new product is being launched, especially if this is likely to lead to an increase in volumes.'

Added to this, outsourcing firms are offering more value-added analysis of the transactions they process – so-called 'analytics'. 'Outsourcing providers are going beyond merely telling their clients how quickly transactions are being processed,' says Havens. 'They are offering data on the types of vendors you are paying, the terms of the invoices and when the client is paying them. These tools have been around for a while, but they have become increasingly commoditised and cheap to offer.'

With outsourcing of finance and accounting functions increasingly offering more than simply cost savings, more firms are likely to be attracted to such services. In addition, Everest believes that market penetration is still relatively shallow. 'Even for big companies that adopted outsourcing early, they may still have only 5% to 10% of their accounting staff outsourced,' says Gupta. 'This could go much further.' HfS expects that all these changes to the industry will help ensure growth of around 12% in finance outsourcing over the coming three years. 'There are now plenty of forces pushing outsourcing forward,' says Havens. The US will continue to be in the vanguard of this shift.

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