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Buyers Must Understand Opportunities – and Risks – of Evolving FAO Contract Characteristics, Reports Everest Research Institute Study

Report Analyzes Contract Profiles, Solutions, and Pricing

Press release

DALLAS July 15, 2008 – More new contracts for outsourced finance and accounting services are including management reporting and analytics, but outsourcing buyers continue to focus on transactional, 'phase-in' approaches for accounts payable, accounts receivable and general accounting services, according to the Everest Research Institute's study of Finance and Accounting Outsourcing (FAO) contracts.

The Institute's study, *FAO Contract Characteristics*, identifies and documents the evolving FAO contract characteristics along the following parameters:

- Contract profiles: size and terms of FAO contracts
- Solution design: process scope, offshoring, and technology trends
- Contract agreement: pricing structures, service levels, and people transition

The increased preference for a 'phased approach' of F&A services and the rising influence of the middle market buyer group has resulted in a steady decline of contract and engagement sizes in FAO contracts, according to the Institute. Average contracts are about US$54 million in total contract value (TCV) with a term of 5-7 years, and more than US$5 billion in contracts are up for renewal over the next three years.

"Buyers of outsourced finance and accounting services have a broader range of solutions in a maturing market offering a diversity of suppliers, delivery locations, technology solutions, geographic coverage and industry-focused solutions," said Katrina Menzigian, Vice President, Everest Research Institute. "Stabilized FTE-based contracting models present buyers with engagement approaches that are well established and understood; however, transaction-based contract models are evolving and best suited for engagements for which inputs, outputs and dependencies are already understood."

FTE-based pricing remains the dominant model, but business-impact pricing is showing signs of increasing, according to Saurabh Gupta, Research Director, Everest Research Institute and co-author of the report.

"Interest in utilizing business-impact pricing along with a base fee is also rising," said Gupta. "FAO metrics generally tend to focus on timeliness and accuracy, however, the focus of service levels is shifting from diagnostic metrics to business-oriented metrics. As the FAO market continues to evolve, contracts will evolve and change in tandem; therefore, it's important that buyers understand the opportunities and associated risks of the differing contract models in order to make an informed decision."

"With different pricing models gaining some traction in the marketplace, FAO buyers should educate themselves on the benefits and challenges associated with each type," pointed out Menzigian. "In some cases, a single deal may warrant more than one pricing model."

"Buyers should also be knowledgeable about the supplier landscape in order to understand the strategic objectives of the different suppliers," said Gupta. "Some suppliers are looking for 'smart deals,' others for 'growth accounts,' while others are looking for 'anchor accounts.' It's important the buyer have a strong sense about how each supplier would perceive its relationship with the buyer's organization."

Media contacts

The Point Group – America & Europe

Scott Tims
Office: +1-214-378-7970x278
Mobile: +1-214-957-6785
stims@thepointgroup.com

Martha Cook
Office: +1-214-378-7970x240
mcook@thepointgroup.com

R&PM: Edelman – Asia

Puneet Khunger
Office: +91-11-2332-0116
Mobile: +91-98101-91409
puneet.khunger@edelman.com

Priyangshu Dutta
Office: +91-11-2332-0116
Mobile: +91-981804-4248
priyangshu.dutta@edelman.com

To read more about the findings of the *FAO Contract Characteristics*, an extract of the report is available at www.everestresearchinstitute.com. To purchase the report or receive more information about other research services, please e-mail info@everestresearchinstitute.com or call +1-214-451-3110.

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