F&A Business Process Transformation 2023–2024 Market Insights

F&A outsourcing evolving amid enterprise challenges and tech disruptions

February 2024

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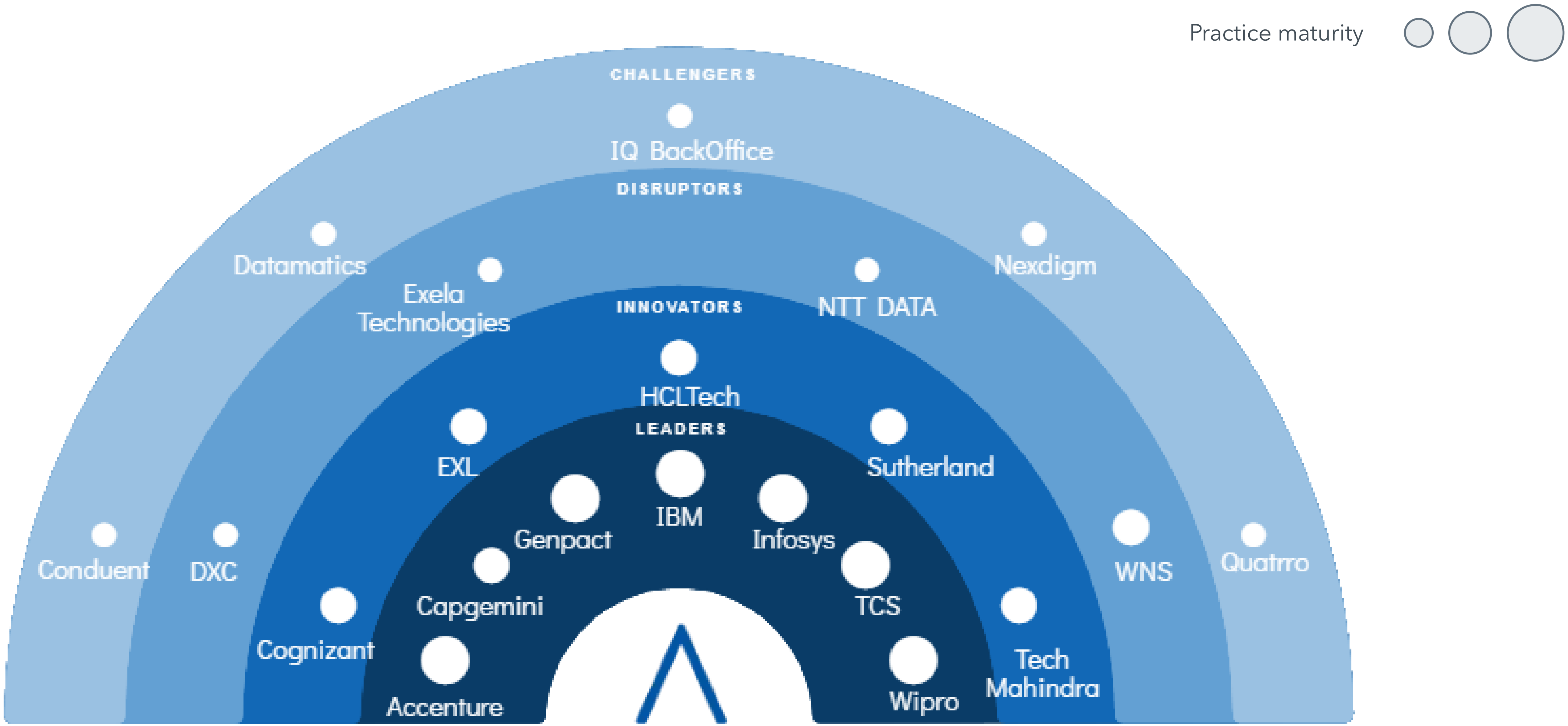
Avasant recognizes 21 top-tier providers offering F&A outsourcing services



Note: Please refer to Avasant's F&A Business Process Transformation 2023–2024 RadarView for detailed insights on the service providers and supply-side trends.

Key F&A outsourcing trends shaping the market

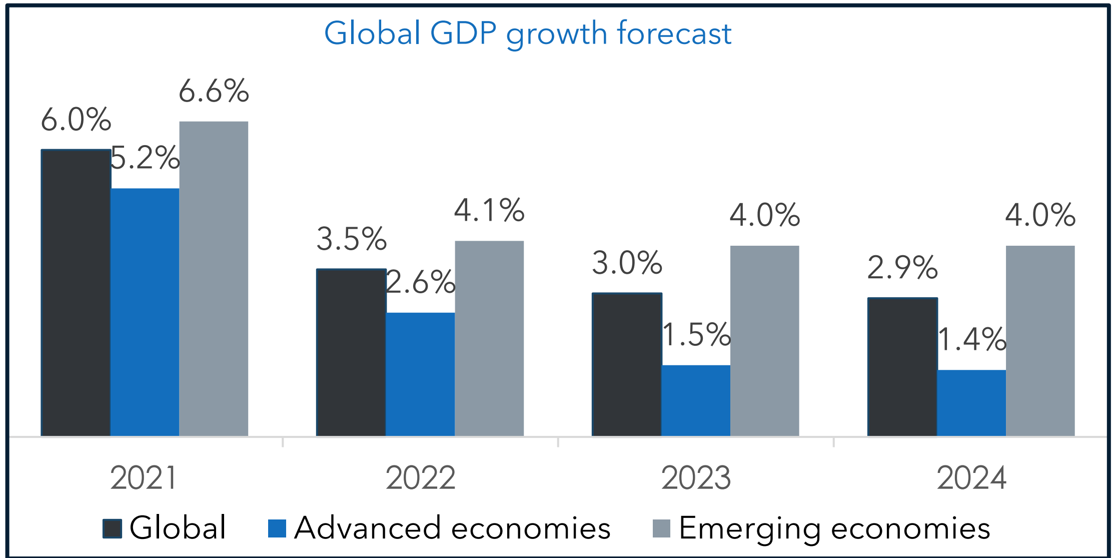
Global conditions necessitate the need for effective F&A outsourcing	• Enterprises face several challenges, such as low global growth and high inflation, which lead to increased SG&A costs. A main contributor to increased costs is non-value-added and transactional processes. • Additionally, apart from cost challenges, enterprises also face security challenges. F&A departments manage sensitive financial data, making them targets for hacking and phishing.
Enterprises need to work with service providers closely to address F&A challenges they face	• Enterprises encounter a spectrum of internal challenges, including change management and communication challenges, standardization gaps, suboptimal technological infrastructure, and discord between enterprise CFOs and CIOs, impeding the seamless transformation of their F&A processes. • Businesses should work with service providers to leverage service providers' ecosystem of partnerships and proprietary solutions, including CFO-focused assets and co-innovation capabilities to address these issues plaguing them.
A few key industries continue to remain prominent in F&A outsourcing	• The increase in F&A outsourcing is driven by key verticals like BFSI, retail and CPG, and manufacturing, accounting for over 50% of the total F&A revenue. This is due to the rising complexity of operations amid dynamic global challenges and regulatory requirements. • North America accounts for 65% of the F&A revenues, with Europe coming in second at 16%. LATAM, APAC, and MEA regions account for less than 20% of the total F&A revenues.
Generative AI presents a huge opportunity to improve the efficiency of F&A outsourcing	• The value derived from generative AI is greater in strategic processes such as FP&A, treasury, and tax, while its broader application lies within transactional processes. Strategic processes like FP&A and cash, treasury, and risk management can expect a 12%–16% efficiency/productivity benefit from incorporating generative AI. • Enterprises can expect a positive impact of 9%–12% in the form of productivity enhancements from generative AI, at an overall level. When combined with automation, the productivity gains are expected to be in the range of 41%–57%.

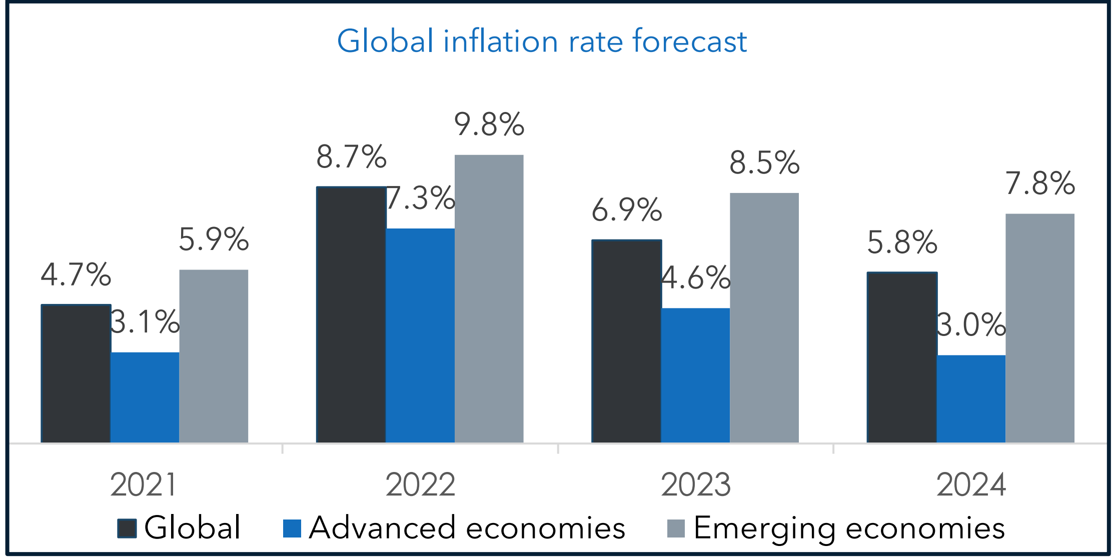
Enterprises need to work closely with service providers to address the F&A challenges they face

Challenges	Description
Talent-related challenges	• Employee attrition impedes knowledge transfer and potentially extends timelines. Clients encounter significant talent-related hurdles, including sourcing skilled manpower and losing crucial personnel. Due to continuous technology-enabled disruptions, they struggle to upskill existing resources in the latest technologies. • Businesses should work with service providers with an ecosystem of partnerships with academia, their in-house learning delivery programs, and certifications in partner technologies, leading to continuous employee skilling.
Change management and communication challenges	• Change management hurdles include employee apprehension regarding job security, cultural disparities between the enterprise and service provider, and resistance to new operating models, leading to diminished employee morale, delays in implementing transformation initiatives, and increased organizational hindrances. • Clients can leverage service providers' proprietary assets, including performance dashboards that integrate with their existing systems, simplifying communication and collaboration and increasing transparency.
Lack of process standardization and R&D costs	• Businesses often grapple with a lack of process standardization and inefficient workflows. Additionally, they often overlook the adoption of effective tech solutions, instead allocating resources to heavily marketed alternatives. This leads to unwarranted expenses, further complicating their financial landscape. • Enterprises can also utilize service providers to co-innovate solutions, reducing R&D costs. This is achieved via simulation, virtual prototypes, and cloud-based collaboration and productivity tools.
Misalignment between enterprise CFOs and CIOs	• The misalignment occurs generally due to different priorities, lack of cross-functional collaboration, and joint decision-making. This leads to enterprises not properly utilizing the budgets set for F&A digital transformation. • Clients can leverage service providers that objectively assess current F&A processes, technology needs, and alignment between finance and IT. Service providers also have their own CFO-focused solutions that help CFOs make better decisions while protecting crucial enterprise data.

Sources: Avasant F&A Business Process Transformation RadarView Survey, July–August 2023, Avasant Research

Global growth, inflationary, security and cost pressures are accelerating the need for effective F&A outsourcing





Avasant Research, International Monetary Fund, World Economic Outlook Update, October 2023

Key pointers:

Global growth remains shaky

- Global growth is forecasted to be 3.0% in 2023 and decline further to 2.9% in 2024 from a high of 6.0% in 2021.
- This is due to factors such as tightening monetary policies, debt burdens, inflationary pressures, cost of living crisis, and geopolitical tensions.

Combating inflation worldwide

- Although inflation is forecast to decline in 2024, spikes in inflation can occur because of sudden global events such as a further intensification of the ongoing Israel-Hamas and Russia-Ukraine wars and further supply chain disruptions due to increasing attacks on cargo ships in the Middle East.

Cost challenges for enterprises

- With the current economic conditions, enterprises are always under pressure to reduce their SG&A costs. A main contributor to increased costs is non-value added processes that absorb costs without producing value.
- Enterprises are also unwilling to outsource, with the leaders resisting because of cost challenges, as transformation is always costly.

Security challenges for enterprises

- Apart from cost challenges, enterprises also face security challenges. F&A departments manage sensitive financial data, making them targets for hacking and phishing.
- Managing access to sensitive financial data in a remote environment creates new challenges. Ensuring only authorized personnel have access while maintaining efficient workflows is complex.

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