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Guest CEO Editorial

Discussion with Harry Feinberg,
Chairman and Chief Executive Officer, Outsourcing Today LLC

Harry Feinberg is the Founder, Chairman, and Chief Executive Officer of Outsourcing Today LLC. Harry oversees the publication of three prestigious magazines covering the Human Resources Outsourcing (HRO) and Finance & Accounting Outsourcing (FAO) fields – HRO Today, HRO Europe, and FAO Today. He also founded the HRO World Conference and Trade Expo, held every year in New York City, Los Angeles and in Brussels Belgium, which are the largest gatherings of HR professionals in the world. Harry's previous experience in HR outsourcing was as Founder, Chief Executive Officer, President, and Publisher of ProEmp Journal (1996-2002). Prior to his HR outsourcing career, Harry was President and Chief Executive Officer of US Magnetics Corporation, Edison NJ, 1989-1996. Earlier, Harry was Vice President with Gronich & Company, New York City, 1984-1989. Harry attended CW Post College and Boston College, graduating in 1978 in business administration and management/marketing.

Tholons: What are the emerging trends in shared services outsourcing and FAO in particular?

Harry Feinberg:

We see 7 big trends for 2007:

1) Shared service centers and outsourcing providers will move towards services bundling to create enterprise level efficiency. We see bundled F&A functions (multiple silo processing within F&A) under one roof whether in a SSC (Shared Service Center) or outsourcing provider environment.

This will encompass payroll and other HR transactions; order to cash; procure to pay; accounts receivable; accounts payable; travel and expense reimbursement; general accounting including GL processing and account reconciliation; financial reporting; risk management including internal audit and SOX compliance; and finally tax management. As an outsourcing provider, Accenture BPO Services leads the bundled approach trend.

2) Mid-market is the golden ring for the provider community and 2007 is the year of the mid-market.

3) The outsourcing of procurement, which we see as an F&A function, will continue to gain momentum in 2007.

4) The offshore trend will not subside due to the tightening of US labor in the technology sector, and SSC and providers will continue to take advantage of the labor arbitrage offshore.

5) Private equity firms will keep a keen eye on shared service centers which can be commercialized and for which outsourcing providers require capital infusion.

6) SSC Captives will continue to grow at an unprecedented rate and will strive to achieve world class status.

7) Technology as a service (pay as you go) in the form of a hosted model that services the FAO marketplace will grow exponentially.

Tholons: Which countries and cities are emerging as globalization destination for FAO?

Harry Feinberg: Location, location, location does not always mean Madison Ave. and 57th Street in New York City. India will continue as the most popular offshore location for F&A for many reasons, including government support, large labor pool, superior infrastructure, proficiency in English, cultural compatibility, quality educational system and a time/distance advantage. Indian providers account for nearly 30% of all F&A contracts. The Philippines are a close second to India as a general outsourcing location. We see Eastern Europe as a hot spot poised for growth acceleration and an area in which European corporations feel at home. The largest providers including IBM, Accenture, Capgemini and ACS are the most established providers in Eastern Europe. Locations to watch include Brazil/South America which has diverse language capabilities, Singapore, Malaysia, and Vietnam. China will take years to develop into a thriving SSC and outsourcing provider destination; however those organizations who have a market strategy to sell goods and services to the China market will find opportunities.

> "Customers are demanding world class service at low cost levels with increased business effectiveness, and competing in today's global market will require all three."

Tholons: What do you see as the globalization roadmap for FAO processes? When will we see turnkey/full service F&A outsourcing as opposed to the prevalent transaction based approach?

Harry Feinberg: The road map is driven by the ever increasing market in which global competition continues to flourish. Customers are demanding world class service at low cost levels with increased business effectiveness, and competing in today's global market will require all three. Wise consideration of labor arbitrage strategies is vital to determining the direction of the road map. Setting the course for process standardization, centralization and computerization is paramount to facilitate the advantages of global business process sourcing strategies. This course leads to dramatic cuts in costs and world class efficiencies lead by outsource provider or more typically to a company owned captive center.

We are already seeing the turnkey full service F&A outsourcing, but it's the elephant in the corner that nobody wants to talk about. That having been said, CFOs don't want anybody to know that most of the F&A functions can be outsourced. We predict that in the next economic downturn a sea change will take place and we will experience a tremendous boom in enterprise F&A. Currently there are only 40 or 50 examples of enterprise, end-to-end level successes; but when the downturn is evident there will be hundreds if not more of enterprise level F&A deals with outsourcing providers.

Tholons: Are we going to see large F&A captives being spun off as service providers, or are the IP/data security concerns and lack of domain expertise going to favor captives?

Harry Feinberg: Private equity groups are keen on commercializing F&A shared service centers. General Atlantic Partners have been following this strategy for years with Genpact being one of the most impressive forays in this area and is GAs latest venture in the F&A commercialization arena. Genpact's genesis stems from General Electrics' F&A captive which evolved to world class status and commercializing it with GE as the first customer with a long term contract will inspire other to do the same. This, however, is a rare situation and we believe that spin offs of F&A captives will be few and far between. There may not be room in the marketplace for a multitude of such providers and any future spin offs will need world class status to compete successfully in the global marketplace. Captive service centers for some fortune 500 companies will be the preferred transformation strategy and depends on many factors, including the company's appetite for control, risk, financial risk and level of management effort. Other companies may choose the BOT (build operate transfer) route where an offshore provider builds the center for the company, operates it for some time period and then transfers ownership.

Tholons: Is there scope for pure play BPO providers in the FAO space, or is technology becoming critical lending advantage to integrated IT & BPO firms?

Harry Feinberg: Technology is emerging as the most significant enabler of F&A sourcing, and for BPOs to have increased scope capabilities they must have technology. Customer necessities are escalating beyond just cost savings. CFOs today who are on the top of their game now seek to optimize the value and speed of their cash flow. They can do this by engaging an FAO provider that has the means to deploy technology solutions that support, coordinate and weave together their accounting processes into a cohesive centralized and standardized environment. Providers and captive centers alike seek to bundle technology solutions. F&A is in a technology transformation phase which indicates a level of increased maturity, with technology is a key provider differentiator. ASP hosted software as a service is becoming increasingly important and is a viable recurring revenue generator for providers.

Tholons: How can firms scale up FAO practice?

Harry Feinberg: Providers will scale most effectively through providing software as a service, as mentioned above. The recurring revenue model is much more scalable than the older software as a license model and is extremely attractive to potential private equity acquirers.

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