



Finance Outsourcing

How SMBs Can Benefit from Outsourcing
non-core Finance Functions

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An Overview of the Outsourcing and Shared services industry

Significant Global trends have been shaping today's workforce in recent times and have disrupted the way businesses function. Business leaders are required to become creative in how they solve such workforce related challenges in order to build the most optimal workforce ecosystem. Trends like the Great Resignation have led to businesses and its leadership scrambling to identify the best solutions in order to ensure business continuity and to manage risks while ensuring that the best possible support is available as well as optimize Finance function's costs.

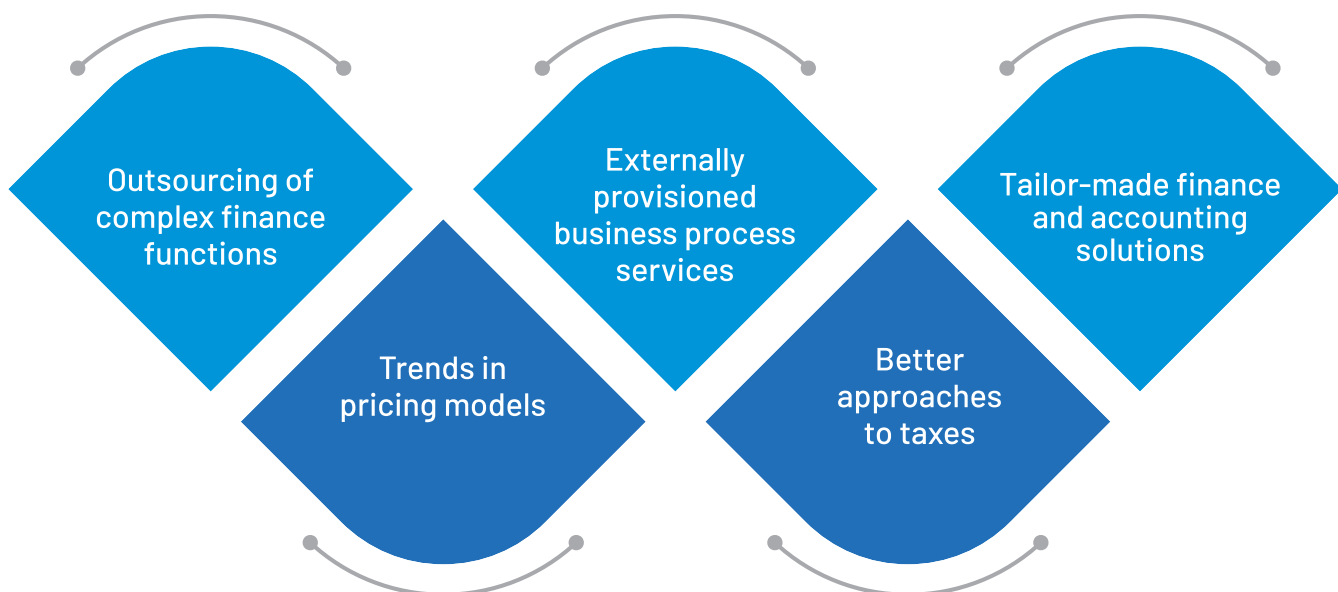
Globally, there has been an increase in the usage of Outsourced Finance Partners. Large global conglomerates have reached a point of maturity in extracting value from offshore services or having their own shared services setup as Centres of Excellence. While that is being said for large organizations, Small and mid-sized businesses have been taking

measured steps and tapping into Finance offshoring for niche requirements. However SMBs need to strategically approach and implement solutions to manage disruptions in the workforce ecosystem.

According to Gartner, Business Process Outsourcing today accounts for 7.3% of the world's GDP and is growing at three times the rate of traditional manufacturing. The cost benefits, access to knowledge and technology, operational flexibility and access to the global talent pool are seen as the main reasons for this increase.

Key developments and trends:

Organizations recognise that it is possible for outsourcing and shared services to go beyond transactional/operational work to achieve new productivity gains and new revenue streams by implementing new practices through unique, creative methods of implementing standardization and automation, driving continuous improvement, and assuring world-class performance.



Outsourcing of complex finance functions: We are seeing many more multi-function finance and accounting outsourcing deals. For instance, just about a few months ago a company would begin its outsourcing journey by outsourcing only one or two of its transactional processes like accounts payable or accounts receivable, but today CFOs are seeing that the F&A BPO market has matured and they are therefore getting more comfortable in outsourcing

also utilizes elements of full-time equivalent (FTE) and transactional pricing. Although the majority of deals are fixed-price or price-per-FTE based with the supplier expected to streamline and standardize accounting processes, organizations are looking to suppliers for transformational services. The use of SLAs is also evolving, in that in the first few years of a deal, buyers stipulate a number of service levels, and as a deal matures, the number and type of service



more complex functions like financial planning and analysis, management reporting and financial closure. several major reforms. For instance, according to the Internal Revenue Service(IRS), the introduction of the Qualified Business Income (QBI) deduction has helped some sole proprietorships, partnerships, and Corporations reduce their annual tax obligation by as much as 20 percent. With an increasing number of tax deductions and credits available, it will be crucial to find a partner who can help you potentially save money. As more reforms continue to take place, doing taxes will become a significantly more active process. Unless you are familiar with these new tax laws on your own, it may be worth getting some outside help.

Trends in pricing models: In the last few years, deals are emerging with a blended pricing model, which

levels used are starting to be streamlined accordingly. Finance and Accounting Outsourcing(FAO) customers have learned that the success of a service from an FAO supplier is directly proportional to the continued input and guidance of the customer's finance team. A research from Capgemini shows that the most satisfied customers actively participate in F&A BPO service delivery issues. As a consequence of this, some contracts provide for gain-share mechanisms, as well as bonuses for high performance. Working in partnership also ensures alignment, coordination and control of both supplier and business needs.

Externally provisioned business process services: Business process management solutions are comprehensive managed service solutions that comprises people, best in class processes, and state

of art technology. This is very different from a typical finance and accounting outsourcing arrangement where all that the service provider does is provide skilled people. So, when a client migrates to this model they outsource not just the technology part of the process but also the process itself and the labor associated with the process. Certain processes within finance and accounting that are moved to this model are- rules based processes such as reconciliation, invoice processing and expense claim process.

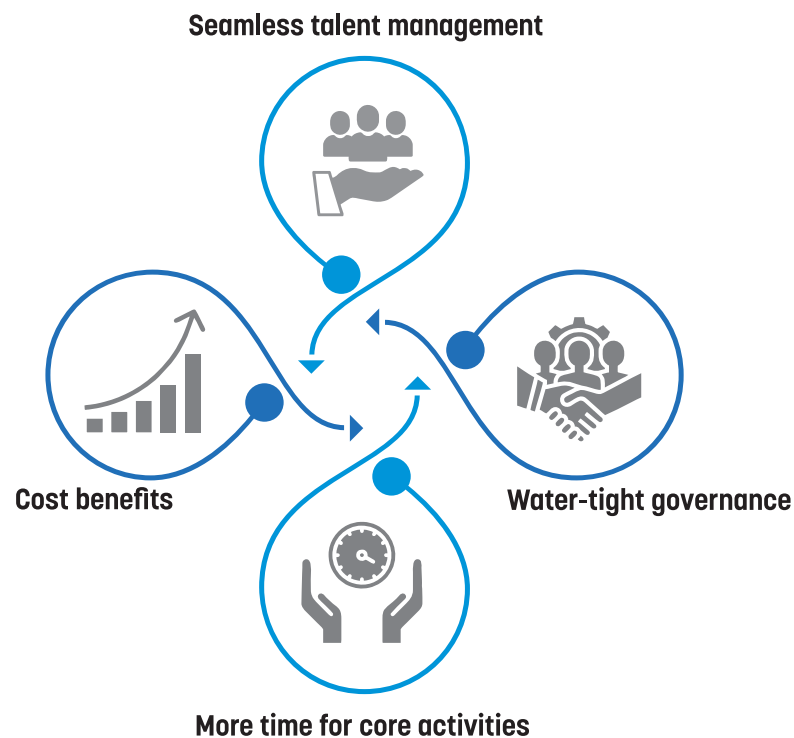
Better approaches to taxes: Over the past few years, the tax system in the United States has experienced several major reforms. For instance, according to the Internal Revenue Service (IRS), the introduction of the Qualified Business Income (QBI) deduction has

taxes will become a significantly more active process. Unless you are familiar with these new tax laws on your own, it may be worth getting some outside help. can be leveraged to automate any number of tasks or processes.

Meeting the needs of small and medium sized businesses

Outsourcing the finance function’s activities offer significant benefits to or SMBs which have so far been adequately tapped into. Some of the benefits include:

- **Seamless Talent management:** Outsourced Partners help you with seamless talent management as access to trained and readily-deployable talent means ensuring business



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continuity and managing process related risks better. As a business leader or Head of Finance, you no longer need to invest in recruiting and training for your Finance team. While direct cost savings (such as salary, incentives and employee welfare and employee associated

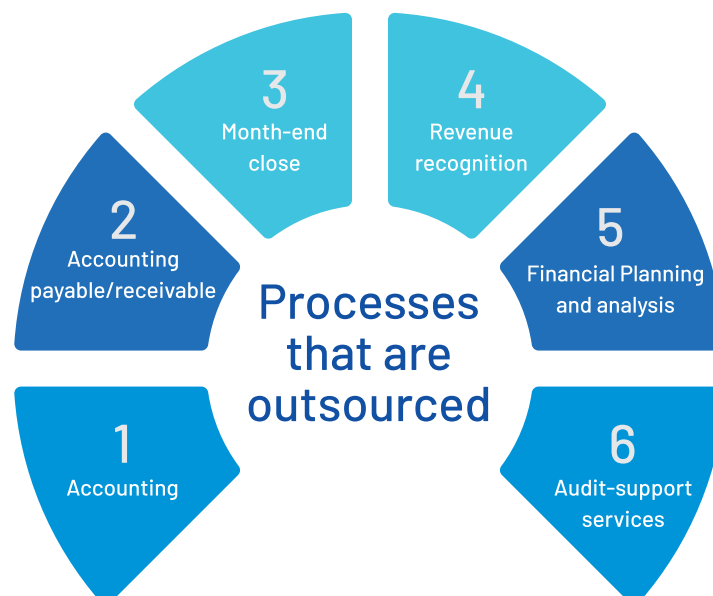
operating overheads) are realized within a short period, indirect cost savings such as reduced hiring and training costs, transition management significantly increases the derived ROI from Outsourced Finance teams.. Greater access to highly skillful talent and at a more economical cost from the global pool. Timezone related benefits can be leveraged upon to reduce overall turnaround of certain activities.

- **Water-tight Governance:** There is an increased efficiency in the processes outsourced because today's Outsourced Finance Partners ensure that a good governance system is put in place. This is done with the help of service level agreements (SLA). SLAs are an important agreement between the service provider and the customer (whether internal or external) that defines the services to deliver, the responsiveness that can be expected, and how performances will be measured. This is a major step for formalizing communication, strengthening relationships. Customers can also customize their needs that align with their business interests. This is a huge benefit to ensure the credibility of the service provider.

- **More time for core activities:** Outsourcing and sharing services remove the stress from a finance function's routine by handling their financial affairs, so that they can concentrate on expanding their business and focus on their expertise. The back-office operations of a company tend to expand during periods of rapid growth. This expansion can tie up your human and financial resources at the expense of the core activities that made your company successful in the first place.
- **Cost benefits:** For small businesses, outsourcing is a perfect way to reduce costs. It allows figuring exactly what each and every product will cost the company before they decide to engage an Outsourced Partner. Companies that do each and everything themselves must be engaged in higher research, development, marketing and distribution and spend a lot of money which obviously will transfer to the customers. If these roles are outsourced then the outside provider's cost structure and economy of scale can help increase efficiency of the company.

Accounting

How Outsourcing can help your finance function



Outsourced accounting is when a business hires a third party to complete the accounting function and finance function of the organization. Outsourced accountants handle all the finance functions of the business including; bookkeeping, payroll, financial reports, management accounting, tax, accounts payable, accounts receivable, following up debtors, and other accounts-related services.

Apart from the above mentioned activities, accounting intercompany transactions and foreign exchanges is also increasingly common and beneficial to organizations with a global presence.

- Intercompany transactions now represent a big share of the global economy—around 80% of



global trade. The exponential increase in these transactions has increased complexity and risk especially with rapidly changing regulations.

- When it comes to foreign exchanges the gains or losses that result from these transactions can be treated differently for tax purposes depending on the basis of your financial statements. Therefore, there is a need for experts who have expertise in this.

Also, unlike monthly/weekly recurring finance activities, preparing a full set of financial statements

is an annual affair. Without the benefit of regularity, preparation of financial statements by finance teams would take time. Moreover, with constant revisions to and increased complexity in accounting standards, it becomes increasingly difficult for those involved in financial reporting to be operationally skilled in time when the new standards become effective. The Implications of non-compliance can be significant, including reputational and monetary losses. This can be dealt with, with ease by outsourcing this process to a third-party service provider.

Accounts payable/receivable

Accounts payable outsourcing can be helpful for some companies lacking the means, time, and automation software to manage their own AP process that begins after procurement and receipt of goods or services. This is the most outsourced process. A company hires an experienced third party to electronically capture and process its vendor invoices, accounts payable, and payments, reducing the in-house financial workload. The main reason for outsourcing is that the in-house accounts payable teams of small businesses are overwhelmed by the piles of invoices coming their way. There are numerous benefits to outsourcing, which includes: Increasing efficiency and timely

invoice processing and payments, eliminating the need to cover for absent employees, shifting roles of your business employees to higher-level tasks and processing invoices with AP automation software used by outsourcing providers.

Accounts receivables massively affect an organization's cash flow activities. It involves Maintaining the billing system, Generating invoices and account statements, Performing account reconciliations, Maintaining accounts receivable files and records, Producing monthly financial and management reports etc. If these tasks are not done effectively, it can debilitate the company's finances. On the other hand, strong

Month-end close

In today's fast evolving business environment, a quick close is a necessity. In most companies closing speed is even considered a common measure in defining the capabilities of the finance team. Month-end close processes are usually heavy on both time and labor. Small and medium sized businesses cannot afford this. Neither do they have access to custom technology solutions that make use of automation nor can they build analytical process workflows to get rid of redundant manual tasks that consume a lot of time. This is precisely where month end close outsourcing comes in. Outsourced Finance Partners usually are a team of experts that can meet the needs



account receivables help organizations to produce higher incomes.

Therefore it is very important for businesses to look towards outsourcing for these functions. Moreover, A growing company may require more in-house accounts payable/receivable department personnel to manage its increasing needs for processing accounts functions. Businesses that want to improve their service levels while cutting down on hiring costs may benefit from partnering with accounts payable/receivable outsourcing providers.

of a month- end close both technology-wise and compliance-wise. They are well-versed in the flow of different activities that make up the month-end close process. They make use of new-age technologies and build tailor-made solutions using the low code tools available. Offshoring processes such as journal entries, reconciliations, variance analysis, financial statement preparation and financial review can be hugely advantageous in a highly competitive environment.

Revenue recognition

Revenue recognition is an accounting principle that figures the particular conditions under which the revenue is recognized. It is a five step approach and medium-sized businesses face innumerable challenges such as data aggregation, last minute contract modifications, estimating the standalone selling prices and contract related expenses along with ASC606/IFRS 15 compliance requirements.

Outsourced Finance Partners help you deal with these challenges and much more.

- They can make you understand how the standard specifically relates to your business and contracts.

Financial Planning & Analysis (FP&A)

FP&A essentially is crucial to every business's future. It analyzes all-important cash flow to ensure the company can continue on its current path, predicts the probable success of various paths or projects, and considers all the numerous variables that affect the company, like economic, market, and business conditions. FP&A personnel build financial models and employ metrics to determine if the company's state is positive or negative. Depending on that result, FP&A can then determine which projects are most likely to succeed, including expected values of investments in each project.

The importance of FP&A teams are huge and so are the impacts they create. Having said that, it is



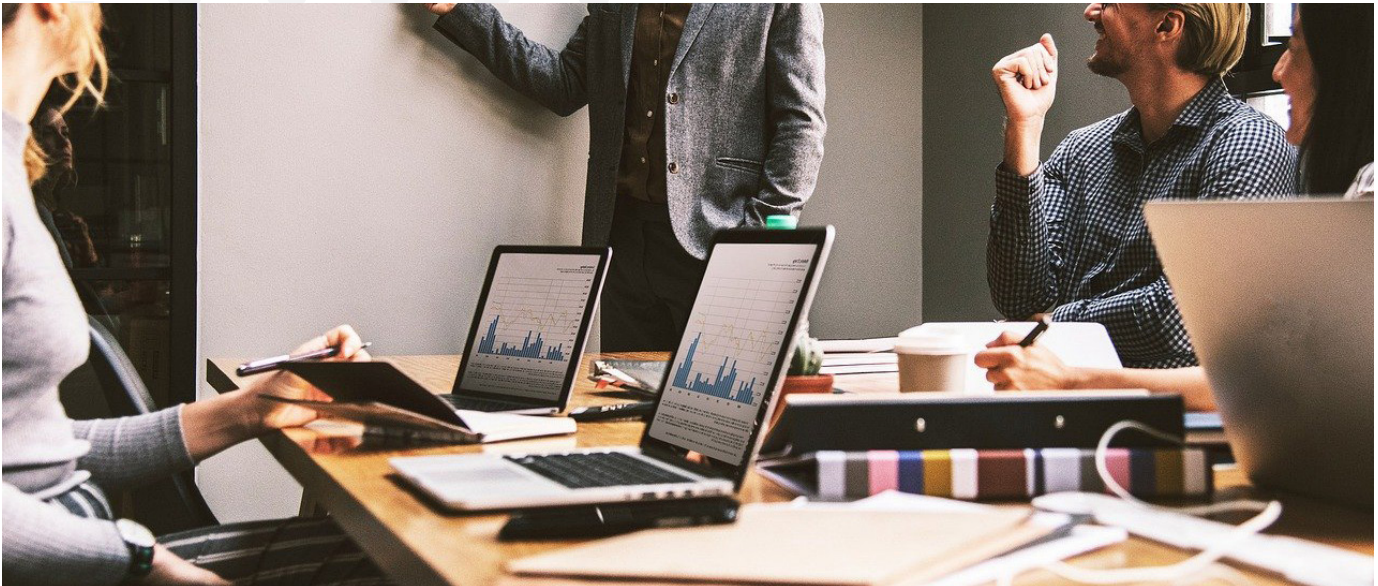
- Meet all the ASC606/ IFRS 15 compliance requirements.
- determine the appropriate timing for revenue recognition.
- use prescribed methods for significant estimates and judgments at contract inception and going forward
- understand the impacts of the approach on accounting processes and disclosures

also extremely challenging for SMBs to have such an expertised team on a payroll. Due to the highly-technical nature of this function, it is unlikely any single person in an organization can perform all the FP&A duties. A team of experts is required who are fluent with the use of technology for building models and workflows. This calls for the use of Outsourced Finance Partners who come . Offshoring FP&A duties is a major trend in the Finance industry. The

external teams with expertise in both technical and process knowledge also come with a good governing framework to ensure quality. In this model where you outsource a finance function, it is both cost-effective and beneficial for small businesses.

Audit support services:

for, which means less time spent on requests and quicker responses to auditor questions. Their services include managing relations between the management and auditors, preparation of financial statements, checking accounts for compliance with the relevant accounting standards, preparing checklists to report errors to the onshore audit team to make necessary changes to the financial statements and much more.



Successful audits are key to advancing your business by creating value, mitigating risk, and maintaining investor confidence. They are an unavoidable part of doing business. But audit preparation can be overwhelming, and things can easily go wrong without a strategic plan. Preparing accounting schedules for audit is a tedious and laborious accounting task. Employers often face difficulties in obtaining sufficient and competent finance and accounting resources to do so. Small and medium sized businesses face tons of challenges at the time of audit because they lack the necessary knowledge on processes and compliance requirements. Therefore there is a need for an entity that is affordable and has expertise both knowledge-wise and process-wise in dealing with the external auditors. There are Outsourced Finance Partners who understand exactly what auditors are looking

The growing use of audit support services, especially in the SMB segment stands as a testament to the strategic value it provides.

Finance Process Outsourcing and shared services

Small and medium sized businesses usually seek to outsource their processes to tackle a few fundamental challenges which include, lack of standardized systems, lack of adequate business intelligence tools, back-office mentality and poor service levels, increased competition and compliance norms and a desire to manage business without adding a significant number of finance and administrative staffs.

Both Finance process outsourcing and shared services have something unique to offer. It entirely depends on the demands and expectations of the organization. Here are the benefits of the two models:

Outsourcing:

- There is a greater cost savings here. The use of Superior systems, automated workflows, and advanced technologies– as well as easier access to offshore labor – often enable an outside

Shared services:

- A shared services approach is great from a risk management standpoint. Here you have more control over processes and outcomes, which reduces risk. This is especially important for key activities that are strategic to the business or bound by strict compliance requirements
- Your business requirements are unique – and so are the systems and processes needed to support them. They are competitive differentiators and



vendor to do the work more efficiently. In many cases, outsourcing also delivers better quality by capitalizing on the service provider's specialized knowledge, expertise and talent.

- Here, the implementation is faster. It is in the service provider's best interest to implement the services and solutions as quickly as possible. An added benefit is that less time is wasted on internal politics and inertia.
- Outsourcing provides greater flexibility by turning fixed costs into variable costs.

should be kept in house.

- Shared services are more responsive to business needs because they are part of the same enterprise and have a closer relationship with the business units.

In our experience, outsourcing tends to be the best fit for SMBs as they make most sense when an organization is looking for fundamental change, wants to move quickly, and views cost reduction as a top priority. Also, according to a recently published report by KPMG the change initiatives driven by the business units often lean toward outsourcing because the focus is on bottom-line results, rather than on preserving the status quo.

Bottom line:

The finance process outsourcing industry has boomed in recent years in the small and medium business segment due to the advancements in technology and maturation of the industry in terms of regulations. Companies can now outsource their accounting and financial needs to teams all over the world, making it easier for them to find the right experts at a lower cost. It is also the most effective strategy from a talent management standpoint. The benefits of finance process outsourcing are clear. The recent developments we see both in terms of technology and capabilities in the outsourcing industry is a testament to the fact that these Outsourced Finance Partners are not only credible but also ensure a high return on investments (ROI) by aligning perfectly with the needs of the business.

By partnering with a professional firm, you can save time and money while ensuring that your financial analysis, forecasting, and budgeting are done accurately and to the highest standards along with the non-core finance processes discussed in detail in this report.

If you're looking for help with your finance processes, or would like to learn more about the benefits of outsourcing, contact us today. We are a team of experts who are ready and waiting to help you take your business to the next level.



For more information on business partnering
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