

2011 FORECASTS ON F&A OUTSOURCING

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For the past years I always started the year with a forecast on the industry because in the process I also benefited from the research for I really need to update myself on outsourcing issues being part of the industry for so long.

According to the 2011 predictions of Everest Research Institute, Finance and Accounting Outsourcing (FAO) market will experience an impressive 20% growth (year-on-year) in terms of Annualized Contract Value (ACV) in 2011. This is the same growth experienced in the past before the recessionary period came in. The renewals in Total Contract Value of an estimated \$2billion will contribute to such growth with expansion of the scope of services.

It will still be more of a “phased” approach rather than with a “big bang” approach. The period to close sales or to reach the “done deal” stage will still be a little long since companies are still cautious before jumping into the outsourcing bandwagon. In the same research paper, 2011 will usher in growth in new set of industries such as healthcare and financial services and the mid-market segment will experience growth in terms of adoption of FAO.

Knowledge outsourcing or a specialized form of outsourcing such as internal audit, financial analysis, etc will continue to increase perhaps because businesses start to see the need for these specialized services and because of the lack of talents internally. In the Philippines, there is a big demand for knowledge outsourcing from the mid-market segment since most of these companies goes more for talent utilization and cost arbitrage rather than hiring the people themselves. There are also companies, although having an internal audit department of their own for instance, opted to co-source certain internal audit functions rather than hire more people.

Globally, companies will be looking into more of “best-in-process” rather than cost arbitrage according to Everest Research Institute. Platform and SaaS (Software as a Service) based offerings or the integration of a computerized system in the F&A service will be a demand more from mid-sized buyers.

According to Ms. Gigi Virata (Director for Information and Research) of the Business Process Association of the Philippines, the industry is aiming to hit the US\$11billion revenue mark for 2011 which would of course translate to more new jobs for the year. The industry (as a whole) is growing at 26% per year although the F&A outsourcing is still in its early stage. According to Ms. Virata there are major captive centers which set up offices in the country like J.P. Morgan Chase & Co. which started in 2005 with only 50 FTEs (full time employees) but now has 12,000 FTEs. This is evident of the growing trend in F&A outsourcing or other non-voice services in the Philippines both for captive centers and third-party providers.

Two of the main areas the outsourcing industry will prioritize for the IT-BPO Road Map 2011-2016 by the Business Process Association of the Philippines are talent development and marketing. In the Philippines, Manila and Cebu were in the Tholon's Top 10 Emerged Outsourcing Cities in 2010 and for 2011 this will hopefully pave the way for more investments in the country. But while there is a government subsidy for training for call center personnel, there is none for the F&A services or other non-voice BPO services. The Philippine government should be able to give support on this type of outsourcing because while the country has overtaken India in call centers, it is still very far behind in higher level or more sophisticated outsourcing services.

India outsourcing suppliers have move on from just answering phone calls to consultancy such as helping financial institutions manage financial derivatives, technical IT support, etc. If the Philippines is targeting to double overall outsourcing revenues to \$18billion by 2015 it must be able to address the lack of talents not only in non-voice outsourcing but in managerial positions both in voice and non-voice with adequate experience. The industry in the country is so young, few people have enough experience to tackle management position or those which calls for strategic skills. (source: Bloomberg Businessweek Dec. 2, 2010).

It is going to be an exciting year for F&A outsourcing not only in the country but globally. With more businesses setting their sights to 2011 to outsource their accounting functions, the Philippines would better be prepared so it will not be left behind to grab the opportunity. However, I should say let's not wait for opportunity to come to us and grab it, rather let us look for it so we can be there ahead of the others..

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