



## How High Technology Companies Will Benefit from Finance & Accounting Business Process Outsourcing Services

### Executive Summary

Few industries in the world move as quickly as high technology. With so much of the industry dominated by consumer electronics, product lifecycles are short and the need to innovate, even dazzle, is intense. As in other fast-paced industries, high-tech companies are under extreme pressure to balance costs, better match offerings to customer needs and optimize their supply chains. Technology producers need to find ways to continue to be efficient while also funding the required acceleration of innovation.

Leading technology companies are discovering that having a third-party provide business process outsourcing (BPO) services is a profitable way to achieve this balance. Using a provider for finance and accounting (F&A) processes, in particular, is often a starting point for technology companies that would like to explore BPO.

Partnering with an F&A specialist improves the company's focus on value-adding activities with key managers and subject matter experts. BPO frees these individuals from routine activities so they can spend more time optimizing processes, improving controls, analyzing costs, examining business trends and anomalies, and providing information and insight for decision-making.

The technology industry is undergoing major changes, with a multitude of major trends

shaping the industry. The good news is that the industry appears to be recovering from the global economic downturn. Yet some companies are benefiting from the seismic shifts more than others. Entrusting partners with processes such as F&A is a viable way for high-tech companies to begin reaping cost benefits and seizing innovation opportunities.

### Major Technology Trends

Five trends, in particular, are affecting high tech and will continue to have significant impact on hardware and software vendors and providers – and their customers – over the next year to 18 months. These trends – tablets, cloud computing, social networking, business analytics and video – are already having a major effect within and outside the high-technology industry, though they affect technology companies disproportionately. High-tech companies need to understand how to supply – as well as use – these capabilities with the available option of partnering with a trusted service provider to handle processes like F&A.

1. **Tablets and Smart Phones Become Enterprise Devices.** Darlings of the consumer world, tablets and smart phones will come to redefine the corporate computing space. Employees are beginning to demand tablets in the workplace, which means IT departments will have to learn to support and secure these devices. Despite these obstacles, a majority of business users

## Beyond Transactional BPO

Technology companies are beginning to seek partners not only for transactional processes like invoice processing, but are moving to higher value processes as well. For example, we are currently working with an online advertising provider to perform analytics and non-routine reporting. Sourcing these processes from a third-party specialist not only helped the online advertising provider to reduce costs but also reduced its time to market, which in turn helped this company serve its clients more quickly and efficiently. Moreover, this company has also been able to make the new analytics available to its external clients, thereby gaining a new value-added marketplace offering.

High-tech companies are also partnering with third-party specialists on financial process redesign. We recently helped a prominent online search company assess and reengineer its F&A processes, including process mapping, value mapping and process analysis. We helped the client globalize, standardize and optimize processes to improve both efficiency and effectiveness. The team identified potential savings of over \$20 million per year.

Companies that partner with an F&A specialist find that they gain both capacity and improved focus on value-adding activities with their retained personnel (typically, key managers and subject matter experts). BPO frees these individuals from the day-to-day grind so they can spend more time understanding how to improve processes, improve controls, analyze costs, analyze business trends and anomalies, and provide information and insight.

### Seizing the Innovation Opportunity

The technology industry is at an inflection point, with a multitude of major trends reshaping the landscape. Recent data show that the trends are measurable, real and significant. The good news is that analysis of the industry's financial performance indicates recovery from the Great Recession. Yet clearly some industry players are benefiting from the seismic shifts, while others are lagging. Entrusting partners with processes such as F&A is a viable way for high-tech companies to begin reaping cost benefits and seizing innovation opportunities, enabling them to seize the high ground afforded by rapid changes in technology that are forever altering the way all companies do business.

will have them in short order. In 2011 alone, over 12.5 million – 25% – tablets worldwide will be bought by enterprises, according to estimates from Deloitte.<sup>1</sup> The rise of tablets and smart phones as corporate computing devices is putting pressure on IT departments, as well as software security providers. According to numerous published reports, over 50% of computing devices sold globally in 2011 will not be PCs. Over 1.39 billion mobile phones were sold in 2010 and the smartphone market is growing at over 43%.<sup>2</sup> The rising popularity of feature-rich smartphones that are capable of mobile commerce presents a major opportunity for companies that provide security technology and services as more corporate data and systems access moves to mobile devices.

- 2. Cloud Dominates the Delivery of IT Infrastructure and Services.** Cloud is a game changer. It has already changed the way companies consume IT infrastructure, applications and business processes, and its influence will continue and accelerate. By 2014, cloud

computing will be the norm, according to our research.<sup>3</sup> Over 70% of the enterprises worldwide will have adopted cloud-based IT services in some capacity. To date, financial services companies have been the early movers with over 50% having adopted some form of cloud already.<sup>4</sup> In three years, cloud adoptions will spread across geographies. Western Europe is forecast to be the second biggest market after the U.S., according to published reports.<sup>5</sup>

For technology companies, the move towards a cloud-enabled world means significant changes. One, there is an urgent need to generate cash and funding, to enable the organizational infrastructure to move onto the cloud. The second, more important, piece in many cases is to deliver the company's product or service via the cloud. For many companies, this is an imperative, not a choice. The third driver for adoption is to keep up with the business ecosystem. As more and more partners (customers, suppliers, competitors)

move onto the cloud model, companies will lose the choice to adopt or not to adopt cloud – rather, it becomes a question of how soon.

**3. Social Network Use by Business Will Evolve and Grow.** Social networks will continue to rise in their sphere of influence and persuasion. Indeed, social platforms are expected to grow by 33% in 2011.<sup>6</sup> The next step, social networking analytics, will help businesses better understand consumer trends and employee behavior. Enterprises will start integrating social networking with business applications as part of a coordinated strategy. They will also reinvent their online customer communities to reflect new social media capabilities. Companies will use these platforms to engage with prospects, customers and interested parties to better understand their needs. Companies will increasingly use e-communities as a platform for co-creation and co-invention with their best customers. E-communities will also serve as a platform for employee collaboration as company systems become further integrated with social networking capabilities. This evolution will provide a great opportunity for companies offering both business-to-business and business-to-consumer collaboration solutions.

**4. Real-Time Predictive Analysis Will Drive Business Results.** This is a most exciting time as far as analytics and data-driven decision making are concerned. Never in the history of human existence has so much data been generated. According to IDC, the amount of data already exceeds the amount of storage. This fact comes with its own opportunities and unique challenges. Decision-making is fast moving from decisions based on samples of data (how things happened in the past) to decisions based on real-time information (as things are happening today). Businesses will increasingly leverage analytics and social networking to make better-informed decisions, in the moment.

Technology companies are in a pole position with regard to real-time data availability. The future of business analytics will turn on companies' abilities to simulate scenarios and forecast results using live data, giving rise to the ability to act much more quickly and proactively than before. The digital nature of the high-tech industry gives it access to immense amounts of data. Those companies that pioneer ways to incorporate that data into real-time actionable information will have huge competitive advantages.

**5. Video Comes to the Fore.** A number of forces are driving video to the fore: everything from digital photography, consumer electronics, social networks, mobile computing and tablets to Internet-based television, interactive customer support and interactive field service. Video, in fact, is taking a front seat for businesses to deliver product details, to showcase executives, and to explain their services. Video will become a key component of corporate communication, both internal and external, allowing companies to cut corporate travel budgets, and the opportunity is huge for players in this space.

### Economic Agenda: Growth

According to our research and analysis, growth in global technology spending has already reached pre-recession levels of 5% (see Figure 1). Technology companies' first-quarter 2011 results have surpassed market expectations comfortably. The combined revenues of the top technology companies show 11% growth in 2010, compared to -0.4% in 2009.<sup>7</sup> For full-year 2011 these companies are expected to grow at 13%.<sup>8</sup> Innovators with clear competitive advantage are the ones driving growth, rather than the traditional industry heavyweights (see Figure 2).

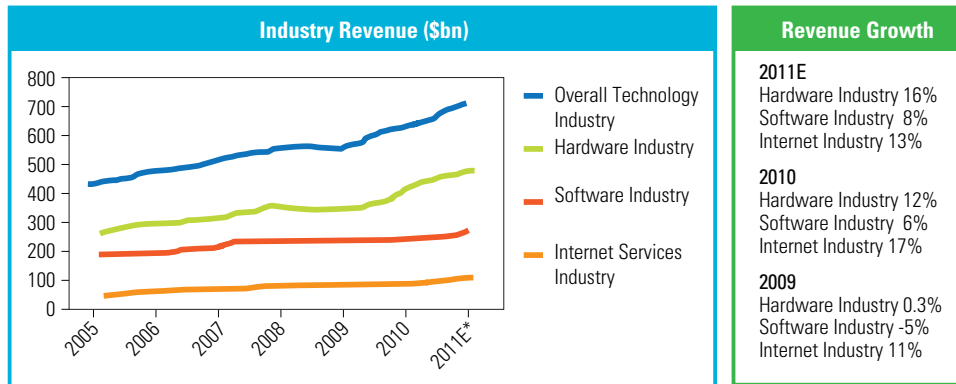
Coming out of the recession, companies that are leaders and innovators are focusing more on top- and bottom-line growth, while spending on sales, general and administrative (SG&A) remains lean (see Figure 3). Apple, Google and Intel have performed exceedingly well on net profit margins, due in part to their ability to manage SG&A expense. The implications are obvious: Technology firms need to find ways to continue to manage costs and fund the required acceleration of innovation. They need to generate cash to fund R&D and innovation, maximize value extraction from new product development, and ensure product development speed and efficacy.

As major technology and economic shift continues to unfold, high-tech companies face several strategic opportunities. To insulate against future downturns, they must create flexible business models. They can shield themselves from talent shortages by accessing high-quality talent and capabilities offshore. These activities will in turn help them cut time to market and increase productivity as well as reduce costs.

## Economic Growth Returns

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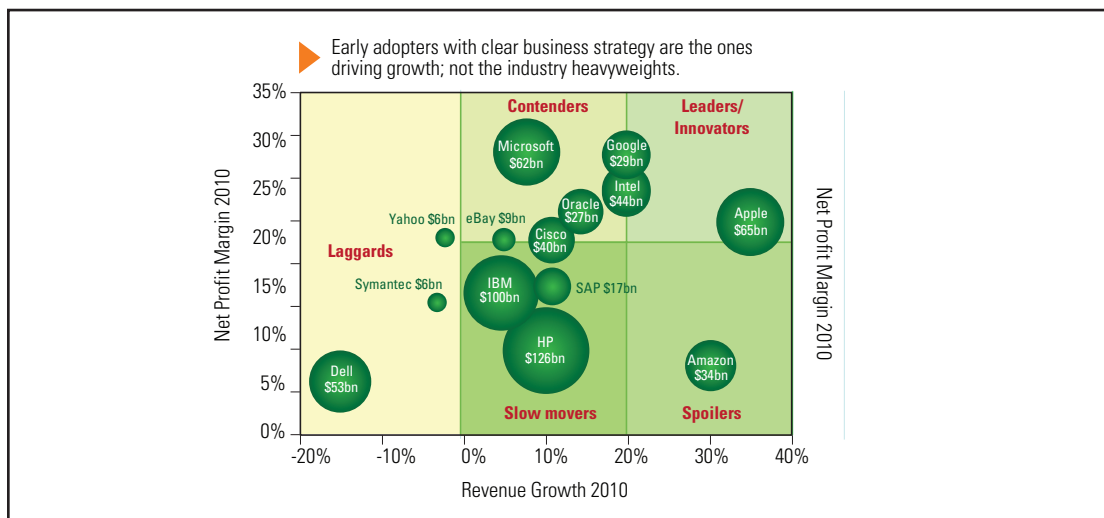


Combined revenues of the top companies from each industry segment include:  
 Hardware – HP, Dell, Apple, Cisco & Intel.  
 Software – Microsoft, IBM, SAP, Oracle & Symantec.  
 Internet Services – Amazon, Google, eBay & Yahoo.

\* UBS analyst reports

Source: Company annual reports and 10-K filings  
 Figure 1

## Segmenting Tech Industry Growth



Source: Company annual reports and 10-K filings  
 Figure 2

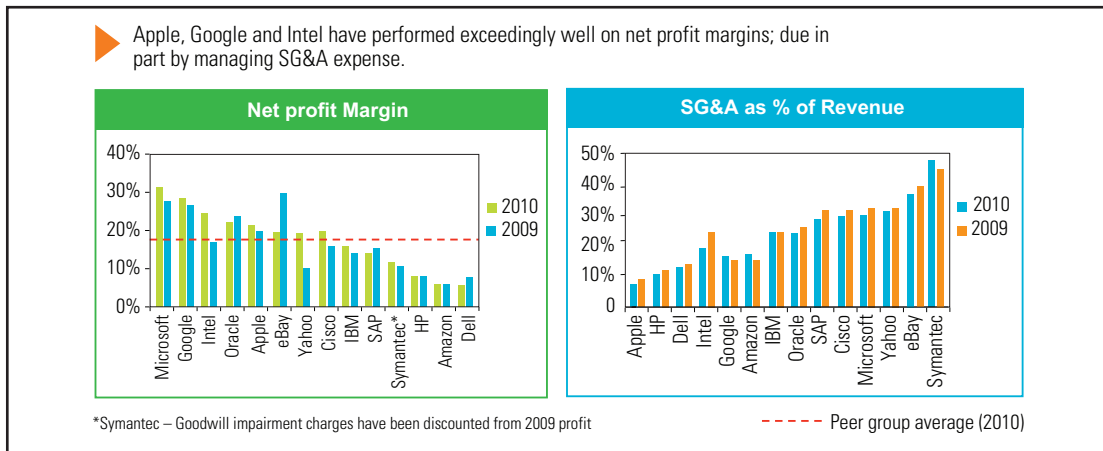
## New Platforms for Innovation and Growth

The technology industry is leveraging all forms of services delivery at an accelerating rate to respond to these imperatives (see Figure 4). Ten years ago, the technology industry entered into roughly 20 new global services deals per year according to our research. Five years ago, the technology industry entered into approximately

30 new deals each year. Today, the technology industry enters into 50-some new deals per year.<sup>9</sup>

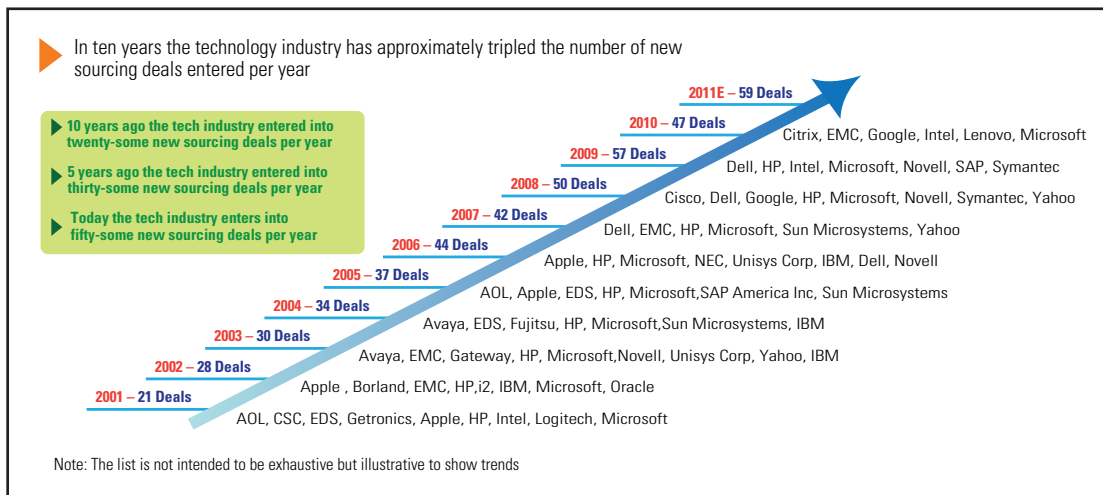
As in other industries, most high-tech companies used IT as their entrée into global service delivery. Today, however, the technology industry is increasingly adopting BPO for functions such as finance and accounting (F&A), human resources and customer support. In addition to

## Revenue & Profit Increases; SG&A Remains Lean



Source: Company annual reports and 10-K filings  
Figure 3

## Dependence on Global Services Accelerates



Source: Cognizant research and analysis  
Figure 4

having built offshore software development and maintenance capabilities, technology companies are buying specialized capabilities such as F&A and HR from third parties. While accounts payable (AP), accounts receivable (AR), fixed asset accounting (FA) and general ledger (GL) constitute the majority of F&A outsourcing (FAO) services, companies have started sourcing tax, regulatory reporting, internal audit and other complex activities from third parties.

This trend is gaining momentum outside of the technology sector as well. BPO and FAO are growing rapidly across all industries. In 2011, cross-industry BPO is expected to grow at over 30% and FAO at over 20%,<sup>10</sup> according to the Everest Research Institute. The total contract value of new FAO deals is estimated to reach

more than \$4.5 billion in 2011, according to Everest.<sup>11</sup>

Globalization of technology companies' operating models through these partnerships is an accelerating and measurable response to the current technology and economic trends. Technology companies are discovering that BPO in general, and F&A services in particular, can be their pathway to creating an agile business model that promotes growth and innovation while reducing costs.

Most companies begin their F&A services journey with transaction-processing work such as accounts payable, accounts receivable, general accounting, fixed asset accounting and payroll. As they get more comfortable, they expand

into financial reporting, analytics, compliance activities and treasury work.

We have taken a unique approach to the three major aspects of F&A:

- **Commoditize procure-to-pay (P2P).** P2P processes (including purchasing, accounts payable and travel & entertainment) are typically highly manual, with few controls and no end-to-end process view. We use state-of-the-art tools with a goal of eliminating all manual P2P work.
- **“Verticalize” order to cash (O2C).** These processes (including order management, invoicing,disputemanagement, collections and AR) tend to have industry-specific requirements and characteristics and are therefore best optimized using industry-specific best practices. We have industry domain knowledge and expertise to provide industry-tailored O2C solutions.

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- **Automate record-to-report (R2R).** Here, the goal is to automate the R2R processes that do not add value, such as manual journal processing and reconciliations. We use automated tools, period-end close management tools, and well-defined procedures, to minimize manual processing and improve process predictability and visibility.

### Looking Ahead

Partnering with an F&A specialist brings an immediate cost advantage and capability improvement. This results from economies of scale gained by processing greater volumes than any individual company and core skill sets that includes a higher mix of experienced and degreed personnel. The provider also does this work in a lower cost location, supported by a larger investment in best practice research and technology. FAO also improves controls by providing improved separation of duties, better documentation of processes, documentation of performance levels, and higher levels of automation. In turn, this creates better audit trails and visibility into the processes, which gives insight that can be leveraged to optimize processes.

### Footnotes

- <sup>1</sup> Deloitte *TMT Predictions 2011*
- <sup>2</sup> IDC Worldwide Quarterly Mobile Phone Tracker
- <sup>3</sup> Cognizant research and analysis based on surveys by Sand Hill Group and Axios Systems.
- <sup>4</sup> Cognizant research and analysis based on IBM survey, “Dispelling the vapor around cloud computing in the financial services industry.”
- <sup>5</sup> IDC
- <sup>6</sup> IDC
- <sup>7</sup> Cognizant research and analysis based on data from annual reports of top hardware, software and Internet companies.
- <sup>8</sup> Cognizant research and analysis based on 2011 revenue estimates from UBS analyst reports of top hardware, software and Internet companies.
- <sup>9</sup> Cognizant research and analysis
- <sup>10</sup> Everest Research Institute and TPI
- <sup>11</sup> Everest Research Institute

## About the Authors

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## About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world's leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 111,000 employees as of March 31, 2011, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at [www.cognizant.com](http://www.cognizant.com) or follow us on Twitter: Cognizant.



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