



## Manufacturers Gain Flexibility, Velocity by Running Finance, Accounting as a Service

### Executive Summary

Unless you've been residing under a rock for the past two years, you are likely already well-versed in the software as a service (SaaS)/cloud delivery models. The practice of globally sourcing computing infrastructure and applications to a cloud services provider carries well-known benefits. These include greater flexibility, scalability and speed, as well as the ability to shift the burden of installation and support to the provider.

Today, you can "rent" not only technical resources such as a data center (via infrastructure as a service, or IaaS) or software (via SaaS), but also applications and business processes, such as finance and accounting (F&A). The latter option, known as business process as a service (BPaaS), is gaining currency among manufacturers looking to fund the next round of investments and innovations that will help transport them out of this period of economic uncertainty. BPaaS solutions weave together infrastructure, collaboration platforms and human talent to perform knowledge work and deliver business outputs to customers. Scalable and flexible, BPaaS services deliver tangible and pre-defined business outcomes.

As in other industries, progressive manufacturers are looking, above all, to improve customer experience, based on a better understanding of customer needs and preferences. BPaaS is one way to finance these critical forward-looking initiatives. Paying a provider to manage accounting processes, for example, creates efficiencies that

can be applied to the business for generating sustainable market differentiation.

As with existing business process outsourcing (BPO), finance and accounting processes are a particularly good place to begin the BPaaS journey, especially for companies that prefer to take a risk-averse approach. Manufacturers partner with a large number of vendors compared with other types of companies, making accounting and accounts payable a top cost center. Running an efficient payroll operation is also a top priority.

As manufacturers begin to see the benefits of finance and accounting BPaaS, they become more willing to venture into functional areas such as treasury, payroll, fixed assets and project accounting. As such, they seek an integrated global sourcing approach. Outsourcing accounts payable to a cost-effective BPaaS service provider that can leverage scalable, horizontal-function efficiencies across customers can be a quick and easy way to reduce costs while preserving the human and technical infrastructure that will serve internally as a platform for revenue growth.

### Letting Manufacturers Focus on Core Competencies

BPaaS is changing the way companies manage their businesses. Under the model, the consumers of services need only care about what each service does for them, not how it is implemented. Compared with the cost and complexity of selecting, implementing, maintaining and supporting on-premises applications and systems,

this is an undeniable advantage. Large companies, for the most part, have not yet adopted BPaaS for their core business processes but rather are experimenting with it for non-core processes, such as finance and accounting. Data security and privacy are a concern, although that is decreasing thanks to new standards and accepted safeguards (see sidebar, next page). Large companies generally have a great deal of existing infrastructure and many applications installed on-premises. They are naturally hesitant to migrate their existing

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technical infrastructure to an external environment unless there is a compelling reason to do so.

Manufacturers have long used global sourcing (including offshore production and IT outsourcing) to drive cost efficiencies, positioning them to better understand the cloud's great potential. The value proposition is clear: Global sourcing in general, and BPaaS in particular,

offloads non-core competencies to a provider that can cost-reduce and optimize processes, in accordance with best-in-class, industry-specific practices and technologies.

In the past, technology projects involved a fixed investment – once implemented, companies were stuck with it. BPaaS, by contrast, is about flexibility and elasticity. Businesses can grow or shrink their usage of the services as their needs change.

In some cases, when organizations grow through acquisition, they end up managing a number of disparate solutions. This creates inefficiencies in reconciling financial and accounting data. Moving to a standardized, on-demand accounting environment via BPaaS removes the inefficiencies of the traditional dedicated environment. Manufacturers that embrace BPaaS stand to benefit from best-in-class processes, benchmarked against competitors, while at the same time increasing efficiencies.

We recommend a stepped approach to BPaaS as opposed to the proverbial “big bang” switchover. Most companies begin their finance and accounting BPaaS journey with accounts payable and/or payroll processes. Globally sourcing these functions introduces a cost advantage because the BPaaS provider has the ability to process greater volumes than an individual company. Once these benefits are achieved and proven, many executives are ready to broaden their BPaaS effort for greater efficiencies.

### BPaaS Entry Approaches

In our work with manufacturers and companies in other industries, we find there are four basic approaches to moving to BPaaS (see Figure 1).

1. **Tailored processes.** Clients that take this approach have a number of different processes that can be migrated to a BPaaS model without a negative impact. For example, easily separable

## BPaaS Opportunities for Large Organizations

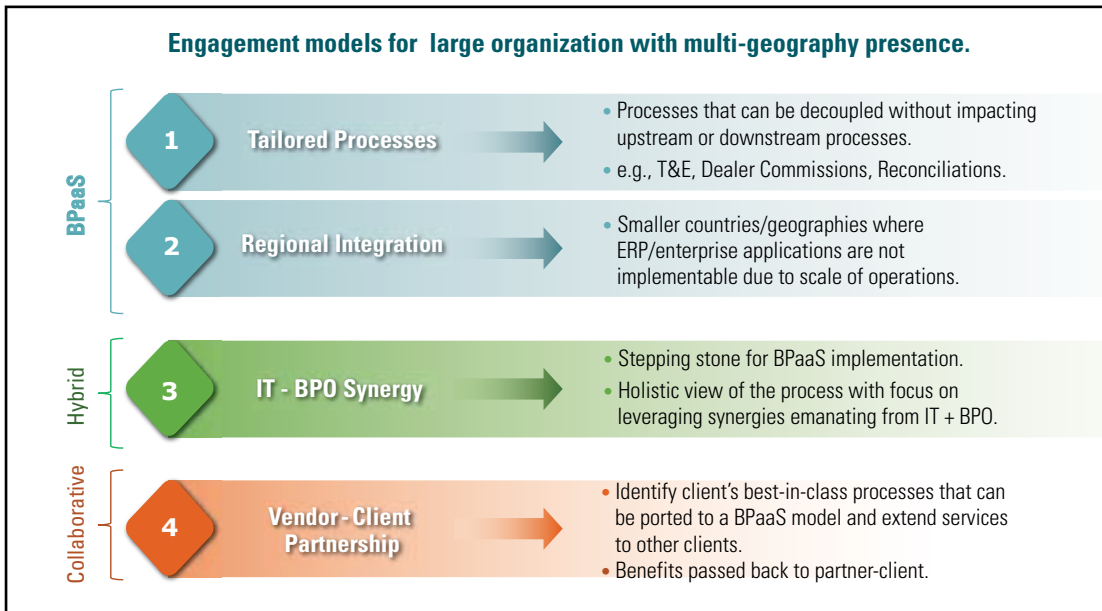


Figure 1

processes include travel and expense, dealer commissions, warranty administration and reconciliations. These activities are non-core and can be decoupled easily and converted into a BPaaS model. With this approach, you are adding value to the organization without shaking up the function as a whole.

2. **Regional integration.** Companies that operate in many countries may have rolled out an enterprise accounting platform but left out certain geographies. Smaller regions may not have had the critical mass to justify deploying the enterprise application. We often see clients with regions that operate outside the corporate accounting platform, perhaps using Excel or a homegrown system. Converting those untouched regions to a BPaaS model is a low-risk entry point. These regions represent only a small percentage of the whole, but they contribute accounting data that is necessary for the corporation to close its books.

### Spotlight on Security

One of the biggest concerns with the BPaaS model is the possibility that the data might no longer reside in internal data centers. Executives worry their data will be compromised if it is hosted on public clouds. Our BPaaS solution operates on a private, not public, cloud. Security, privacy and compliance are core to our system. Clients have the option of running data in an internal Cognizant private cloud or in a hosting partner's private cloud. No data is ever stored in the public cloud without pre-approval from our clients.

The Cognizant Cloud Platform adheres to all relevant data security standards, including BS7799, ISO27001, SAS70 Type II, SOX and PCI L1. We support our private-cloud managed business processes through best-in-class tools and controls. All data is backed up continuously; we also offer built-in plans for data recovery and business continuity.

The bottom line: Data security concerns around the cloud are decreasing as the field becomes more mature.

3. **IT-BPO Synergy.** This model combines IT global sourcing and BPO to create a BPaaS solution. In our client work, we sometimes recommend a particular aspect of the client's enterprise application to be changed. It can be difficult for the client to make the recommended change, especially if it requires swapping out the application. Here, the client first globally sources the IT application to a managed services provider, followed by globally sourcing its accounting process, as well.

4. **Vendor-client partnership.** This approach is fairly unique. We find that some of our customers have implemented top technology tools and created best-in-class processes. With the client's express contractual approval, we can "carve out" those processes, convert them to a shared BPaaS arrangement and then offer those processes to other companies. In this way, our client has the opportunity to monetize the processes and business functions it has optimized, sharing its expertise with others. A number of our clients are looking at this model to convert cost centers to revenue centers.

Our cloud-enabled balance sheet reconciliation application addresses automating, standardizing and globalizing the reconciliation process, enabling significant cost reductions.

### The Cognizant-BPaaS Platform for Finance and Accounting

We have developed a series of tools, techniques and processes to ease our clients' migration to BPaaS finance and accounting. Our cloud-based platform works with companies' existing infrastructure and eases the transition.

#### Reconciliation

Reconciliation tends to be a big accounting issue for our manufacturing customers. Most use Excel or core ERP systems, but these methods are not the most efficient way to do reconciliation. We have created a BPaaS reconciliation platform that receives inputs from the client's core accounting processes and then runs the process in a BPaaS model. This provides the benefit of greater efficiency, while leaving core processes undisturbed. Our cloud-enabled balance sheet reconciliation application addresses automating, standardizing and globalizing the reconciliation process, enabling significant cost reductions.

## Procure-to-Pay

Manufacturers traditionally struggle with procure-to-pay processes, lacking visibility into when materials were ordered, to when payment was generated. They face significant challenges to ensure that the services or materials received are contractually compliant (for example, that pricing is correct, the purchase order was transmitted correctly, the invoice matches and, finally, that the supplier is paid the correct amount for the services/goods delivered). While many enterprise systems claim these elements are simply defined within their structural logic, in truth there are many opportunities for error. Without a planned process for managing the procure-to-pay cycle, the organization may have to bear significant costs due to noncompliance with system or process requirements.

To improve the procure-to-pay process, we partnered with Oracle to create the procure-to-pay capabilities in our BPaaS accounting offering (see Figure 2). Our solution has built-in best-in-class processes and interfaces with multiple core ERP systems. Additional hardware and software investments are not necessary for using our procure-to-pay process as a service. The process is transparent. Invoices and other communications are scanned into the system, which then transfers the files to our staff, according to the designated workflow. When the work is complete, one simple file is uploaded to the customer. This is a simple and elegant solution for completing a set of processes that typically have been challenging for manufacturers to handle.

## Proven Track Record in BPaaS Finance and Accounting

We have worked with companies across industries to provide BPaaS in the accounting area. For example:

- **For a department store chain with 300 stores:** We built a BPaaS ticketing solution for effective monitoring and management of merchandise payable, expense payable and vendor control. Our team tracks quality controls and SLAs for the retailer and uses dashboards for reporting.
- **For a media company providing advertising services in a marketing promotion:** We created a tool to receive, allocate, plan and track all media planning requests. Our unified platform was used by the client's sales, custom media and accounts payable team.
- **For a leading manufacturer of laboratory products:** We deployed a document/image workflow to effectively receive and track all e-mail orders received in the group mailbox and scanning center. The workflow automatically creates transactions for every e-mail scanned and file received and manages work allocation, prioritization and work distribution based on business rules. Order entry and invoice processing is performed on the core systems (the mainframe is hosted by the customer), while transactions are tracked and process metrics captured using the workflow tool.

## Oracle-Based Procure-to-Pay BPaaS

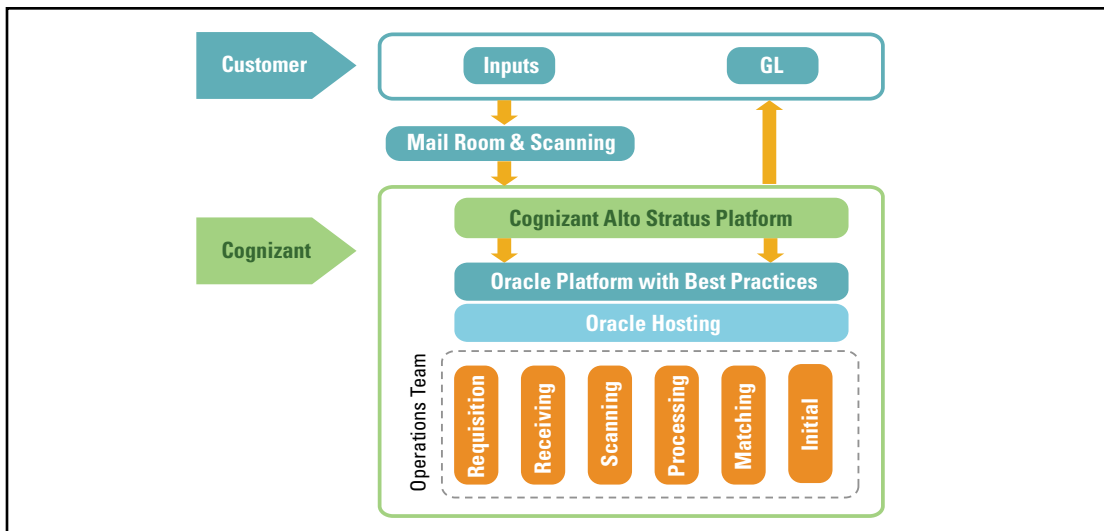


Figure 2

BPaaS is a relatively new phenomenon. Many companies are just growing comfortable with the idea of outsourcing their data centers and enterprise applications. Globally sourcing your accounting function will allow your organization to concentrate on core competencies that provide competitive differentiation. With a variety of starting points to choose from, BPaaS enables you to achieve variable costs, greater speed and maximum flexibility.

### The Platform for Future Growth

Manufacturers are considering a number of new technology service models in their bid to conserve resources and focus on core competencies.

Progressive companies are turning to business process as a service. Finance and accounting processes are a strong entrée into BPaaS. The upfront investment is low, and start-up is usually straightforward, due in large part to the availability of well-documented procedures.

Globally sourcing finance and accounting processes to a cost-effective service provider that can leverage scalable horizontal-function efficiencies across customers can be a quick and easy way for manufactures to reduce costs while preserving the human and technical infrastructure that will serve as a platform for future growth.

### About the Author

*Srinivas Pingali is a key member of the team responsible for Cognizant's BPO and BPaaS solutions and works closely with the Cognizant cloud initiative. Prior to joining Cognizant, he was a founding member of Quattro BPO, where his primary focus was product development, business development, marketing and investor's management. Prior to Quattro, Srinivas was a partner at Accenture and was part of the management team that built Accenture's BPO capabilities in India. He is a chemical engineer with an MBA in marketing from the University of Illinois, Champaign-Urbana. He can be reached at [Srinivas.Pingali@cognizant.com](mailto:Srinivas.Pingali@cognizant.com).*

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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 1000 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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