

OVERVIEW

This brief was created by interviewing more than a dozen FAO (Financial & Accounting Outsourcing) providers located in the southwest United States during Q1 2010. It is intended to summarize the current FAO landscape.

Focus Area	Solutions	Vertical Focus Areas	Annual Revenues
Bookkeeping and Tax Support Services	Records Management (DMS) and Bookkeeping	none	1
Accounts Receivable Management	Accounts Receivable Management	none	18
Outsourced Financial Management and Bookkeeping	Bookkeeping	none	1
Bookkeeping Services	Bookkeeping	none	1
Small Business Experts	Tax work mostly. Payroll, Bookkeeping, Financial	none	1
Helping you to do more of what you do well	CFO advisory services	none	1
AR Factoring	Financing Through Invoice Factoring	none	1
Interim and Outsourced Human Resource Services	Finance and Accounting plus growth consulting for Venture/PE or high-potentials	Banking, PE, Venture, Legal	3
Cloud Finance and Accounting Solutions	Holistic FAO	Multiple: Software, Technology, Services	10
Entrepreneurial Solutions - Outsourced CFO and Controllers	Outsourced CFO & Controller Services	Multiple	3
Outsourced Bookkeeping & Financial Services	Outsourced Controller Services	Services Business Focus	3
Providing Business Solutions to Create Value	CFO advisory services	1) Services 2) Healthcare 3) Manufacturing	3
Strategic Financial Consulting	Controller to CFO advisory services	1) Healthcare 2) Services	3
Chief Financial Offer Services	Controller to CFO advisory services	None	3

EXECUTIVE SUMMARY

Over the past few years we have seen the FAO market expand¹ its appeal to a wide range of industries and buyer sizes driven by the need for a) more agile/flexible cost structures, and b) access/augmentation to a true FAO platform which includes best-in-class expertise, technology, and processes.

Every day more small businesses make the decision to outsource a business process and a business function. In fact, the average small business outsources part or all of at least two (2) business processes and/or functions². Furthermore, once executives make the decision to outsource the number of processes/functions expands as evidenced by a recent survey: Over 75 percent of the finance executives plan to expand their outsourcing programs in 2010 and over 85 percent of the finance executives are satisfied with the benefits from FAO (WNS Annual CFO Survey 2010).

Consistent with economic and competitive pressures, the market demand for FAO from small businesses continues to grow at a faster pace; for executives in 2010 1) cash management and 2) risk management initiatives including improving internal controls are two of the highest priorities.

The singular largest trend among FAO providers is the move to offer a broader and deeper and thus more holistic solution offering that ranges from Bookkeeping to Outsourced Controller Services to CFO and CFO Advisory Solutions. This scope extension by providers is being accomplished through acquisitions, strategic alliances, partnering, and in a few cases through organic growth.

¹ Everest expects growth in excess of 20% for 2010 and expects the multi-process FAO market to reach nearly US\$3.7 billion.

² Ephor Group 2009 Executive Survey of Small Business Owners.

FAO OUTSOURCING TRENDS

1. **Expansion of Solutions Offering** >> Holistic solution offerings are being developed with increased adoption as the transactional providers are moving to offer end-to-end procure-to-pay and order-to-cash solutions, while the strategic providers are augmenting their existing services with outsourced controller oriented solutions. *On a side note:* Buyers of FAO prefer a phased adoption of FAO scope of services to balance near-term benefits realization with longer-term strategies.

2. **Development of a Platform Offering** >> The development of a “value added” and wealth creating FAO Platform includes the technology/software, tools, processes, and methodologies to standardize all procedures across clients while eliminating and automating a substantial portion of billing/invoicing, financial statement reporting and general ledger activities as well as cash management. Further developed FAO Platforms include alerts/triggers, workflow, DMS (Document Management Solutions), KMS (Knowledge Management Solutions), BI (Business Intelligence) and Analytics.

3. **Move to Focus on Vertical Specialization** >> FAO suppliers, especially given recent economic conditions of the past two years, have increasingly focused on specific industry competencies and capabilities in order to apply professional standards at an affordable rate, and provide increasing value add.

4. **Recurring Revenues** >> Many of the traditional providers have adopted long-term contracts for services supported by “Productized Projects” to meet small business needs.

5. **Expansion of Buyer Expectations** >> The buyers of FAO and all outsourcing services are increasingly educated with many buyers requiring pay-for-performance and service level agreements. Greater than 50 percent of the mid-market contracts signed last year had a hybrid pricing structure consisting of a base monthly recurring fee as well as additional incentive compensation based on price-per-transaction and/or quantity of deliverables/results.

Financial & Administration Outsourcing (FAO) Value-Proposition

While transactional intensive processes are most commonly outsourced, the scope of FAO services continues to evolve from a value-proposition based on cost, to one of value-creation based on augmentation of existing functionality through expertise, technology, and process excellence.

Today, FAO providers help companies enhance the processes and provide scalability by eliminating non-value added activities, automating key processes, and providing increased resources as needed in support of the business model development.

The results are demonstrable thru Management Dashboards; which are used to drive operational and strategic decisions at the executive level and empower front-line employees with real-time decision making.

As companies seek to maximize efficiency, many find themselves leveraging the capabilities of FAO to enhance the management process.

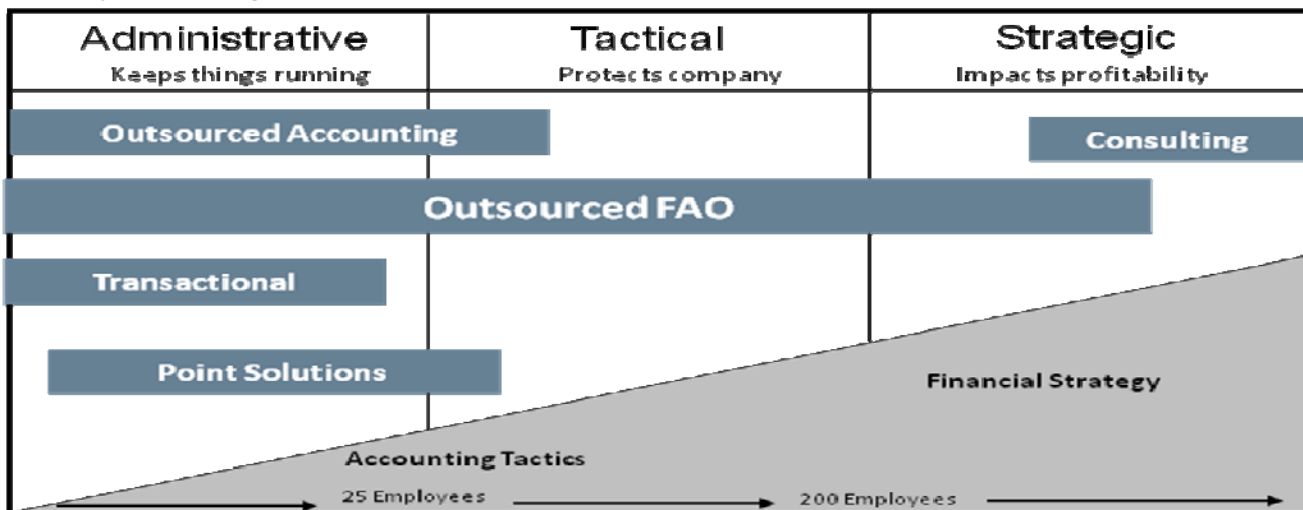
6. **Demand for Intelligence & Analytics** >> Few companies have the systems, engineered processes and measurements to utilize their operational data; however this is slowly evolving as FAO providers transition from transactional oriented to operationally oriented. Moreover, FAO Platforms deliver dashboards and scorecards which provide real-time monitoring and reporting on the quality and efficiency of key processes. With this performance data companies are able to evaluate the ongoing efficiency and effectiveness of the process, compare performance to best-in-class, and identify areas that may benefit from reengineering and improvement.

7. **The CFO’s Role as the Chief Risk Officer** >> The CFO scope of responsibilities continues to grow, especially in small to medium size businesses, requiring FAO’s to mitigate risk, create alternatives, determine strategic optionality (modeling, and scenario planning), and increasingly lead major reengineering and process improvement initiatives.

MARKET PROVIDER LANDSCAPE

The FAO market landscape is highly fragmented; moreover firms historically have offered either Accounting (outsourced bookkeeping and controller services) or Finance (CFO consulting and advisory services) absent a holistic solutions platform, technology platform or cohesive approach and methodologies.

The landscape today is cluttered with more than 500 transactional oriented providers focused up-market³, and hundreds thousands of transactional oriented bookkeeping providers and boutique CFO advisory/consulting firms.



While historically up-market providers focused on either being a holistic BPO, or narrowly focused Outsourced Accounting, or Outsourced Finance partner; small businesses are requiring and demanding a full suite of FAO services and thus the FAO offering in terms of breadth and depth has expanded, and will be required to further in the future. The FAO providers that are over \$5M in annual revenues have adopted the “best practices” of up-market solutions while creating FAO services which enable the CFO to

³ Up-market FAO Providers: <http://www.faotoday.com/fao-today-resource-guide> and <http://www.outsourcing-suppliers.com/e/everest.html>

handle their expanding roles.

FAO SERVICES OFFERING

- Management Science & Operational Consulting/Support
 - Operational Consulting
 - KPI & Dashboard Implementation
 - Implementation of Protocols, Controls, Professional Standards, and Playbooks

- CFO Advisory
 - Budgets, Forecasts & Modeling
 - Credit Management
 - CapEx Management
 - Corporate or Board Governance
 - Controls: Institute accounting control procedures to insure safeguards of your assets
 - Treasury services (Banking, Debt, Equity, Private and Public Sources of Capital)
 - Risk management advisory services

- CFO Projects
 - IT / MIS
 - Strategic Initiatives
 - M&A
 - Due Diligence
 - Compensation Planning
 - Business Valuation
 - Develop Strategic Alternatives including: a) Partnering: Alternative Distribution Relationships, and b) Value-Add Capabilities to maximize recurring revenues
 - Formulate strategic options of the entity.
 - Determine make, buy, or partner capabilities and the resources needed to fulfill value proposition
 - Employee Benefit Analysis: 401K, Cafeteria plans, Health plans
 - Outsourcing the human resource operations

Attributes of High Performing FAO Providers

- ✓ Recurring Revenue Model (>12 month contracts)
- ✓ Portfolio of services, products, and solutions, including “productization of project oriented services”
- ✓ Dashboards that provide “drill-down” information into operations and create the framework for effective decision making
- ✓ Scale documented, reported, automated
- ✓ Platform includes: vertical expertise, technology, and process excellence
- ✓ Both day-to-day and projects conducted by Jr’s and not principal executives
- ✓ Automation of many of the clients’ existing processes
- ✓ Monthly Financial and Operational Reporting Packaged Solution offered that highlights: Client Retention, Workforce Engagement, and Operational Scalability at all levels
- ✓ Customer Acquisition Economics that illustrate cost < \$1.00 of first year revenues

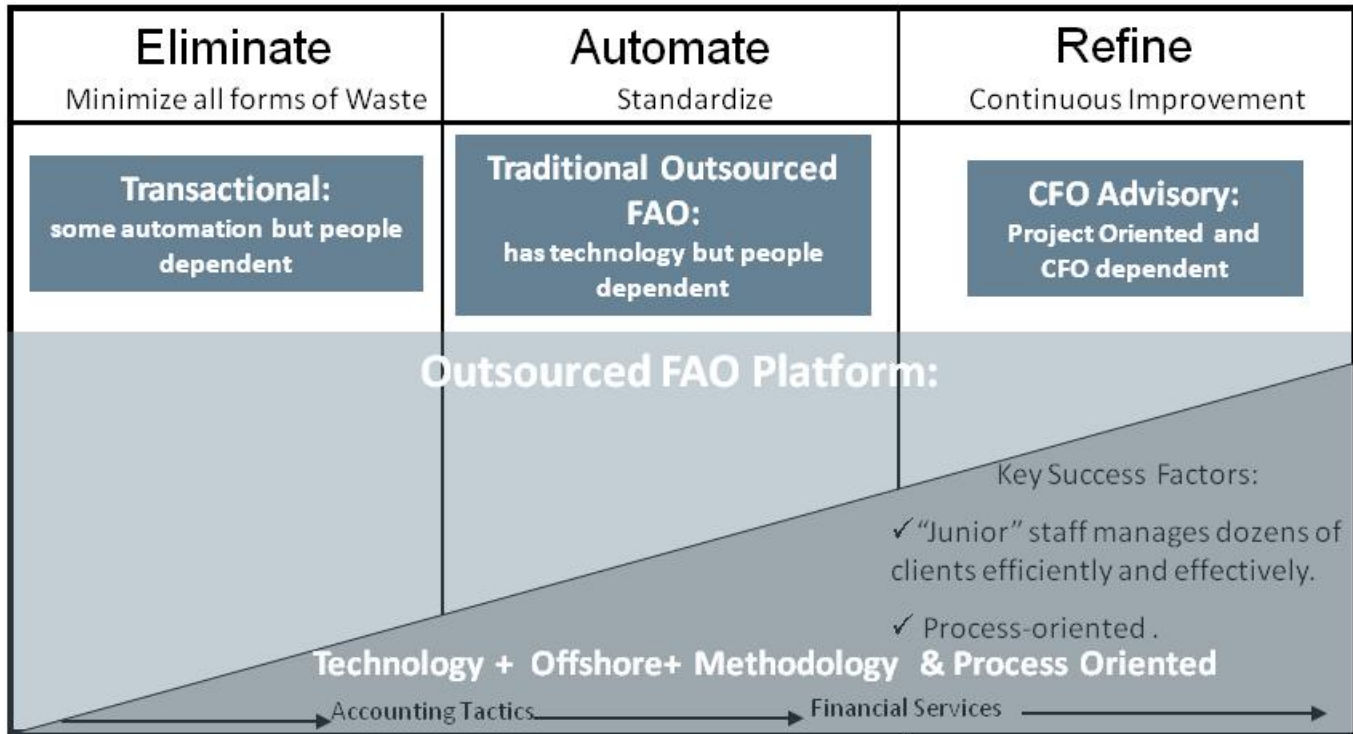
- Determination of best accounting package available for your company
- Variance and Trend Analysis
- Complex forecasting and scenario modeling
- Profit Improvement
- Strategic Planning and Scenario Modeling
- Gross Profit Optimization
- Expense Reduction
- Exit Strategies
- IT / MIS ROI / TCO Analysis
- Vendor Evaluation and Selection

- Outsourced Controller Services (Routine FAO Activities)
 - Cash Management
 - AR/AP
 - Bill pay
 - Monthly transaction processing and financial statement preparation
 - GL Management and Reporting

- Clerk
 - Daily accounting services
 - Procure to Pay Process
 - Order to Receipt Process
 - Payroll and T&E Processing
 - Bonus and Commission Reporting

- Platform
 - Document digitization and storage
 - Workflow
 - Dashboards & Analytics
 - Options: Microsoft, SAGE, Intuit, NetSuite

FAO PLATFORM EFFICIENCIES



KEY OPERATING INDICATORS TO MEASURE FAO PERFORMANCE

- ☑ Transactions processed per employee: cost and time per transaction, error rate, and exception rate (Service Level Measurement & Metrics)
- ☑ Cash management: Margins, DSOs and key performance indicators
- ☑ Reporting Maturity: Time to Close (days to close books) and Breadth & Depth
- ☑ ROI/TCO of Investment and Resource Allocation of Decisions (people, systems, tools, partners, vendors, software)
- ☑ Forecast Budgeted Plan against Actuals
- ☑ Percentage of Work performed Offshore versus Clerks versus "Junior" level staff versus Veterans

FAO PROVIDER EVALUATION AND SELECTION CRITERIA

Criteria	Score and Ranking Depends on the following:
Operational & Management Activities	Investment and Resource Allocation Personnel and Workforce Development: Succession planning and bench strength, as well as Organizational design and planning, and Compensation management including Incentive and reward systems
Strategic Activities	<i>Operational and CFO Advisory; see detailed list of services above</i>
Tactical Activities	Compliance and Risk Mitigation
Administrative Activities	Order-to-Cash Procure-to-Pay
Industry Vertical Competency	Vertical Expertise Count of Clients (#) References
Fit	Reputation Financial Stability Methodology
Platform	Core FAO Platform Platform add-on capabilities Reporting, Dashboards and Analytics
Cost-Benefit Analysis	Setup & Implementation Timeline ROI Expectations Service Level Agreements & Pricing Terms & Conditions



FAO BUYER LANDSCAPE

Three (3) types of buyers and their corresponding situation overview and attributes:

- i. Entrepreneurs:
 - a. Typical Business: Financial statements are handled in QuickBooks but access to real-time financials is non-existent.
 - b. Biggest FAO Challenge: Cash Management.
 - c. Platform: QuickBooks
 - d. Capabilities Needed:
 - i. Efficient, effective, flexible, and transparent operations that not only support the business, but help the business to grow
 - ii. Ongoing development and optimization of people, process, and technology to initiate the journey to best-in-class operations.

- ii. Fast-Growth or Emerging: Companies
 - a. Typical Business: Able to run financial analysis each month, but struggle to get the trends and insight into managements' hands in a timely manner.
 - b. Platform: QuickBooks, Microsoft, NetSuite, SAGE
 - c. Biggest FAO Challenge: Creating scale.
 - d. Capabilities Needed:
 - i. Reducing Fixed Operating Cost Structures.
 - ii. Key process metrics and performance data that offers insight into the health of the business processes for operational management and continuous improvement.

- iii. Risk Avoidant:
 - a. Platform: Data is stored in incompatible, disparate systems where consolidation is a time-consuming manual process.
 - b. Biggest Challenge: Risk mitigation and proactive management augmentation.
 - c. Capabilities Needed:
 - i. Compliance & Risk Management
 - ii. Performance and long-term planning.

All three (3) buyer types listed above are sold primarily via a "Principal Selling Model," i.e. FAO services are sold to one company at a time via a Principal Consultant/Owner Sales Model typically starting with an Assessment or high priority project as the lead product.

On average services range from approximately \$1,000 to \$3,000 a month for Accounting services (outsourced bookkeeping and controller) to \$1,500 to \$5,000 a month for Financial services (CFO consulting and advisory project or retainer work).

Prices vary depending upon breadth and depth, established vertical competency and reputation, as well as overall platform. On average Gross Margin's are above 65%. Without an established FAO Platform, contracts are either 30 day monthly contracts or based on per project fees.

CONCLUSION

While the services provided to small businesses are readily available the market offering of today is highly fragmented. Small businesses need and are increasingly demanding a "True Partner" that ensures the full value-proposition of outsourcing is delivered and realized: a) cost savings b) get access to experts and a platform to implement business processes, and c) flexible and versatile services delivery.

To be a "True Partner" FAO providers must deliver professional standards, visibility into operations, and a framework for decision making. The days of simply "closing the books" is no longer sufficient as businesses need more robust financial and cash management, personnel and operational support, and strategic advice.