

FINANCE METRIC OF THE MONTH

PROJECTED INCREASE IN NUMBER OF TRANSACTIONAL FINANCE POSITIONS TO BE GLOBALIZED IN NEXT TWO YEARS

The two faces of globalization

“Big G” represents the macro-level perspective of globalization. It includes companies’ revenue growth in new, international markets, the entrance of new global competitors in existing markets, the development of new global supply chains, and sourcing of direct products and services from the most competitive suppliers globally.

“Little G” represents the smaller but more emotionally charged aspect of globalization, primarily driven by global labor arbitrage opportunities. It involves sourcing business processes from the lowest-cost geography. Because there is potentially a direct connection between the loss of one job in a high-cost country and a job gain in a low-cost country, there is often a very real change in the economic fortunes of individuals impacted.

Companies have to consider “Big G” and “Little G” globalization both as an engine of growth and as a way to maintain a competitive cost structure, irrespective of the location of corporate headquarters. Ultimately, businesses exist in a competitive environment, and executives’ failure to make tough decisions in the face of the threats and opportunities presented by globalization cannot help but put the entire business at risk.

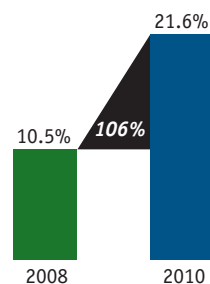
METRIC DEFINITION

In today’s uncertain economic environment, globalization provides finance organizations with opportunities to reduce costs while maintaining functional effectiveness. Knowing the increase in the number of transactional¹ finance function positions that will be globalized over the next two years provides a basis for understanding the size of the globalization opportunity in the foreseeable future. We determined the increase in the number of transactional finance function staff to be globalized by asking Hackett Advisory Members about this issue in our recent 2009 Key Issues Performance Study.

WHY IT’S IMPORTANT

The unfolding economic crisis has triggered a mix of responses from CFOs, aimed largely at cash preservation, operating profitability and, ultimately, market valuation. Business process globalization, which in the short term is still largely driven by labor arbitrage opportunities, squarely addresses operating profitability performance through its immediate impact on the cost of the finance function. New Hackett research shows that over the next two years, finance organizations plan to basically double the globalization (“Little G” – see sidebar) of their transactional processes (**Fig. 1**). This represents a significant departure from historical growth rates.

FIG. 1 Projected increase in number of transactional finance positions to be globalized in the next two years



Source: The Hackett Group, 2008

¹ Transactional FTEs are defined as staff working in the revenue cycle, cash disbursements, general accounting and external reporting areas of the finance organization.

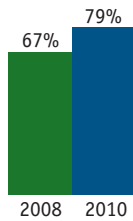
From a hard-dollar savings perspective, a typical Global 1000 company (that is, one with 2007 revenues of \$23.4 billion) will have achieved annual recurring finance function cost savings of over \$9.1 million in 2010 from globalization, a major rise from 2008 (Fig. 2).

FIG. 2 Annual recurring savings realized through globalization of finance transactional FTEs at a typical Global 1000 company, 2008-2010 (projected, in millions)



Source: The Hackett Group, 2008

FIG. 3 Percent of companies that are globalizing finance transactional FTEs, 2008-2010 (projected)



Source: The Hackett Group, 2008

An equally interesting metric is the percentage of companies that started globalizing processes in 2008 or earlier and their expected increase in this number over the next two years (Fig. 3).

STRATEGIC IMPLICATIONS

Despite the economic crisis, Hackett research shows that the majority of finance organizations are aggressively continuing to globalize transactional business processes. For the minority that have not started down this path, it is urgent to begin planning for the journey, while those on their way should focus on risk management and execution. All should have clear road maps of which processes and regions will be moved and when, and how affected processes will be sourced. While execution risk has diminished because of the maturing of the market and emergence of best practices, success will still require hard work. Expected acceleration in the trend will present a new set of challenges because of intensifying competition for executives with experience working in low-cost locations.

ABOUT THE HACKETT GROUP

The Hackett Group, a global strategic advisory firm, is a leader in best practice advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 4,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that help maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe and India and is publicly traded on the NASDAQ as HCKT.

THE HACKETT GROUP

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