

Let's give 'em something to cluck about

WNS takes Church's Chicken's F&A offshore all the way, with results that make the restaurant retailer crow.

When fast food restaurant franchise Church's Chicken was divested and sold by its parent company to a private equity group three years ago, the new owners were confronted with three choices involving its finance and accounting functions—continue to outsource them to the incumbent service provider, put the outsourcing contract out to bid, or build an internal finance and accounting team and forgo outsourcing altogether.

The company, founded in 1952 in San Antonio, Texas—right across the street from the Alamo—gambled its future on a fried chicken marinating recipe that remains a closely guarded secret. Quicker than you can say “crunchy,” franchises popped up across the country and in 15 foreign nations like French fries rising to the surface of a vat of bubbling oil. In 1969, Church's, named for founder George W. Church, became a publicly held company called Church's Fried Chicken, Inc. In 1992, it was acquired by AFC Enterprises Inc., a multi-brand retail restaurant holding company in Tulsa, Oklahoma, that also owned Popeye's Chicken and Cinnabon.

In December 2004, AFC put Church's and Cinnabon on the block to focus its efforts solely on Popeye's Chicken franchises. Private equity firm Arcapita bought Church's, which at the time comprised approximately 1,500

restaurants (today it numbers 1,600 restaurants, of which 1,200 are domestic). The company was then in the last year of an F&A outsourcing contract with provider Convergys, which had inherited the engagement following its 2005 acquisition of Deloitte Consulting's F&A outsourcing business. “We essentially had to decide whether to extend the contract or do something different,” said Dusty Profumo, executive vice president and CFO of Atlanta-based Cajun Operating Company, which operates Church's Chicken on behalf of Arcapita.

“We were in a transitional period separating from AFC, and I needed to get my arms around the infrastructure,” Profumo explained. “There were three different pieces—an IT outsourcing contract with IBM, a payroll processing contract with Ceridian, and the F&A outsourcing contract with what was then Deloitte and soon became Convergys.”

The F&A outsourcing contract provided onshore services, and Profumo mulled a potentially more cost-effective engagement involving services provided offshore. He also began to think deeply about forming his own internal back-office F&A team. At the time, he had his hands full, transferring both the IBM and Ceridian outsourcing contracts to offshore providers. “Given the different options open

to us on the F&A front, I decided to extend for one year the contract we had with Convergys,” he said. “In the meantime, I seriously considered doing this in-house and did a fairly robust cost analysis on what it would be like.” In researching the idea of a back-office finance and accounting process, the CFO recognised several challenges. For one, it would require greater physical space—either the offices in Atlanta would need to be substantially enlarged or the company would have to relocate. Next, there were significant costs associated with transitioning from what had been a very cost-effective and high-quality outsourcing model to an in-house model. For example, Church's would have to hire people to handle the finance and accounting functions while simultaneously continuing to retain Convergys, “a duplicative cost,” Profumo said.

What convinced the CFO to continue to outsource F&A was the prospect of offshoring the services to India, which posed far less cost than either the internal back-office option or extending the original outsourcing engagement. Profumo's cost-benefit analysis indicated that an offshore, outsourced model was half the fee that had previously been paid to Convergys, which handled the account in Tulsa. He abandoned the idea of an internal F&A model and put the outsourcing contract to bid.

Three providers made it to the short list, including the incumbent Convergys. The others were Accenture and WNS Global Services, which had recently become a public company on the New York Stock Exchange. All three were asked to present a bid that explicitly included an offshore component.

“We let them know that we wanted significant cost savings, which we believed could only accrue through an offshore model,” Profumo said. “Also, our CEO (Harsha Agadi) was born and raised in India and has family there, and he was certainly aware of the outsourcing opportunities in Mumbai.”

Each of the three providers bidding on the contract had a substantial presence in India—each had more than 10,000 people on the ground there. After intense evaluations, Profumo settled on WNS this past January because of the firm's size, its new status as a publicly traded company on the NYSE and its price, even though Accenture's bid was lower.

We got the impression they (WNS) really understood how best for us to transition from Convergys, and I was confident they would pull out all the stops to ensure the (transition) risks were fully addressed

WNS Global Services' evolution has followed a somewhat similar path to the development of Church's Chicken. British Airways in 1996 founded the company in India as a captive operation to deliver its back-office operations. The organisation built a comprehensive back-office structure that provided significant cost savings, while enhancing the quality of service. In 2002, private equity firm Warburg Pincus—which wanted to create a third-party business process outsourcing service provider - acquired a majority stake in WNS, and in July 2006, WNS became the first Indian-enabled BPO company to be publicly listed on the NYSE.

Over the years, the firm has amassed a stellar stable of clients, including global insurance broker Marsh, insurer Safeco, search firm

Korn/Ferry, First Horizon Bank, and several other airlines in addition to British Airways, such as United and Virgin Atlantic. The firm currently boasts more than 190 clients. It provides the traditional array of F&A transaction processing services—accounts payable and receivable, general ledger, fixed assets, revenue analysis and audit, and treasury. WNS also provides outsourced services in HR administration, including payroll, benefits and training/recruitment, and in supply chain management (order management through collections). More than 16,800 people work for the provider, 4,500 of them exclusively in finance and accounting (the firm has 28 F&A clients).

F&A: 100% Overseas

Both WNS and Church's maintain that this contract marks the first time a U.S. restaurant company has outsourced 100 percent of its F&A processes overseas, which may indeed be the case. While other restaurant chains have outsourced finance and accounting functions, several consultants and analysts say they are unaware whether these engagements are wholly offshored. Nevertheless, the same factors driving F&A outsourcing apply, whether the contract is onshore or off.

"It's the usual reasons—better, cheaper, and faster," said Lisa Ross, CEO of FAO Research, a Boston-based finance and accounting outsourcing consultancy. "With finance specifically, especially within publicly traded companies, everything has to run 'just so.' Many CFOs are finding that these back-room functions can be more efficiently and less expensively handled if they are outsourced."

WNS has 22 delivery centres that oversee its clients' business process needs. Most are in

India, although it also has a centre in Sri Lanka and another in Eastern Europe.

The contract with Church's Chicken calls for WNS to handle accounts receivable, accounts payable, bank account reconciliation and general ledger maintenance functions. As part of the agreement, WNS also will maintain Church's ERP (enterprise resource planning) platform, which provides both technology and processing services for the outsourced finance and accounting functions.

The engagement allows for a severely pared-down finance and accounting team at Church's Chicken, a team that comprises Profumo, a treasurer, a controller, an assistant controller, and a financial analysis staff of three. "We consider the engagement with Church's to be rare, in that it involves the complete outsourcing of the finance and accounting function," said Sulakshana Patankar, CEO of the F&A practice at WNS. "We have, in one remote location, everything from an F&A perspective that Church's needs. We take complete ownership of their finance and accounting transactions and reporting. We think of ourselves as Church's back office."

There is a 9.5-hour time difference between Church's Atlanta-based finance staff and its outsourcing colleagues in Mumbai, but this hasn't gotten in the way of seamless, integrated financial transactions. For now and into the foreseeable future, the staff in India servicing the Church's account works Eastern U.S. time zone hours, which, of course, means they are manning the graveyard shift. "We have 35 people sitting in India as if they were sitting next to Dusty," said Sulakshana

Patankar, CEO F&A practice, WNS. “They handle all transactions having to do with sales, procurement, utility bill payments, monthly closings and preparing the books—really everything. Any time there is a financial transaction, it triggers an invoice over the Internet to Mumbai.”

Not that there weren't some issues from offshoring that needed ironing out. The restaurant business is highly paper intensive, an obstacle to Internet-based transactions involving an outsourcing service provider thousands of miles away. Church's and WNS resolved the dilemma by hiring a Pennsylvania-based mail delivery and scanning service called Berkheimer. “Each of our restaurants takes all the paper they've collected like receipts and invoices, and then couriers it overnight to Berkheimer, which scans it and then electronically sends the images to Mumbai,” Profumo said.

Church's also made another decision to ease the transition to an offshore outsourcing provider. During the transition from Convergys, WNS dispatched a team of 10 indigenous employees to Tulsa for 12 weeks to learn the nuances of the retail restaurant business. Among this group was Lakkitha Silva, who stayed on as Church's de facto assistant controller, although he remains a WNS employee. “I wanted one of their people to be here at all times to be a liaison between us,” said Profumo. “When you outsource your accounting functions, you lose the ability of checking in with the people down the hall. It has worked out exceedingly well.”

That's not all that has worked out well. Arcapita has plans to grow the chicken empire to 2,500 restaurants by 2010. The outsourcing

engagement is helping it do that, providing the resources and capital to add 15 restaurants to its roster over the course of the five-year contract with WNS. That's something to crow about.



Dusty Profumo,
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