Finance & Accounting Case Study

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Mobile 365 (M365) delivers messages, premium content and value-added services for mobile operators, content providers and media companies worldwide. Coverage spans more than 500 mobile operators around the world, delivering more than one billion messages per month.

Hundreds of the world's leading brands have used M365 to conduct thousands of mobile marketing campaigns. Using innovative tools, global transport, advanced billing, and robust reporting within one portfolio.

BACKGROUND

In 2004 Inphomatch and Mobileway merged to form M365. Prior to the merger, Mobileway had 120 people in 12 offices in 12 countries, 70% of which were concentrated in the UK, France and Singapore; technical support was provided from France & Singapore. Post merger the group had 14 offices in 13 countries with 250 people The company was growing fast and the right level of support was needed to be put into place without increasing fixed costs too much. The need to scale up and down depending on the company's performance also became paramount. From a finance perspective it became essential to become best in class in delivering 12 statutory entity results to a high standard in a timely manner. Major changes to the finance organisation were therefore needed.

STRUCTURE

M365 had outsourced its F & A to 12 separate firms which were managed by 8 full time M365 staff. This diversity created numerous problems:

(A) Inter company balances did not reconcile
(B) Reporting in twelve different formats and languages resulted in late and inaccurate reporting.
(C) Not all companies were using internal accounting systems/platforms.

THE SOLUTION

M365 decided to outsource F & A to a supplier based in India (“the vendor”). It was essential to find a solution that would standardize policies and procedures and improve turnaround times. The vendor was chosen because:

(A) They had successfully demonstrated an ability to quickly understand a relatively complex business model
(B) They were keen to develop and refine processes and procedures
(C) Flexible enough to work on a non typical outsourced model (low volumes and a more fragmented approach) with no over-reliance on one individual
(D) Comfortable in working with other European languages

We envisaged very early on a finance department broken into three parts:-
1) Analysts –close to the business heads
2) Accounting core –offshoring model
3) Limited local compliance

We along with the vendor conducted a review of the processes through meetings on site, teleconferences, interviews and questionnaires to understand the needs from an outsourcing process and business standpoint.

We looked at a phased approach:
1) First phase –Accounts processing, financial and management reporting; one platform for all entities with one standardized chart of accounts
2) Second phase –Payroll processing
3) Third phase –local compliance

We also looked at a country by country approach:
1) Wave 1 –UK, US and Germany
2) Wave 2 –France, Spain and Italy
3) Wave 3 –Singapore, Australia, Hong Kong and Malaysia.

In parallel to these phases and waves we also had a number of related projects underway including a billing project and online banking treasury management. UK was obviously chosen first as language differences would not be an issue so documentation of step by step processes could be tested. We ran two instances of the accounting database for our India offshore partner and UK partner and results were compared and learnings documented.

CHALLENGES

Initial processes needed to be documented and a standardised approach needed across countries. Different charts of accounts were mapped to one master account. The twelve existing outsourced firms had to be managed well to ensure smooth process migration and full “buy-in” had to be achieved from current suppliers and M365 Executives & Office managers. As the number of staff in eight of the twelve offices was small, office managers had an important part to play to get AR, AP invoices and bank information to the vendor in a timely manner. Sometimes audit closure was delayed causing difficulties in transferring data across.

M365 works with 45 banks, this large number of “partners” and manual processes affected timeliness and real time information being provided. Documents / invoices were scanned and transferred to India. If these documents were not in English e.g. French or German, they would need to be translated at the Indian end. However, straight translation of documents did not always give the right answer for coding of invoices and translation services were provided on only one day a week.

Coding confidence and strict compliance to French rules was an area where further improvement was needed. A reporting template that was standard for each country ensuring reporting was consistent; this reporting pack would be provided to the auditor at year end. It was also essential to have on-line document tracking (all documents were therefore sequenced). So that they could be easily identified anywhere in the world online.

KNOWLEDGE TRANSFER

A template was designed listing all suppliers by country and type of service provided, this helped invoice coding. As each document was scanned the office manager updated the excel template with a "look up" table to help coding locally for the vendor. After two months the process was running smoothly and coding queries were restricted to "exceptions" only. A finance manual was also set up providing guidance on what needed to be booked and what was the accounting concept behind it. Sometimes materiality became an issue in terms of coding as smaller items (e.g. explaining that the Unigate invoice was milk delivery to the office) were taking a disproportionate amount of time so we had to set value limits with the vendor and put all exceptions into an "office supplies type" area.

FIRST PHASE IN MORE DETAIL PROCESS FLOW: ACCOUNTS PAYABLE

All supplier invoices need to be sent to India by Friday of each week. Invoices are first approved and then scanned (they are pre-numbered to ensure ease of tracking in the accounting system). If the invoice is not in English, it is translated by the vendor. When it is not clear on the invoice what service is being performed (and therefore how it should be coded), the vendor reports back to a M365 analyst for resolution.

CHALLENGES

European holidays can affect the timing of data transfer to India and foreign invoice translation services are not full time. It's therefore important to make sure that everyone is aware of US calendar working days and European holidays. Invoice approvals can be slow as cost centre heads tend to travel. We therefore initiated email approvals in the interim period speeding up invoicing, however a document management system will soon become fully operational. Because of M365's business model we need to track our cost of sales (messages delivered through operator/mobile carrier networks closely). Traffic costs incurred and invoiced by the operators need to be compared with expected costs from our internal database monitoring our own network.

A number of suppliers are paid by one entity but the services are enjoyed by a number of entities, complex inter-company transactions where traffic is routed across the world therefore result. It therefore became essential to spend a great deal of time to explain the M365 business model in detail to the vendor so that inter-company transactions were properly understood.

PROCESS FLOW: ACCOUNTS RECEIVABLE

Invoices are internally generated with their own sequence number. These are e-mailed directly to India on the 4th working day. For our revenue share business we wait until the mobile operator agrees how much they have managed to bill the end user. This will not be until typically workday 15 (after we have closed the books). We therefore need to provide an estimate of revenue and cost of goods sold to the vendor which needs to be reversed when the "self invoicing" documents from operators come in. The vendor in the past has not always been confident in the reversal so sometimes double counts show on first review, however this is being resolved.

LESSONS LEARNED

The outsourced employees are usually highly qualified (almost over qualified), for the work they have been asked to do. It therefore becomes essential to ensure that they are stretched and challenged in other ways; this will also help in minimising staff attrition.

- Try and work with the vendor to develop clear career progression plans for their own staff and perhaps offer opportunities within your own company if the need arises.

- The outsourced employees must understand your company, its business, its industry and values to give relevance to the work they are doing. Make sure sufficient time is built into any outsourcing plan to cater for this. Take time to explain your company's business model to the vendor, if they cannot grasp the business, accounting for it will be that much harder.

- The vendor's employee needs to be treated as your own, (but with the added complication of little "face time"). Therefore ensure some of the senior "doers" get to visit some of your locations.

- During the process migration, "weak" employees were exposed on both sides. People who were slow in moving out of their comfort zone and who delayed and hindered smooth process transition. It is key to identify these individuals early on and manage any anxieties and uncertainties that they may have.

- Encourage the vendor to show more initiative to lighten the burden on M365 staff and analysts (this will require a careful understanding of cross cultural communication issues).

- Segregation of duties - by adopting an outsourced model the analysts are separate from the accountants, this ensures a high level of audit trail and independence.

- Changes in reporting requirements and US compliance is made easier and rolled out to all countries if a standard approach is adopted. Any changes can therfore be flowed through far more quickly. Inter-company balances can be confirmed more easily.

- In terms of auditable standards and also Sarbanes Oxley compliance, ensure a robust approvals process, segregation of duties, regular management reviews, adequate reconciliations /accuracy and support for accruals, monthly cut offs, completeness, and sign offs are in place both onshore and offshore.

- Deliverables need to be known and measurable with well defined service levels, otherwise it'll be impossible to know what improvements if any have been made or how to rectify problems.