Everest Group
RESEARCH


# Procurement Outsourcing (PO) Annual Report – 2016 – Analytics and Beyond

Procurement Outsourcing (PO)
Market Report: September 2016 – Preview Deck


EGR-2016-1-PD-1942

# Our research offerings for global services

- **Market Vista™**
  Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available
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**Custom research capabilities**

- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

## Subscription information

- The full report is included in the following subscription(s)
  – **Procurement Outsourcing (PO)**
- In addition to published research, a subscription may include analyst inquiry, data cuts, and other services
- **If you want to learn whether your organization has a subscription agreement or request information on pricing and subscription options, please contact us**

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1 Banking, financial services, and insurance

# Background and methodology of the research

**Background of the research**

The global multi-process Procurement Outsourcing (PO) market registered a growth of 10% in 2015. Both organic and inorganic factors made near-equal contribution to the overall growth. The market witnessed high termination rates along with robust new deal signings, indicative of service provider switching. In addition to the traditional drivers of cost and spend reduction, there is an increasing focus on strategic value beyond costs. As a result buyers are increasingly asking for robust analytics capabilities and transformative solutions. Service providers are also looking for new ways to meet these evolving business requirements and create differentiation in the market.

In this study, we analyze the global multi-process PO market in 2015. We focus on:

- Market overview and adoption trends
- Value proposition and solution characteristics
- PO service provider landscape, covering service providers' market share across industry, geography, and buyer size

**The scope of analysis includes:**

- Third-party PO deals; it does not include shared services or Global In-house Centers (GICs)
- Around 769 new multi-process PO deals signed as of 2015 with a minimum of three PO processes, over US$1 million in ACV, and a minimum contract term of three years
- Coverage across 18 PO service providers with multi-process capability, namely Accenture, Aegis, Aquanima, Capgemini, Corbus, Genpact, GEP, HCL, HPE, IBM, Infosys, Optimum Procurement, TCS, Tech Mahindra, Wipro, WNS, Xchanging, and Xerox
- Global survey and one-on-one executive-level buyer interviews to understand how organizations perceive their PO engagements

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# Overview and abbreviated summary of key messages
## (page 1 of 2)

This report will assist key stakeholders (buyers, service providers, and technology providers) understand the changing dynamics of the PO market and help them identify the trends and outlook for 2016. In this backdrop, this report provides comprehensive coverage of the global PO market including detailed analysis of market size and growth, buyer adoption trends, PO value proposition & buyer satisfaction, solution characteristics, and service provider landscape.

**Some of the findings in this report, among others, are:**

**Market overview and adoption trends**

- The multi-process PO market witnessed a decent growth of 10% in 2015 to reach US$2.3 billion in size
- Market activity picked up in the Small and Medium Business (SMB) and mid-market buyer segment
- PO adoption remained strong in North America, driven by manufacturing and CPG & retail buyer segments
- Demand for better analytics solutions remains one of the most crucial functions for buyers, while many have highlighted a lack of proactiveness as a major area of improvement

**Value proposition and solution characteristics**

- The value proposition of PO is shifting to a cost+value model as procurement organizations strive to become strategic
- The solution characteristics of PO contracts are also witnessing a change to embrace the evolution of value proposition
- Buyers are increasingly looking at transformative solutions and analytics capabilities to drive the strategic agenda for procurement



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# Overview and abbreviated summary of key messages
## (page 2 of 2)

**Value proposition and solution characteristics**

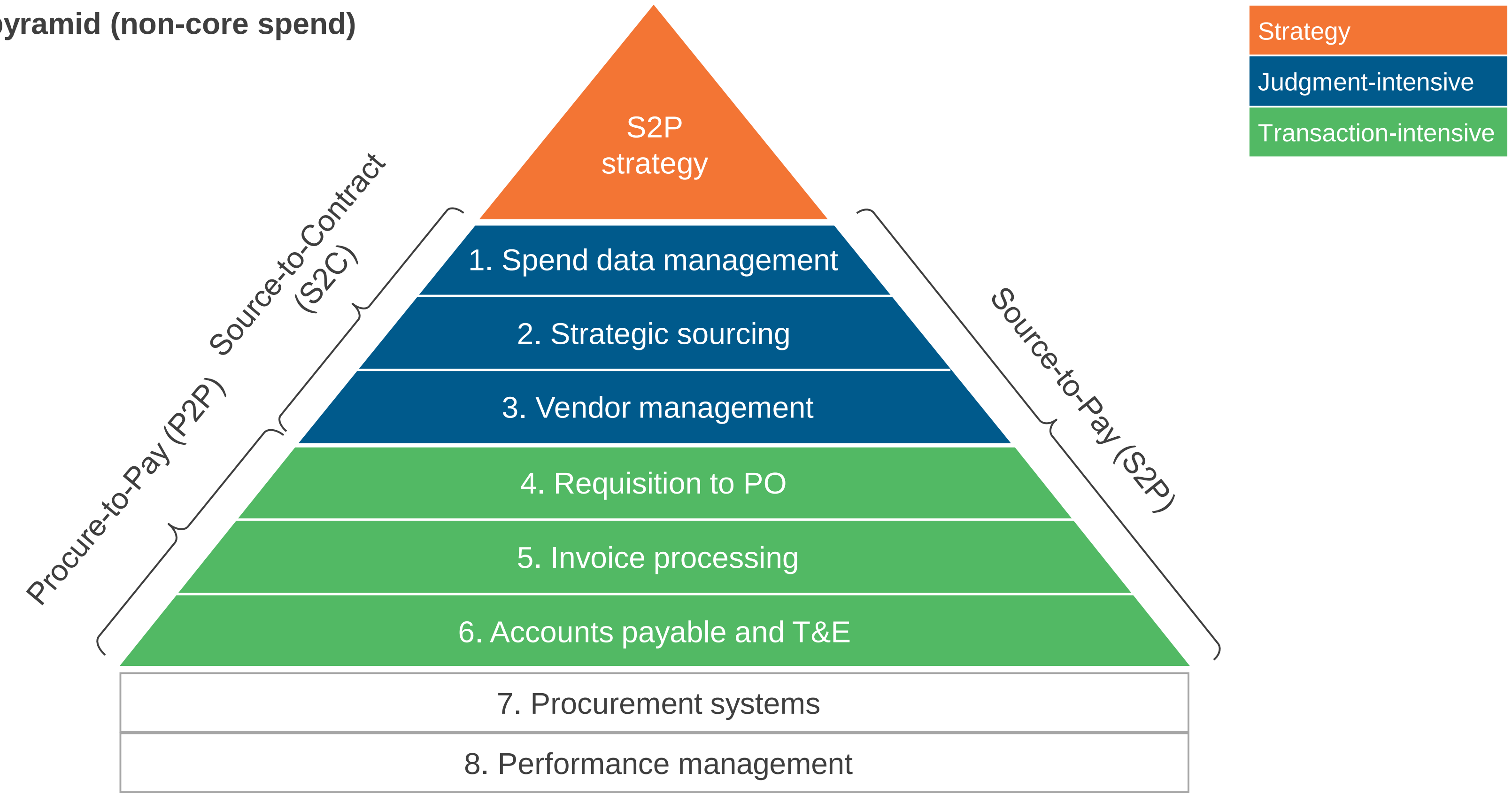
- The scope of new PO engagements is increasingly becoming S2P-focused
- PO is moving beyond its traditional borders, as seen by its continuous merger with finance and accounting, greater penetration into supply chain processes, and higher collaboration with human resources
- Offshoring continues to rise in PO contracts
- Platform-based technology solutions witnessed a rise in adoption, however, the tie-and-run model is still predominant for the P2P contracts

**Service provider landscape**

- The PO market is highly consolidated. The top five players together account for more than 70% of the PO market, both by ACV and TCV
- Accenture and IBM lead the market in all the geographies. They also lead the adoption in all the major industry segments except healthcare and pharma, where GEP commands the top position

# Everest Group distinguishes between the Source-to-Contract (S2C) and Procure-to-Pay (P2P) processes

**Procurement pyramid (non-core spend)**




- Everest Group's analyses include multi-process PO contracts with a minimum of three procurement processes, over US$1 million in ACV, and a minimum contract term of three years. Typically, the managed spend is greater than US$50 million
- Everest Group's analyses include all multi-process PO contracts signed as of 2015

# Beyond the process dimension, PO contracts also have a "procurement-spend category" dimension

✓ High prevalence of third-party outsourcing

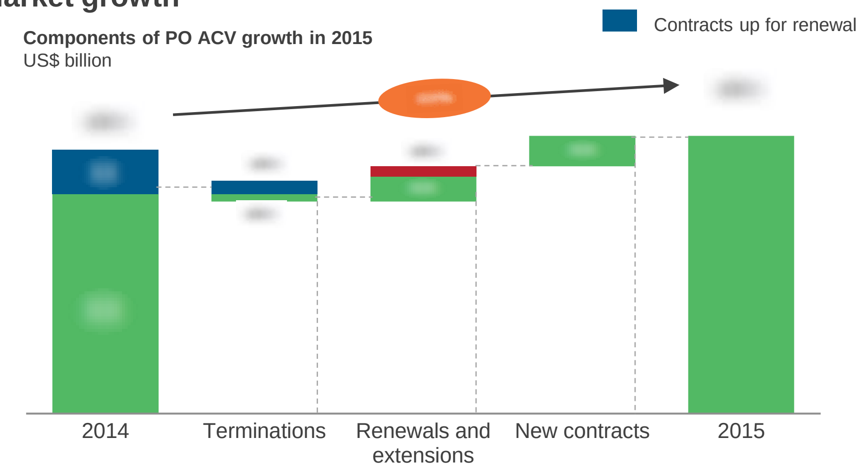
✗ Low prevalence of third-party outsourcing

| | | | Source-to-Pay (S2P) cycle | |
|---|---|---|---|---|
| | | | **Source-to-Contract (S2C)** | **Procure-to-Pay (P2P)** |
| **Direct spend** | **Core spend** | • Goods and services that are key ingredients to manufacture/deliver the final product/service<br>• They are proprietary or specific to the organization<br>• For example: Iron-ore for a steel manufacturer and rubber for a tire manufacturer | ✗ | ✓ |
| **Direct spend** | **Non-core direct spend** | • Goods and services that are commonly required to manufacture/deliver the final product/service<br>• They are commodities in that industry<br>• For example: Lubricants, packaging, and Maintenance, Repair, & Overhaul (MRO) | ✓ | ✓ |
| **Indirect spend** | **Non-core spend** | • Non-production goods and services that are not required to manufacture/deliver the final product/service but are required to operate the organization<br>• For example: Spend categories such as facilities, office supplies, travel & logistics, marketing / sales-related spend, and IT/telecom | ✓ | ✓ |

# This study offers three distinct chapters providing a deep dive into key aspects of the PO market; below are four charts to illustrate the depth of the report

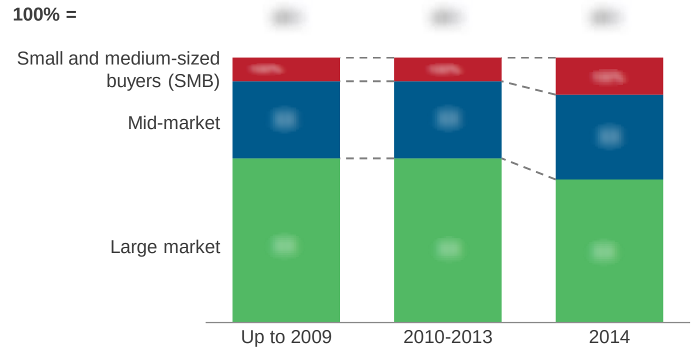
## Market growth

**Components of PO ACV growth in 2015**
US$ billion



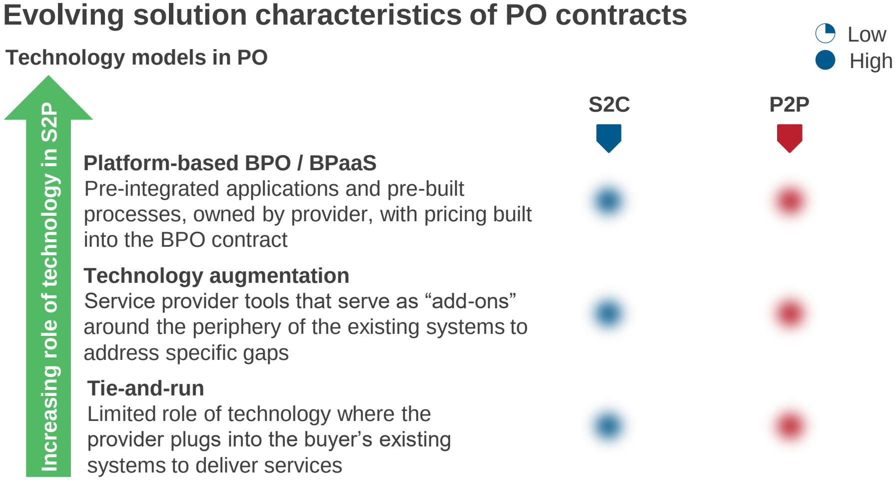

## Distribution of PO adoption amongst various buyer segments

**Distribution of new PO contracts by buyer size**
Number of new contracts signed




## Evolving solution characteristics of PO contracts

**Technology models in PO**




## Market share of PO service providers

**Category scope of PO contracts**
Percentage inclusion


Source: Everest Group (2016)

# PO research calendar

Published | Current

| Topic | Release date |
|---|---|
| PO – Service Provider Profile Compendium 2015 | October-2015 |
| Seizing the Robotic Process Automation (RPA) Market Opportunity | October-2015 |
| SDA – The Story Beyond Marketing Messages and an Assessment of SDA Tools | December-2015 |
| Service Delivery Automation (SDA) – Technology Provider Profile Compendium | December-2015 |
| Category Management Outsourcing: The Bridge to Strategic Procurement | December-2015 |
| Clever Machines at Your Service | February-2016 |
| Analytics BPS – Analytics Goes Mainstream – Scope Expands Beyond Traditional Clients and Offerings | March-2016 |
| Heralding a New Era of Transformative Business Process Services through Technology | April-2016 |
| Driving Business Outcomes in Aftersales Supply Chain | May-2016 |
| Procurement Outsourcing (PO) – Service Provider Landscape with PEAK Matrix™ Assessment | September-2016 |
| PO – Annual Report 2016 – Analytics and Beyond | September-2016 |
| Is the market gearing up for a 3PL revolution in SCM BPO? | Q4-2016 |
| PO – Service Provider Profile Compendium 2016 | Q4-2016 |
| Technology in BPS – Service Provider Compendium 2016 | Q4-2016 |
| SCM Service Provider Landscape with PEAK Matrix™ Assessment | Q4-2016 |

# Additional PO research references

**The following documents are recommended for additional insight into the topic covered in this report. The recommended documents either provide additional details on the topic or complementary content that may be of interest**

1. **Procurement Outsourcing (PO) – Service Provider Landscape with PEAK Matrix™ Assessment** (EGR-2016-1-R-1773); 2016. This report will assist key stakeholders (buyers, service providers, and technology providers) understand the changing dynamics of the PO market and help them identify the trends and outlook for 2014. In this backdrop, the report provides comprehensive coverage of the global PO market including detailed analysis of market size and growth, buyer adoption trends, PO value proposition, solution characteristics, and service provider landscape

2. **Procurement Outsourcing (PO) – Driving Business Outcomes in Aftersales Supply Chain** (EGR-2016-1-R-1758); 2016. The next-generation of global business process services is being ushered in by drivers that extend beyond traditional metrics such as cost arbitrage. The primary ask of the buyers is now centered on driving business outcomes which are hard to achieve if not clearly defined, contracted for, and executed in that spirit

3. **Category Management Outsourcing: The Bridge to Strategic Procurement** (EGR-2015-1-R-1610); 2016. Procurement Outsourcing (PO) has emerged as an efficacious method to generate value for in-house procurement. It started out as an activity focused on cost and spend reduction, but has now evolved into a tool to harness strategic value as evident by the robust growth of this US$2.1 billion market

For more information on this and other research published by Everest Group, please contact us:

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From **insight** to ***action***.

## About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills, and original research. Details and in-depth content are available at www.everestgrp.com and research.everestgrp.com.

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