



The PO Market: Steadily Marching Forward

Procurement Outsourcing (PO)
Annual Report: May 2012 – Preview Deck

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Background and methodology of the research

Background of the research

The PO market witnessed strong growth in 2011. Annual spending on PO grew by 14%. Service providers are managing more than US\$190 billion of procurement spend on behalf of their clients. PO adoption is no more restricted to the large market. The mid-market now has a deal volume comparable to the large market. The PO solutions are expanding in terms of process, category and functional scope. The rapidly growing PO market attracted new entrants. The M&A activity increased with service providers focusing on capability building. In 2012, Everest Group expects the PO market to continue strong activity, resulting in a YoY growth of 15% in terms of ACV

In this research study, we review the global multi-process PO market in 2011 and provide guidance on the market's direction in 2012. We focus on:

- Market size and buyer adoption trends
- PO value proposition
- Contract characteristics across process scope, technology, global sourcing, and pricing structures
- PO service provider landscape covering service provider's market shares and areas of investments

The scope and methodology of this report includes:

- Third-party PO deals; it does not include shared services or captives
- 320+ multi-process PO deals signed as of 2011 with a minimum of three procurement processes, over US\$1 million in ACV, and a minimum contract term of three years. Typically, managed spend is greater than US\$50 million
- Coverage across 15+ PO service providers with multi-process capability including Accenture, Capgemini, Corbus, DSSI, Genpact, GEP, HCMWorks, HCL, HP, IBM, Infosys, Optimum Procurement, Procurian, Proxima, TCS, Wipro, WNS, Xchanging, and Xerox
- Ongoing buyer surveys and interactions such as Vertical Industry Strategies in Shared Services & Outsourcing (VISSSO), Best-in-class BPO buyer survey, Executive-level buyer interviews

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Overview and abbreviated summary of key messages

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This report will assist key stakeholders (buyers, service providers, technology providers) understand the changing dynamics of the PO market and help them identify the trends and outlook for 2012. In this backdrop, this report provides comprehensive coverage of the global PO market including detailed analysis on market size and growth, buyer adoption trends, PO value proposition, contract characteristics, and service provider landscape.

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

Market size and buyer adoption

- The PO market witnessed a strong 2011 with annual growth of 14% (by ACV). The global multi-process PO market crossed US\$1.6 billion in ACV
- Service providers are managing more than US\$190 billion of procurement spend on behalf of their clients
- In 2011, 60 new multi-process PO contracts and 53 renewals/extensions were signed – the highest ever
- Renewal activity will continue to play an important role in the market with contracts worth over US\$6 billion reaching end-of-term in the next four years

Overview and abbreviated summary of key messages

(page 2 of 2)

Value proposition and solution trends

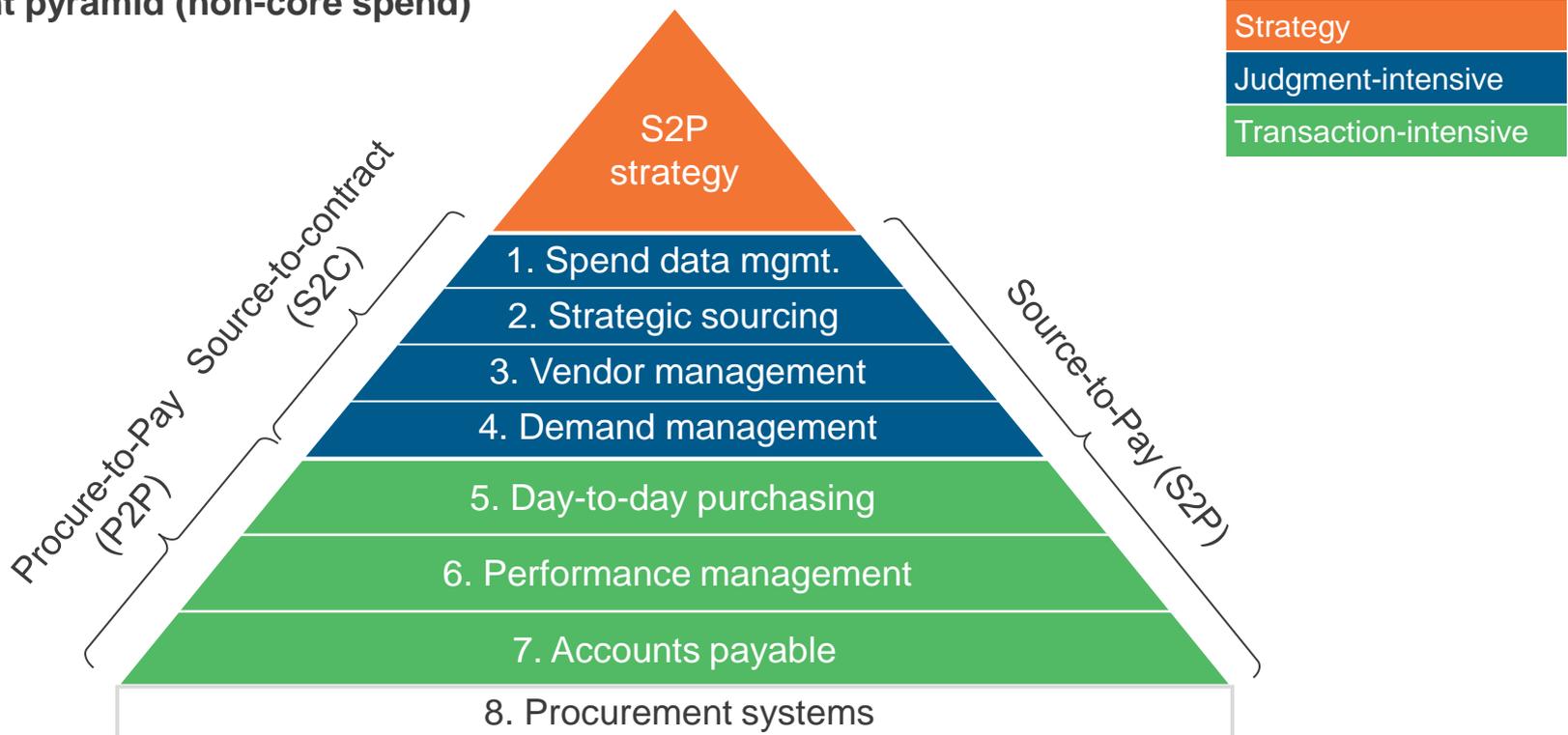
- Spend reduction, process optimization, and compliance are the primary value drivers. Key challenges include unclear value proposition, stakeholder management, and services stabilization
- An end-to-end S2P process focus and closer alignment with finance is increasing in the market
- The market is shifting from classifying spend as direct versus indirect to core versus non-core. Inclusion of direct spend increased in 2010-2011
- Functional scope of PO contracts is starting to expand into adjacent supply chain processes
- Augmentation is becoming the new norm (especially for S2C technology) and platform-based PO is increasing. However, most enterprises continue to be undecided on adoption of SaaS/BPaaS-based solutions

Service provider landscape

- IBM, Accenture, and Procurian are the top three players in the PO market with nearly 70% market share (by ACV)
- Accenture and IBM are dominant across P2P-focused, S2C-focused, and end-to-end S2P contracts. Procurian, GEP, and Xchanging have a large share in S2C-focused and end-to-end S2P contracts while TCS, Wipro, and Genpact have a significant share in P2P-focused contracts
- The rapidly growing PO market attracted new entrants. M&A activity also increased. Service provider investments in 2011 focused on capability building – both scope of services and technology

Everest Group distinguishes between source-to-contract (S2C) and procure-to-pay (P2P) processes

Procurement pyramid (non-core spend)

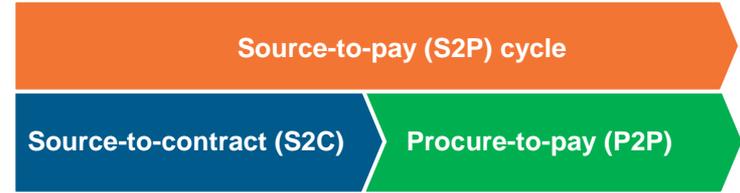


- Everest Group's analyses include multi-process PO contracts with a minimum of three procurement processes, over US\$1 million in Annualized Contract Value (ACV), and a minimum contract term of three years. Typically, managed spend is greater than US\$50 million
- Everest Group analyses include all multi-process PO contracts signed as of 2011

Source: Everest Group (2012)

Beyond the process dimension, PO contracts also have “procurement-spend category” dimension

-  Prevalence of third-party outsourcing
-  Low prevalence of third-party outsourcing

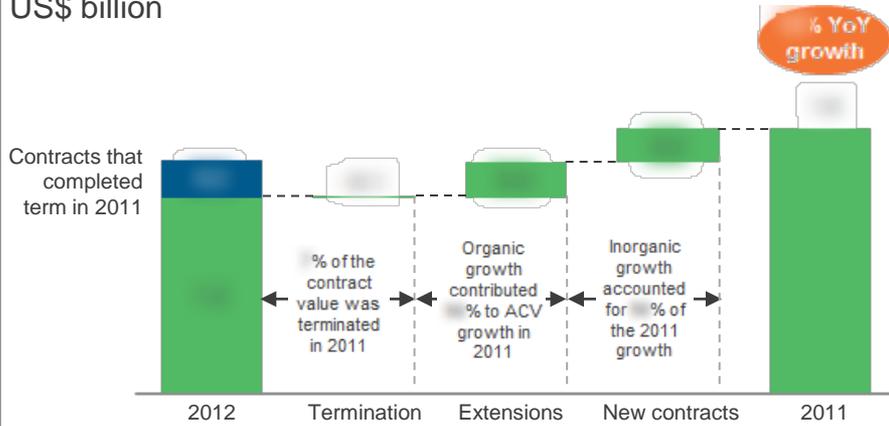


Spend Category	Spend Description	Source-to-pay (S2P) cycle	
		Source-to-contract (S2C)	Procure-to-pay (P2P)
Direct spend	Core spend		
	Non-core direct spend		
Indirect spend	Non-core spend		

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

Components of PO ACV growth in 2011

US\$ billion



Value creation and key challenges

Nature of value realized from PO
Percentage buyer response



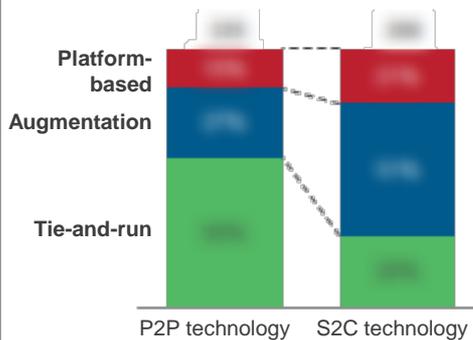
Typical challenges in PO
Percentage buyer response



Role of technology is increasing in PO solutions

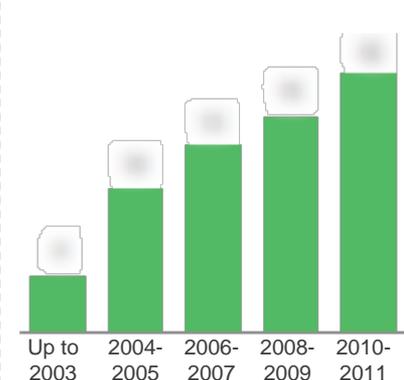
Distribution of technology models in PO contracts

Number of contracts

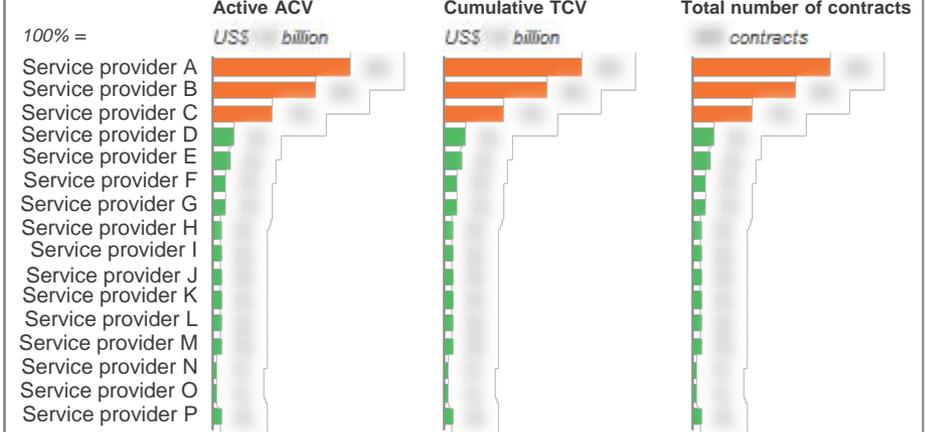


Platform-based PO contracts over time

Number of contracts



PO service provider market share (as of 2011)



Source: Everest Group (2012)

PO research agenda (page 1 of 4)

■ Published ■ Current ■ Upcoming

Topic	Goals of the research	Release date
Succeed with Maintenance, Repair, and Overhaul (MRO) Outsourcing	PO contracts with Maintenance, Repair, and Overhaul (MRO) category in scope show a phenomenal growth of nearly 35 percent CAGR over the last five years. This report discusses the process and category scope of MRO, benefits of outsourcing MRO, different MRO outsourcing options and their pros and cons, and the challenges and the associated best practices illustrated with a case study	January-2012
Webinar Deck: 2012 Global Services Market Predictions: Context, Growth, Disruption	A panel of Everest Group Analysts will discuss market predictions for the following areas: Service Provider Intelligence, Global Sourcing, Information Technology Outsourcing, Finance and Accounting Outsourcing, Procurement Outsourcing, Human Resources Outsourcing, and Banking, Financial Services, Insurance Outsourcing. Key themes across all areas that will be discussed are context, growth, and disruption	January-2012
Gain Sharing in PO – Does it Really Work?	The objective of this research article is to describe the market dynamics around gain-sharing in PO and share perspectives on key considerations to make it work. It discusses role of pricing strategy in PO, prevalence and adoption of pricing structures in PO, pros and cons of gain sharing, making gain sharing work, supported by a case study, and best practices and lessons learnt	February-2012
Achieving Best-in-Class BPO – Secrets Unveiled	As Business Process Outsourcing (BPO) matures, companies and service providers must look for the next source of value – labor arbitrage is important, but not sufficient. In particular, the industry is seeking to create value propositions that achieve cost savings while also delivering other sources of value. The results show a vivid difference in the approach and mindset of best-in-class	February-2012

PO research agenda (page 2 of 4)

■ Published ■ Current ■ Upcoming

Topic	Goals of the research	Release date
Top 10 Best Practices in Procurement Outsourcing (PO)	After witnessing a vacillating adoption for over a decade, the Procurement Outsourcing (PO) market is finally coming of age with steadily increasing adoption in the last few years. Years 2010-2011 were the best ever years for PO with 50 or more new contract signings in each year. Unlike other BPO segments, PO engagements impact the procurement spend, not just the operational costs. This large cost base makes the PO value proposition attractive but it also makes realization of value complex. The objective of this research is to describe the top ten best practices in PO that will help current and prospective PO buyers realize value from their PO engagements	March-2012
Making the Right Choice – How to Evaluate BPaaS Solutions?	This research aims to compare Total Cost of Ownership (TCO) of Business Process as a Service (BPaaS) solutions with traditional BPO using a comprehensive financial model and create a comprehensive framework to evaluate BPaaS sourcing	April-2012
PO Annual Report	Overview of the overall PO market in 2011 with size & growth of market, contract characteristics, value proposition, service provider rating and market outlook for 2012	May-2012
Role of PO in Managing Direct Spend – Not so Indirect Any More	With increasing maturity of PO, the boundaries between direct and indirect categories are blurring and PO is playing an important role in direct categories. This report covers the adoption of PO in direct categories, the benefits and challenges, and best practices to increase the scope of PO to direct categories, and the service provider landscape	Q2-2012

PO research agenda (page 3 of 4)

■ Published ■ Current ■ Upcoming

Topic	Goals of the research	Release date
PO Service Provider Landscape	In this research study, we analyze the fast-changing global PO service provider landscape and its impact on the PO market. We focus on providing a comprehensive analysis of the PO service provider landscape along multiple dimensions and assess service providers to position them in the Everest Group PEAK matrix	Q2-2012
PO Service Provider Profile Compendium	Profile 15+ established PO service providers across various dimensions including FTEs strength, key delivery locations, PO service suite, market positioning, overall PO delivery capability assessment, and Everest Research perspective on service provider	Q2-2012
Source-to-Contract (S2C) a High Value Driver in PO	This study explores the S2C outsourcing market, focusing on S2C market trends, value proposition and challenges, S2C solution components and characteristics, and service provider landscape	Q3-2012
Sourcing Contingent Workforce – Rise of MSP model	With increasing importance and significant spend on contingent workforce, this study identifies different sourcing models and deep dives into the growing Managed Service Provider (MSP) models and its variations	Q3-2012
Expansion of PO Into Broader Supply Chain	This report explores the adjacencies of procurement with other supply chain areas such as supply chain planning, asset management, fulfilment and logistics, and after-market services, and trend of PO service providers extending service to these areas	Q3-2012

PO research agenda (page 4 of 4)

Published Current Upcoming

Topic	Goals of the research	Release date
Unlocking Value From End-to-End Outsourcing: Focus on Procure-to-pay (P2P)	BPO market is now in a mature state with a well-established value proposition and demonstrated service provider capabilities. As the value proposition expands beyond cost arbitrage to improving business outcomes, buyers are considering an end-to-end approach as opposed to a functional piecemeal approach. In this study, we investigate the business value and the market state of an end-to-end Procure-to-Pay (P2P) process	Q3-2012
Order fulfilment - PO encroaching adjacent supply chain functions	PO service providers are increasingly moving to adjoining areas in supply chain. Order fulfilment is one such area that has seen interest from both buyers and PO service providers. This report explores the scope of PO in order fulfilment, adoption trends, benefits and challenges, and service provider landscape	Q4-2012

Additional PO research references

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

1. **PO Annual Report 2011** ([ERI-2011-1-R-0517a](#)); 2011. In this research study, we analyze the global multi-process PO market in 2010. We focus on market size and buyer adoption trends, PO value proposition, contract characteristics across process scope, technology, global sourcing, pricing structures, service provider evaluation, and relative position on the Everest PEAK Matrix
2. **Technology Add-ons and Platform-based Solutions in Procurement Outsourcing** ([ERI-2011-1-R-0509](#)); 2011. In this research study, we investigate the role of procurement technology in PO. We focus on key technology models in PO, trends in technology model adoption, evaluating tie-and-run, augmentation, and platform models, examples of augmentation and platform models offered by leading service providers
3. **PO Service Provider Landscape – It's Getting Crowded** ([ERI-2011-1-R-0560](#)); 2011. In this research study, we analyze the global multi-process PO service provider landscape in 2010. We focus on relative positioning of 15+ service providers on Everest PEAK Matrix for PO, service provider market success, service provider capability advancements, and 2010 PO Market Star Performer
4. **Value Creation through PO – Perspectives of Mature Buyers** ([ERI-2010-1-R-0470a](#)); 2010. this study, we focus on drivers to outsource and expectations from PO, value-creation elements of PO, supplier selection criteria, typical challenges and best practices, and engagement profiles

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