Procurement Outsourcing (PO) Annual Report 2015 – The Dawn of a Transformational Era

Procurement Outsourcing (PO)
Annual Report: July 2015 – Preview Deck

EGR-2015-1-PD-1476

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- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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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 maintained its robust momentum and recorded a sturdy growth of 12% in 2014. Both organic and inorganic growth contributed to overall increase in market size. The value proposition of PO is evolving with focus not only on cost reduction but also on strategic value beyond costs. Hence, the solution characteristics of PO contracts are also witnessing a change to embrace the evolution of value proposition. Furthermore, buyers are increasingly looking at transformative solutions to drive the strategic agenda for procurement. In such a scenario competition among the service providers is becoming intense and they are scaling up their offerings in terms of processes, execution, and technology, which is becoming an integral part of a comprehensive PO solution.

In this study, we analyze the global multi-process PO market in 2014. We focus on:

- Market overview and adoption trends
- Value proposition and solution characteristics
- PO service provider landscape, covering service providers' market share and areas of investments

The scope of analysis includes:

- Third-party PO deals; it does not include shared services or Global In-house Centers (GICs)
- Around 660 new multi-process PO deals signed as of 2014 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 including Accenture, Aegis, Aquanima, Capgemini, Genpact, GEP, HCL, HCMWorks, HP, IBM, Infosys, Optimum Procurement, Proxima, TCS, 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
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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 PO market sustained its momentum in 2014 as well, growing at 12% y-o-y and reached US$2.2 billion in size
- Average deal size reduced in 2014 due a high number of small value deals signed
- Geography-wise adoption was led by North America, primarily the United States in 2014
- Although large-buyers dominate PO, the SMB segment witnessed growth in adoption

Value proposition and solution characteristics

- The value proposition of PO is shifting to a cost+value model as procurement organizations strive to become strategic
- While cost and spend reduction are still important, buyers are increasingly seeking new value metrics such as market intelligence, supplier relationship management, and operational excellence

Overview and abbreviated summary of key messages
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Value proposition and solution characteristics

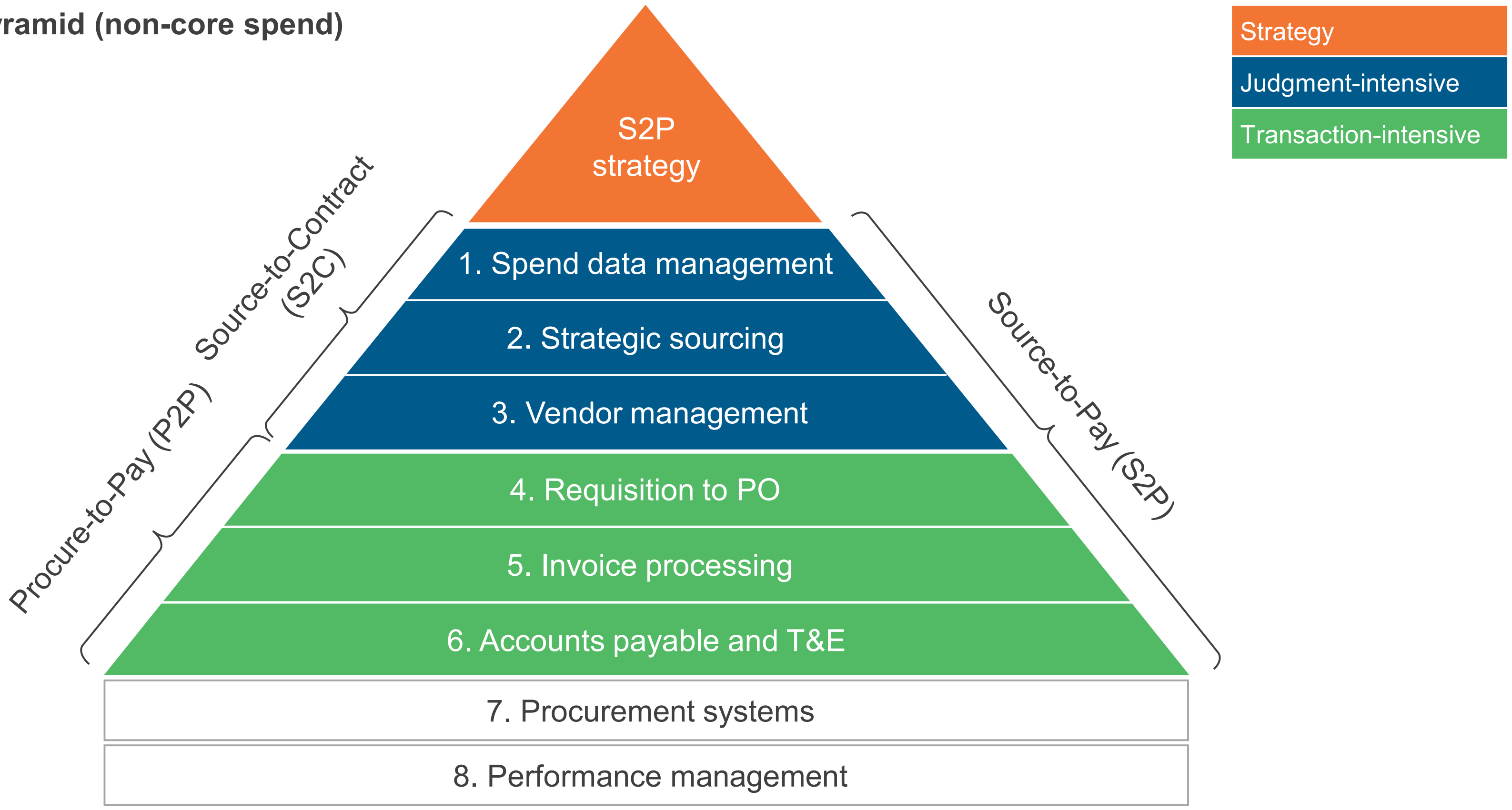
- The scope of new PO engagements is increasingly becoming S2P-focused
- Category coverage of PO is witnessing increasing inclusion of non-core direct spend categories such as MRO. Inclusion of marketing- and facilities related categories also rose in 2014
- Offshoring continues to rise in PO contracts, however, faster in P2P-focused contracts than S2C-focused contracts
- Platform-based technology solutions witnessed a rise in adoption

Service provider landscape

- The service provider landscape of PO comprises of four main categories of players – global majors, India heritage IT+BPO players, India heritage pure play BPO players, and procurement specialists
  - The PO market is highly consolidated. The top two players, IBM and Accenture have more than 50% market share (by ACV)
  - Procurement specialists, led by GEP and Xchanging have significantly increased their share in the PO market, from 16% in 2010 to 25% in 2014
  - Service providers are adopting various approaches to create a differentiation in their offering as they strive to remain competitive

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, worth over US$1 million in ACV, and with 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 2014

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

✓ Prevalence of third-party outsourcing

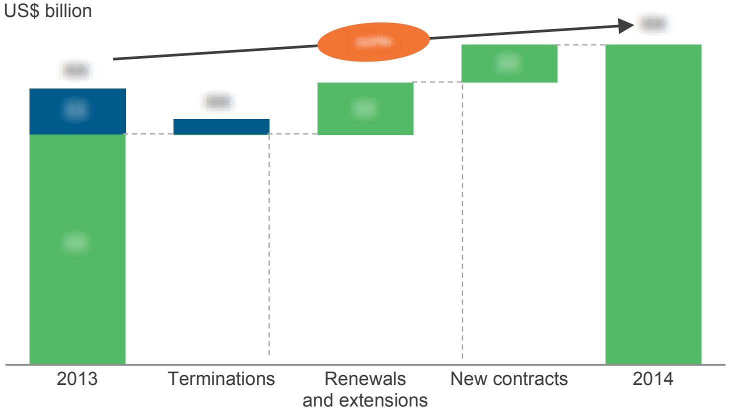
✗ Low prevalence of third-party outsourcing

			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 • They are proprietary or specific to the organization • Some examples: Iron-ore for a steel manufacturer and rubber for a tyre manufacturer	✗	✓
	Non-core direct spend	• Goods and services that are commonly required to manufacture/deliver the final product/service • They are commodities in that industry • Some examples: Lubricants, packaging, and Maintenance, Repair, and 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 • Some examples: Spend categories such as facilities, office supplies, travel and 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

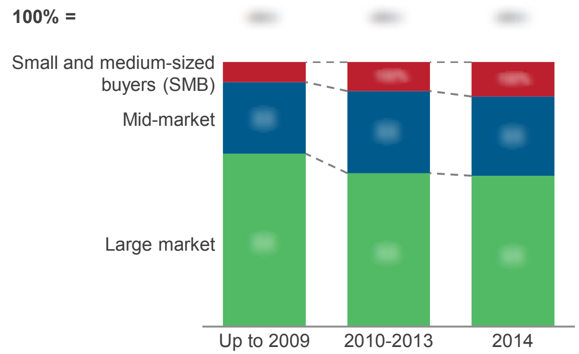
Market growth

Components of PO ACV growth in 2014
US$ billion

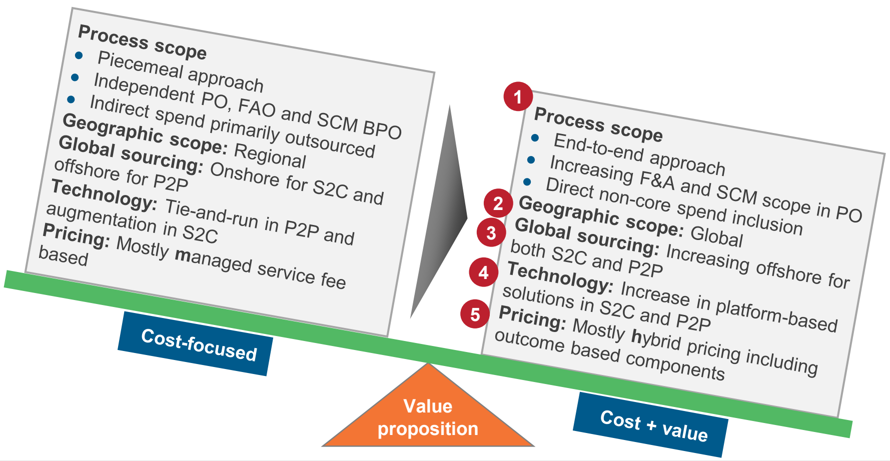


Distribution of PO adoption amongst various buyer segments

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

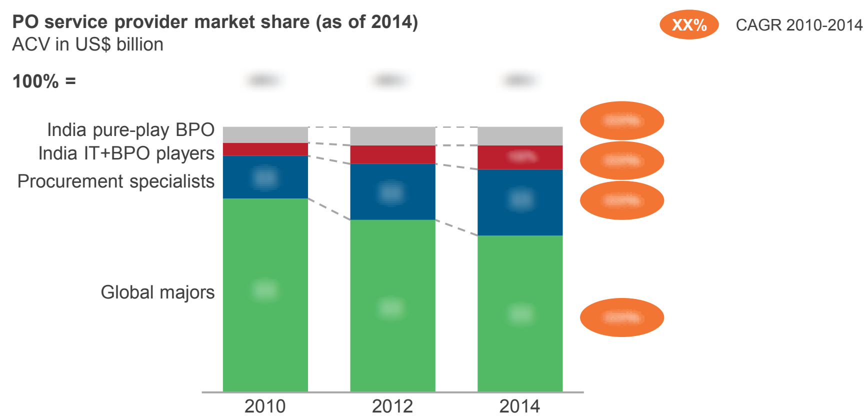


Evolving solution characteristics of PO contracts



Market share of PO service providers

PO service provider market share (as of 2014)
ACV in US$ billion



Source: Everest Group (2015)

PO research calendar

Published | Current

Topic	Release date
Procurement Outsourcing (PO) – PO Service Provider Landscape for Europe with PEAK Matrix™ Assessment	February-2015
Convergence of Finance & Accounting, Procurement, and Supply Chain Management Functions	February-2015
Reinventing Business Process Services (BPS) – Leveraging Technology to Deliver on New Expectations	March-2015
Supply Chain Management (SCM) BPO – Annual Report 2015 SCM BPO: An Idea Whose Time Has Come	March-2015
Aftersales services BPO: Tapping into the Strategic Value of Service After the Sale	June-2015
Procurement Outsourcing (PO) Annual Report 2015 – The Dawn of a Transformational Era	July-2015
Service Provider Technology Landscape – The Pecking Order	Q3-2015
Role of Technology in PO Through the Lens of Tomorrow	Q3-2015
PO – Service Provider Landscape with PEAK Matrix Assessment 2015	Q3-2015
PO – Service Provider Profile Compendium 2015	Q3-2015
PO – Market report – Focus on procurement categories	Q4-2015
PO – Market report – Technology innovation in PO	Q4-2015

Additional PO research references

The following documents are recommended for additional insight on 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. **Reinventing Business Process Services (BPS) – Leveraging Technology to Deliver on New Expectations** (EGR-2015-10-R-1421); 2015. This report provides an overview of the technologies being used in BPS space. After introducing a framework for classifying the current and emerging technology solutions, it analyzes the different categories of technology solutions on parameters such as solutions launched, development models, investments, deployment methods, and pricing models. The report also defines RPA, and analyzes its adoption drivers and characteristics. In addition to that, there is a brief overview of the leading service providers and their approach to technology solutions.

2. **Procurement Outsourcing (PO) – PO Service Provider Landscape for Europe with PEAK Matrix™ Assessment** (EGR-2015-1-R-1369); 2015. This report examines the European PO market and its service provider landscape. It focuses on the growth and adoption trends in Europe, service provider positioning, and solution characteristics of Europe-focused PO contracts. The PEAK Matrix analysis presented in this report gauges the relative performance of service providers in Europe.

3. **Supply Chain Management (SCM) BPO – Annual Report 2015 SCM BPO: An Idea Whose Time Has Come** (EGR-2015-1-R-1425); 2015. This report will assist key stakeholders (buyers, service providers, and technology providers) understand the changing dynamics of the SCM BPO market and help them identify potential growth areas. In this backdrop, this report provides comprehensive coverage of the global SCM BPO market including detailed analysis of market size & growth, buyer adoption trends, solution characteristics, and service provider landsc`ape.

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

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