Topic: Procurement Outsourcing (PO) – Annual Report 2014: Expanding New Horizons

Procurement Outsourcing (PO)
Annual Report: June 2014 – Preview Deck

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Background and methodology of the research

Background of the research

The global multi-process Procurement Outsourcing (PO) market registered strong growth of 12% in 2013. Both organic and inorganic factors had near equal contribution to overall growth. The market is in a state of flux with record new deal signings and record number of terminations simultaneously. Such volatility is also indicative of reducing stickiness due to switching service providers. While the value proposition of PO remains primarily driven by cost and spend reduction, new themes such as category expertise, access to technology, and integrated view/governance are also emerging. Furthermore, 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.

In this study, we analyze the global multi-process PO market in 2013. We focus on:
- Market size and buyer adoption
- Value proposition and solution characteristics
  - Across process scope, category scope, global sourcing, pricing structures, technology model, and performance metrics
- 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 550 multi-process PO deals signed as of 2013 with a minimum of three PO processes, over US$1 million in ACV, and a minimum contract term of three years
- Coverage across 19 PO service providers with multi-process capability including Accenture, Aegis, Aquanima, Capgemini, Corbus, Genpact, GEP, HCL, HCMWorks, HP, IBM, Infosys, Optimum Procurement, Proxima, TCS, Tech Mahindra, Wipro, WNS, and Xchanging
- 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 2014. 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, solution characteristics, and service provider landscape.

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

Market size and buyer adoption	- The PO market witnessed strong growth of 12% in 2013 - Deal metrics remained broadly in line with the past trends, however, the average deal size and term rose marginally - Adoption by financial services and travel & logistics increased significantly in 2013
Value proposition and solution characteristics	- Spend reduction for S2C-focused contracts and cost reduction for P2P-focused contracts are the main drivers for PO - Beyond the traditional objectives of outsourcing, category expertise, access to technology, and integrated view/governance are emerging as major themes - Buyers are maximizing scope of engagements with increasing share of S2P-focused contracts

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

Value proposition and solution characteristics	• Collaboration between HR and procurement is on the rise. Nearly 75% of the contracts had HR-related categories in 2013, compared to 67% previously • Tail end spend management is becoming more mainstream as buyers look to maximize savings • Robotics is emerging as a disruptive force in P2P automation
Service provider landscape	• With the acquisition of Procurian, Accenture has emerged as a leader, commanding nearly one-third of the PO market • The PO market is highly consolidated with the top five players commanding more than 70% share

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

Procurement pyramid (non-core spend)

Legend:
- Strategy
- Judgment-intensive
- Transaction-intensive

Pyramid content:
- S2P strategy
- 1. Spend data management
- 2. Strategic sourcing
- 3. Vendor management
- 4. Requisition to PO
- 5. Invoice processing
- 6. Accounts payable and T&E
- 7. Procurement systems
- 8. Performance management

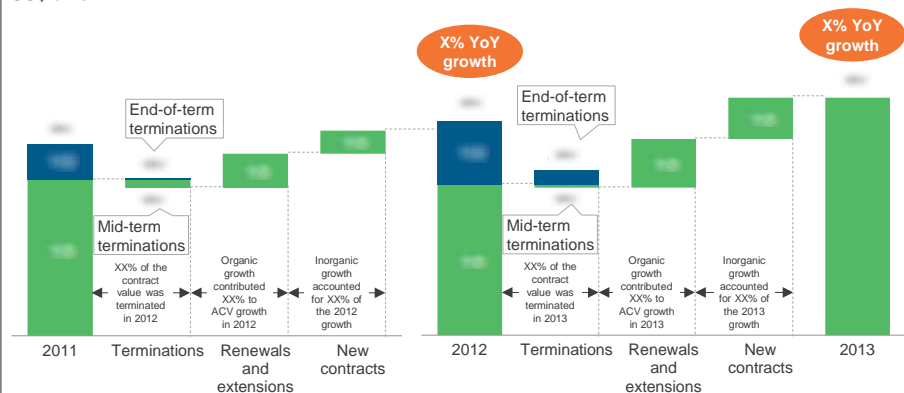Brackets: Procure-to-Pay (P2P), Source-to-Contract (S2C), Source-to-Pay (S2P)
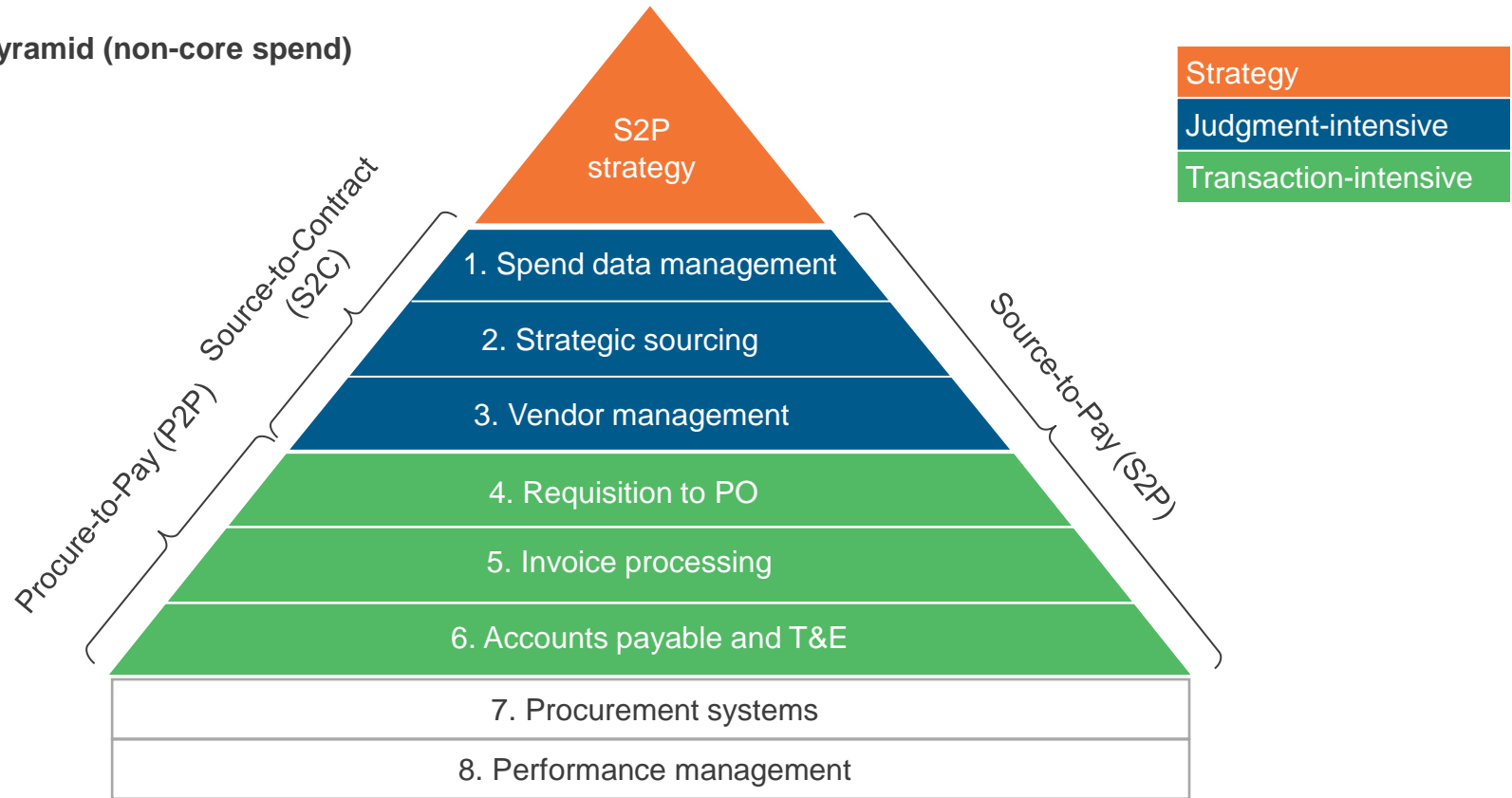
- Everest Group's analyses include multi-process PO contracts with a minimum of three procurement processes, over US$1 million in ACV, and a minimum contract term of three years. Typically, the managed spend is greater than US$50 million
- Everest Group's analyses include all multi-process PO contracts signed as of 2013

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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
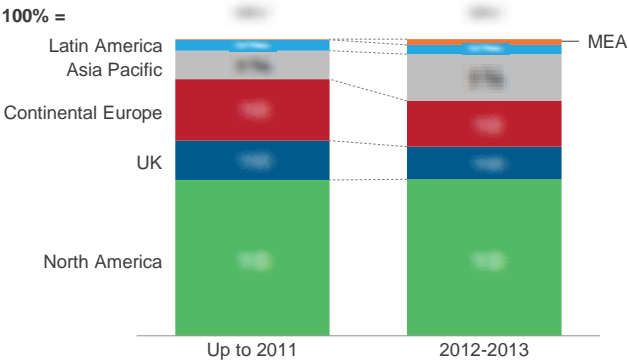
Market growth

Components of PO ACV growth in 2013
US$ billion

X% YoY growth

End-of-term terminations

Mid-term terminations

XX% of the contract value was terminated in 2012

Organic growth contributed XX% to ACV growth in 2012

Inorganic growth accounted for XX% of the 2012 growth

End-of-term terminations

Mid-term terminations

XX% of the contract value was terminated in 2013

Organic growth contributed XX% to ACV growth in 2013

Inorganic growth accounted for XX% of the 2013 growth

X% YoY growth

| 2011 | Terminations | Renewals and extensions | New contracts | 2012 | Terminations | Renewals and extensions | New contracts | 2013 |

Geographic adoption

Distribution of PO contracts by buyer signing region
Number of contracts (new and extensions/renewals)

100% =
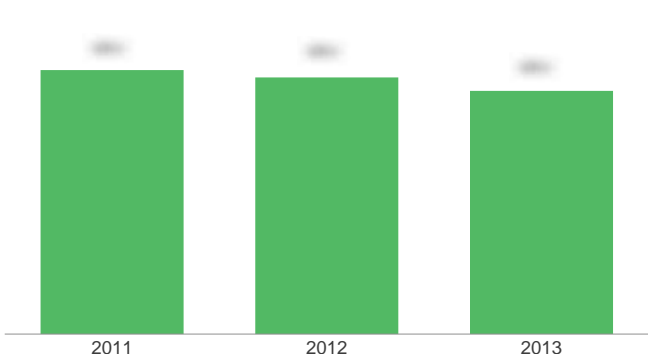
- Latin America
- Asia Pacific
- Continental Europe
- UK
- North America

MEA

| Up to 2011 | 2012-2013 |

Process focus

Snapshot of PO contracts over time by process focus
Number of new multi-process contracts

- Source-to-Pay (S2P)
- Source-to-Contract (S2C)-focused
- Procure-to-Pay (P2P)-focused

| 2010-2012 | 2013 |
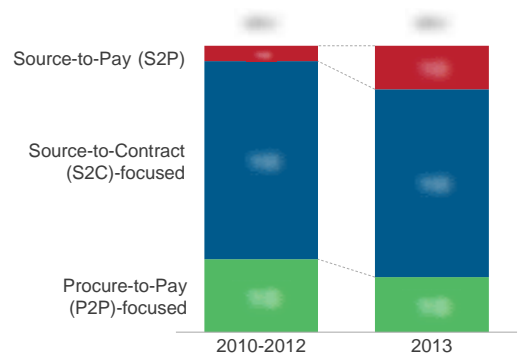
Service provider market share

Market share of the top three PO service providers over time
Percentage of market size (active ACV)

| 2011 | 2012 | 2013 |

Source: Everest Group (2014)

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PO research calendar

Topic	Release date
Growth of Horizontal BPO in Latin America across FA, HR, and Procurement	February 2014
Betting on Tail Spend to Save Coin	March 2014
Procurement Outsourcing (PO) – Annual Report 2014: Expanding New Horizons	June-2014
PO – Service Provider Landscape with PEAK Matrix Assessment 2014	Q3-2014
PO – Service Provider Profile Compendium 2014	Q3-2014
Evaluation of BPaaS Solutions for FAO/PO	Q3-2014
Procure-to-Pay (P2P) – Service Provider Landscape with PEAK Matrix Assessment 2014	Q3-2014
SCM BPO – Service Provider Landscape with PEAK Matrix Assessment 2014	Q3-2014
PO Service Provider Landscape for Europe with PEAK Matrix Assessment	Q4-2014

Additional PO research recommendations

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

1. **Business Case for Procurement and HR Collaboration** (EGR-2014-1-R-1098); 2014. In the current, challenging economic environment, taking an integrated Human Resource Outsourcing (HRO) and Procurement Outsourcing (PO) approach can reap significant benefits. An integrated approach to HRO and PO can ensure that the operational expertise on the HR side is effectively combined with the sourcing and vendor management expertise on the procurement side to unlock the full value of outsourcing. However, there are organizational, operational, and technological challenges that the companies need to manage while pursuing an integrated approach

2. **Betting on Tail Spend to Save Coin** (EGR-2014-1-R-1076); 2014. Cost reduction has always been a prime concern for organizations across the globe. Today's increasingly stringent economic environment is further aggravating it, and pushing organizations to maximize savings from their cost base. In the past, traditional techniques of spend management have been instrumental in driving cost savings in procurement. Organizations started with optimizing direct spend and then, over time, moved to indirect spend as well. Tail-end Spend Management (TSM) can assist organizations to optimize this left-over spend and drive incremental savings of up to 15 to 17% on the addressable cost base

3. **Supply Chain Management (SCM) BPO – Beyond Procurement Outsourcing (PO)** (EGR-2013-1-R-0840); 2013. This report goes beyond PO to explore buyer adoption and solution characteristics in other supply chain areas and profiles the capabilities of several SCM BPO service providers. It analyzes the SCM BPO market across key business drivers, market growth, buyer adoption trends, and solution characteristics

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

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- Through its practical consulting, original research, and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies, and management approaches

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