Procurement Outsourcing (PO) Annual Report – 2017: Leap towards Digital Transformation

Procurement Outsourcing (PO)
Annual Report – July 2017 – Preview Deck

EGR-2017-1-PD-2245

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- Benchmarking | Pricing, delivery model, skill portfolio
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- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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Background and methodology of the research

Background of the research

The global multi-process Procurement Outsourcing (PO) market registered a growth of 9% in 2016. Both organic and inorganic factors contributed to the overall growth. The market witnessed increasing instances of service provider switching. Buyers have become more demanding and service providers are relying on developing technology solutions around analytics, Robotics Process Automation (RPA), cloud, and mobile, along with exploring the role of blockchain and cognitive to drive the way forward. In this study, we analyze the global multi-process PO market in 2016. We focus on:

- Market overview
- Value proposition and shifting solution dynamics
- Buyer adoption trends
- 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 723 multi-process PO deals signed as of 2016 with a minimum of three PO processes, over US$1 million in ACV, and a minimum contract term of three years
- Coverage across 15 PO service providers with multi-process capability, namely Accenture, Aegis, Aquanima, Capgemini, Conduent, Corbus, Genpact, GEP, HCL, IBM, Infosys, Optimum Procurement, TCS, Wipro, and WNS
- Global survey and one-on-one executive-level buyer interviews to understand how organizations perceive their PO engagements

EGR-2017-1-PD-2245

Table of contents (page 1 of 2)

Topic	Page no.
Introduction and overview	**6**
Key messages of the report	**13**
Section I: Market overview	**18**
• Summary	19
• Market size and growth	20
• Contractual activity trends	21
• Adoption trends by:	
– Industry	22
– Geography	23
– Buyer size	24
Section II: Value proposition and shifting solution dynamics	**25**
Section III: Buyer adoption trends	**40**
• Summary	41
• Process scope	43
• Geographic scope	44
• Bidding process	45
• Sourcing dynamics	46
• Pricing	47

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Table of contents (page 2 of 2)

Topic	Page no.

Section IV: Service provider landscape **48**
- Summary 49
- PEAK Matrix for PO 50
- Service provider capability assessment 51
- Market share 54
- Market share trends by
  - Geography 55
  - Industry 56
  - Buyer size 57

Appendix **58**
- Glossary of terms 59
- PO research calendar 61
- References 62

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 2016-2017. The report provides comprehensive coverage of the global PO market including detailed analysis of market size & growth, PO value proposition, buyer adoption trends, and service provider landscape.

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

Market overview

- The multi-process PO market witnessed a decent growth of 9% in 2016 to reach US$2.4 billion in size
- Shorter contract lengths and heavy competition enabled service provider switching
- Contractual activity has seen a decline in growth in mature markets of North America and United Kingdom, whereas emerging markets of Asia Pacific & Latin America demonstrated robust adoption
- Manufacturing is a leading adopter in the emerging market of APAC, while healthcare & pharma and energy & utilities industries are witnessing an uptick in adoption in North America

Value proposition and shifting solution dynamics

- As the procurement services industry transforms from a receding arbitrage-first to a fast-growing digital-first model, its value proposition and levers are undergoing a sea-change
  - Instead of labour arbitrage buyers are demanding better sourcing and category expertise
  - Service providers are looking at acquisitions as a one-shot way to gain the necessary talent and capabilities

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

Value proposition and shifting solution dynamics

- From a lean six-sigma model, the market is moving towards a more design thinking approach to bring in innovative solutions
- Technology is becoming a key enabler for the shift towards a digital-first procurement model
  - Analytics, automation, cloud, mobile, and cognitive are being used to create a touchless procurement ecosystem

Buyer adoption trends

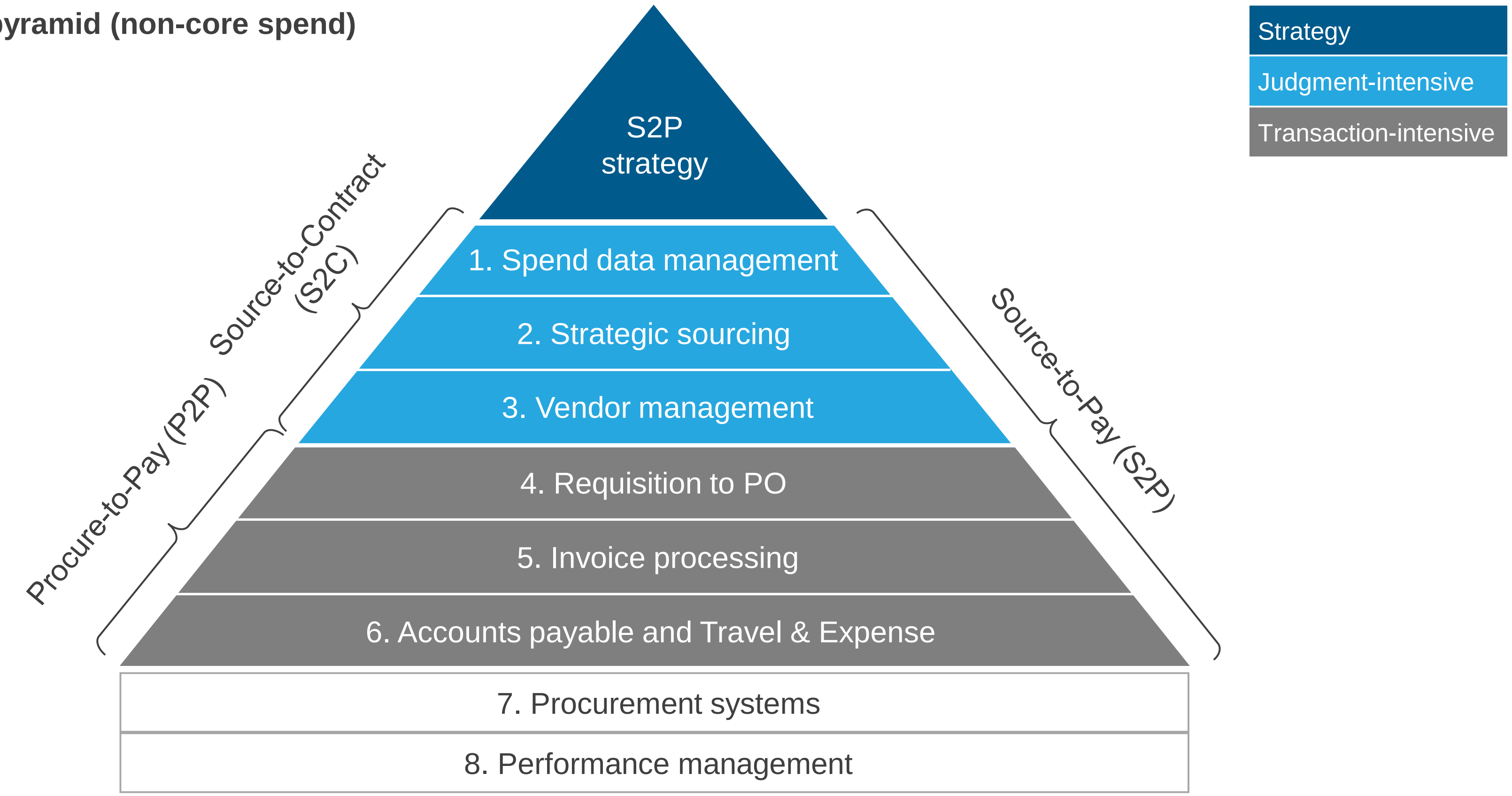
- More and more buyers are going the competitive bidding route. They are now open to evaluating multiple service providers even if there is an incumbent involved
- Growing geopolitical and economic risks restricted buyers from taking bold decisions, making them less willing to sign multi-country deals and opting to restrict the scope to a few key geographies
- Hybrid continued to be the predominant pricing model, and witnessed an increase in adoption as buyers moved away from transaction-based pricing

Service provider landscape

- Accenture, Capgemini, IBM, and GEP continue to lead the PO market
- The provider landscape varies significantly across geographies with different providers focusing on specific regions
- It is even more fragmented in terms of leadership in different buyer industries
- Although large businesses contribute the majority, PO adoption by the SMB segment is growing and presents significant future opportunities

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 2016

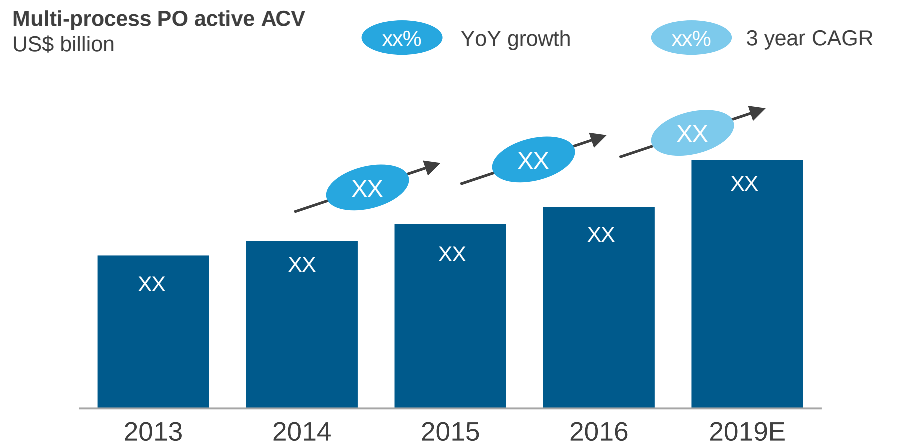
Beyond the process dimension, PO contracts also have a "procurement-spend category" dimension

☑ High prevalence of third-party outsourcing
☒ Low prevalence of third-party outsourcing

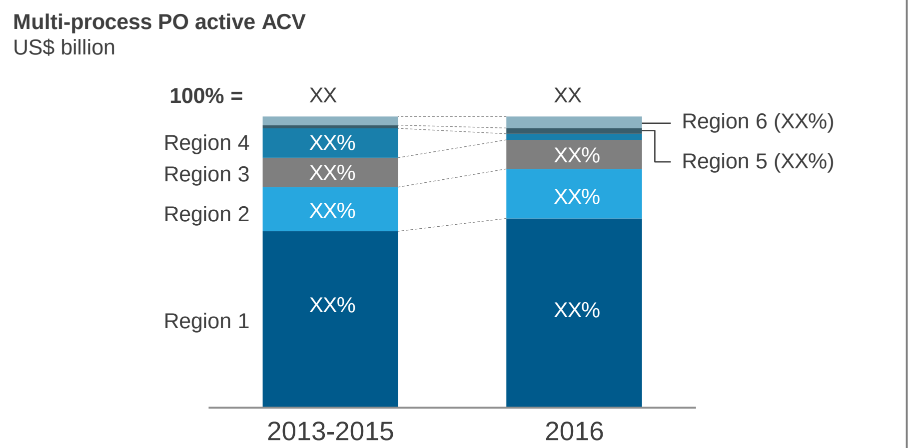
			Source-to-Pay (S2P) cycle	
			Source-to-Contract (S2C)	**Procure-to-Pay (P2P)**
Direct spend	**Core spend**	• Goods and services that are key ingredients to manufacture/deliver the final product/service • They are proprietary or specific to the organization • For example: Iron ore for a steel manufacturer 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 • They are commodities in that industry • 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 • For example: Spend categories such as facilities, office supplies, travel & logistics, marketing / sales-related spend, and IT/telecom	☑	☑

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

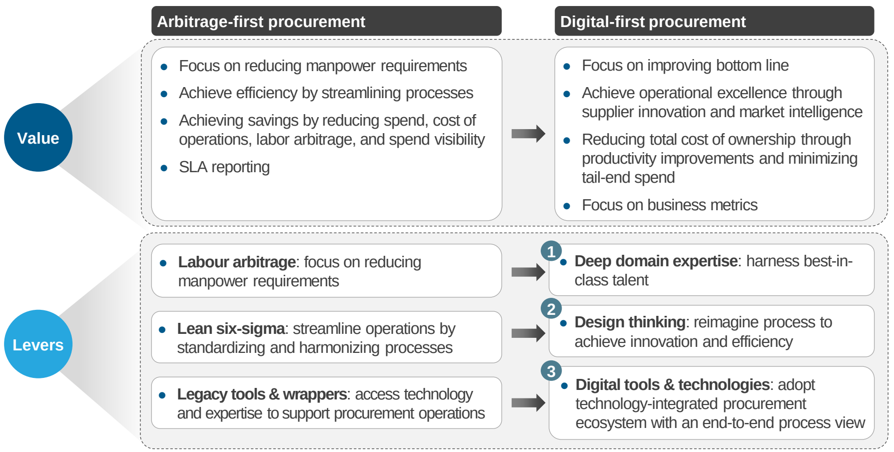
Market growth



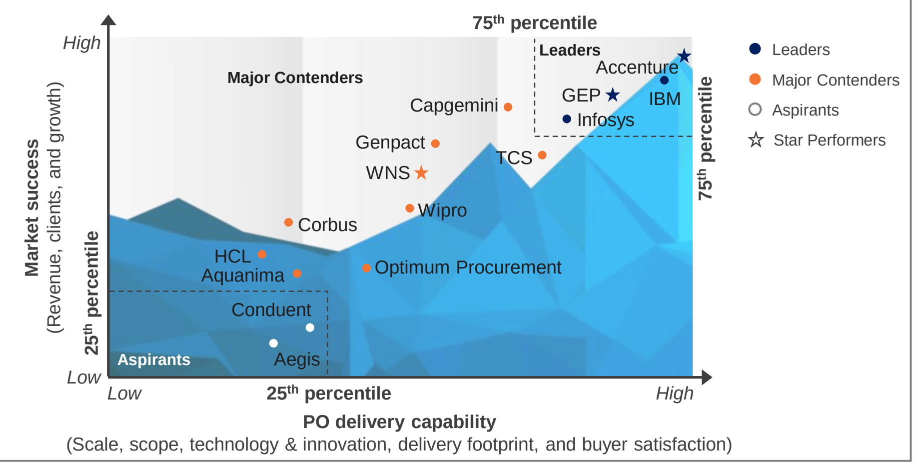
PO adoption by buyer geography



Value proposition and shifting solution dynamics



Everest Group PEAK Matrix™ for PO



Source: Everest Group (2017)

PO research calendar

Published | Planned | Current release

Flagship PO reports	Release date
SCM Service Provider Landscape with PEAK Matrix™ Assessment 2017	March 2017
Analytics Business Process Services (BPS) – Service Provider Landscape with PEAK Matrix™ Assessment 2017	May 2017
PO Service Provider Landscape with PEAK Matrix™ Assessment 2017	June 2017
BPS Delivery Automation (BPSDA) – Service Provider Landscape with PEAK Matrix™ Assessment 2017	July 2017
Procurement Outsourcing (PO) Annual Report – 2017: Leap towards Digital Transformation	**July 2017**
SCM Service Provider Landscape with PEAK Matrix™ Assessment	Q4 2017

Thematic PO reports	Release date
Category Management Outsourcing: The Bridge to Strategic Procurement	December 2015
Driving Business Outcomes in Aftersales Supply Chain	May 2016
Unlocking Next-Generation Value through Technology-Embedded Business Process Services	July 2016
PO – Viewpoint – Procurement Analytics 3.0	February 2017
3PL or 4PL: An Increasingly Complex Decision	June 2017
Cognitive procurement in PO	Q3 2017

Note:For a list of all PO reports published by us, please refer to http://www2.everestgrp.com/reports?Cat0=990#cat0=831

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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. **Supply Chain Management (SCM) – Service Provider Landscape with PEAK Matrix™ Assessment 2017** (EGR-2017-1-R-2122); 2017. This report examines the global SCM service provider landscape and its impact on the SCM market. It focuses on service provider position and growth in the SCM market, changing market dynamics & emerging service provider trends, and assessment of service provider delivery capabilities

2. **Procurement Outsourcing (PO) – Viewpoint – Procurement Analytics 3.0** (EGR-2017-2-V-1868); 2016. This report examines the ever-changing dynamics in the PO market, with the focus shifting to improved business outcomes achieved by leveraging powerful tools such as analytics. The report further discusses the evolution, application, and the future of analytics in area of procurement along with the factors facilitating its operationalization in this field.

3. **Procurement Outsourcing (PO) – Service Provider Landscape with PEAK Matrix™ Assessment 2017** (EGR-2017-1-R-2218); 2017. This report examines the global PO service provider landscape and its impact on the PO market. It focuses on service provider position and growth in the PO market, changing market dynamics & emerging service provider trends, and assessment of service provider delivery capabilities

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About Everest Group

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