Procurement Outsourcing (PO) Annual Report 2018: Driving Strategic Value from Procurement

Procurement Outsourcing
Annual Report – September 2018: Complimentary Abstract / Table of Contents

EGR-2018-22-CA-2778

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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

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Background and methodology of the research

Background of the research

The global multi-process Procurement Outsourcing (PO) market is expected to witness a growth of 11-12% in the next three years to reach US$3.6 billion in size by 2020. The growth is driven by increase in outsourcing of procurement functions by enterprises to leverage external sourcing expertise and technology know-how. The market has also witnessed the focus of CPO expanding beyond driving down the overall spend and operating costs to delivering more strategic value to the larger enterprise leveraging both technological solutions and supplier-enabled innovation. As a result, buyers are demanding more from service providers, who are looking for 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 2017. We focus on:

- Key emerging themes
- Market overview and adoption trends
- 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)
- Over 1,500 multi-process PO deals signed as of 2017, with a minimum of three procurement processes, over US$1 million in ACV, and a minimum contract term of three years
- Coverage across 13+ PO service providers with multi-process capability, namely Accenture, Aegis, Aquanima, Capgemini, Corbus, Genpact, GEP, HCL, IBM, Infosys, TCS, Wipro, and WNS
- Global survey and one-on-one executive-level buyer interviews to understand how organizations perceive their PO engagements

Note: Aegis and STARTEK have completed their merger

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 2017-2018. In this backdrop, this report provides comprehensive coverage of the global PO market including detailed analysis of market size and growth, buyer adoption trends, key emerging themes, solution characteristics, and service provider landscape.

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

Market overview

- The multi-process PO market is expected to witness a growth rate of 11-12% in the next three years to reach US$3.6 billion in size by 2020
- North America continues to lead the PO global market. Increased scope of deals in Rest of Europe and United Kingdom led to high growth in these regions. APAC grew slightly above market rate while Latin America grew at a very high rate
- Manufacturing and CPG & retail, the leading adopters of PO, witnessed flat growth in 2017; financial services and healthcare & pharma were the high growth drivers in PO
- Large and mid-sized buyers are driving market growth with increase in contract scope; whereas, small-sized buyers are witnessing increase in the number of new deals

Buyer adoption trends

- Increase in the number of firms signing S2C-focused contracts as they look to leverage provider expertise in talent and technology; end-to-end S2P-focused deals are set to witness an increase over the years
- Advisor-led deals continue to witness increasing share, as buyers bring in external specialists to choose the best provider and help fine-tune the deal characteristics and cost
- Degree of onshoring in PO contracts is increasing, as buyers are expanding the scope of work to include more sourcing processes which require significant onshore presence

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

Solution characteristics

- Analytics is changing the way sourcing and procurement happens by allowing improvement in spend management, category management, and vendor management, among others
- Service providers are increasingly integrating AI and IoT with their analytics solutions.
- Strong demand for significant sourcing capabilities has led to a rise in several niche procurement consulting firms. Several broad-based BPO players have taken the acquisition route to build sourcing capabilities

Key emerging themes

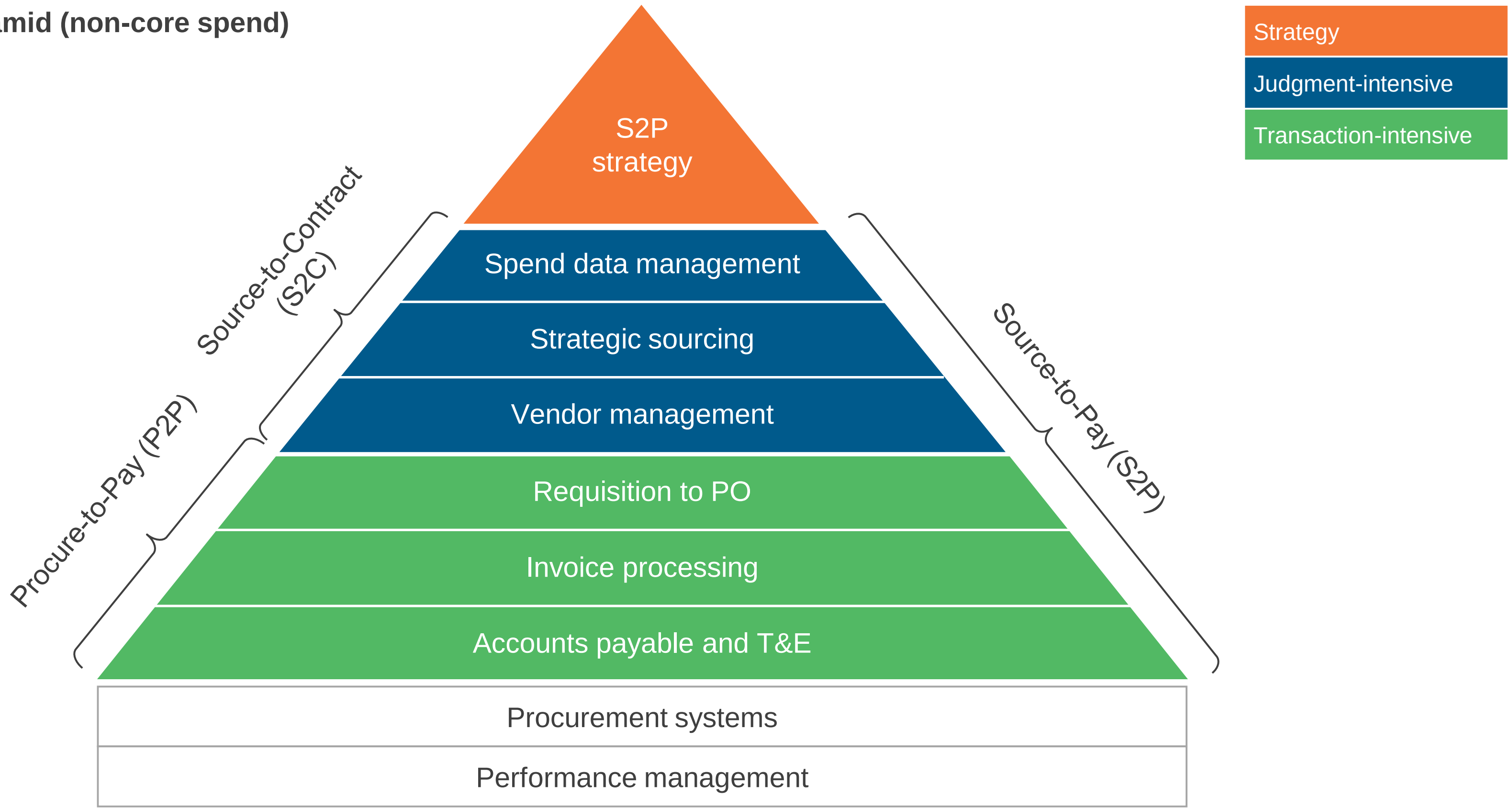
- Focus of CPO is expanding beyond driving down the overall spend and operating costs to delivering more strategic value
  to the larger enterprise leveraging both technological solutions and supplier-enabled innovation
- Buyers expect their service providers to play the role of a strategic partner, bring in sourcing expertise & innovative solutions, and quickly adapt to their workflows
- Technologies such as AI and analytics are likely to witness increasing adoption over the next two to three years. RPA will also witness strong adoption in the P2P process. IoT and blockchain are in the early stages of adoption

Service provider landscape

- Accenture, IBM, and GEP continue to command more than 50% share of the market
- Backed by improved capabilities, some providers such as Genpact and Wipro have shown strong growth in the market
- Each geography and vertical has a different set of service providers that leads market share
- Accenture is the only service provider to appear in the top five service providers across all regions and industries

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

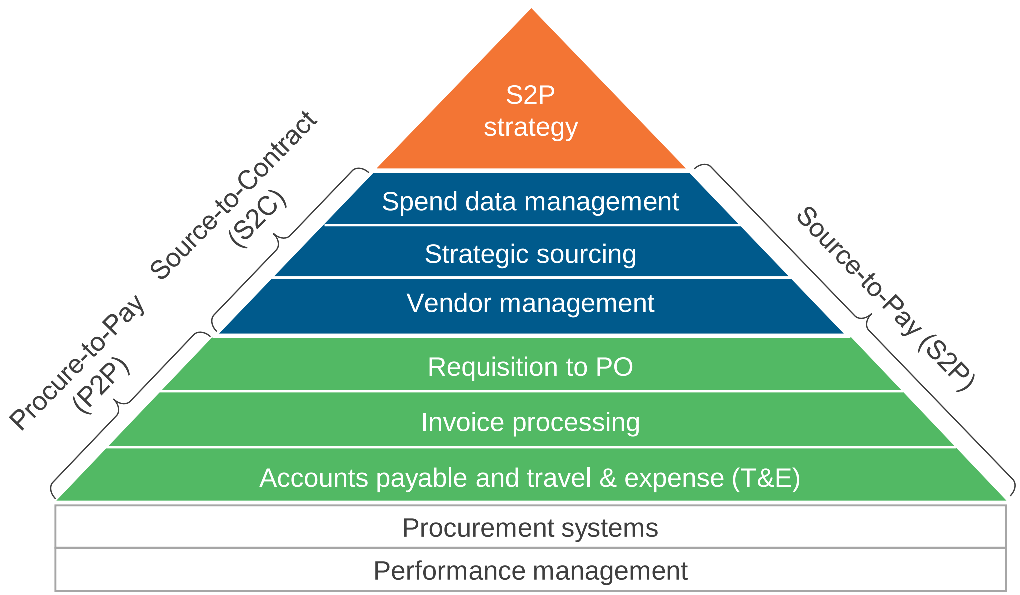
Procurement pyramid (non-core spend)



- 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 2018

Traditionally, PO has been limited primarily to a function-focused definition

Procurement pyramid (non-core spend)



- Strategy
- Judgment-intensive
- Transaction-intensive

Strategy (implemented in-house)
- Mission strategy / corporate strategy
- Business strategy
- Geographic strategy
- Technology strategy

Spend data management
- Baseline analysis
- Data “cube” construct
- Opportunities’ definitions

Strategic sourcing
- Sourcing strategy
- Vendor selection
- Contracting
- Sourcing implementation
- Category management

Vendor management
- Vendor relationship management
- Contract administration
- Service level/standards monitoring

Requisition to PO
- Approval workflow
- Material requisition
- Purchase order
- Expediting/ troubleshooting

Invoice processing
- Material/invoice receipt
- Invoice payment

Accounts payable and T&E
- Master data maintenance
- Process payment request
- T&E claims processing
- EDI/P-card[1] administration
- Month-end closing
- Vendor inquiries
- Reporting

Procurement systems
- E-auctions
- Catalog management
- Solution hosting

Performance management
- Financial performance
- Compliance management
- Policies and procedures
- Performance and results reporting

1 Refer to Appendix

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

👍 High prevalence of third-party outsourcing

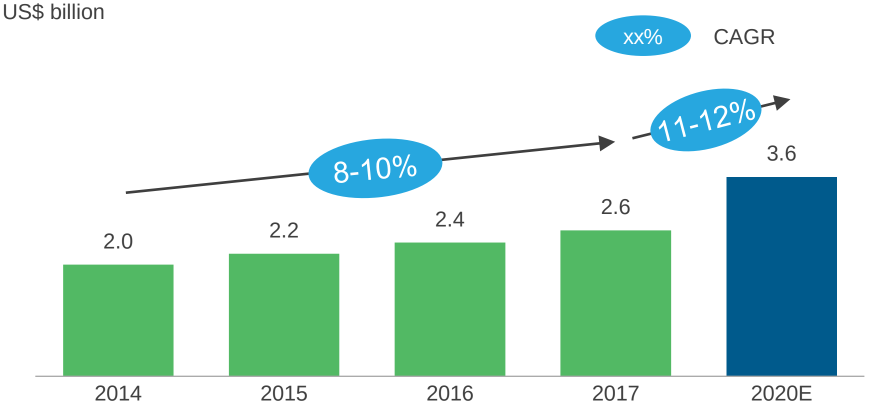
👎 Low prevalence of third-party outsourcing

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

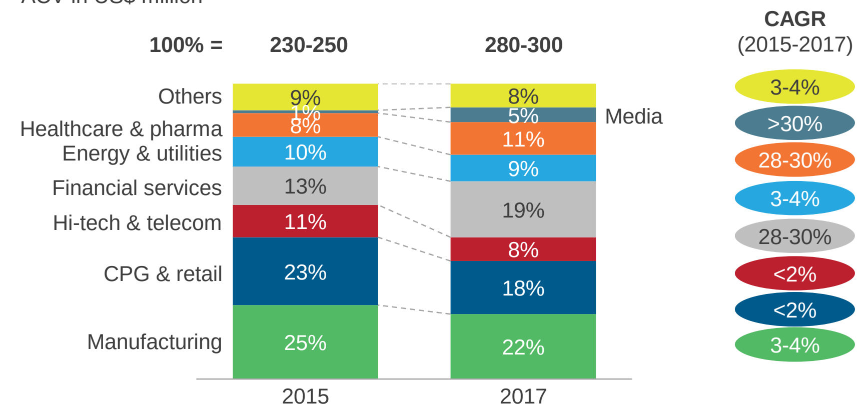
Market growth

Multi-process PO active ACV
US$ billion

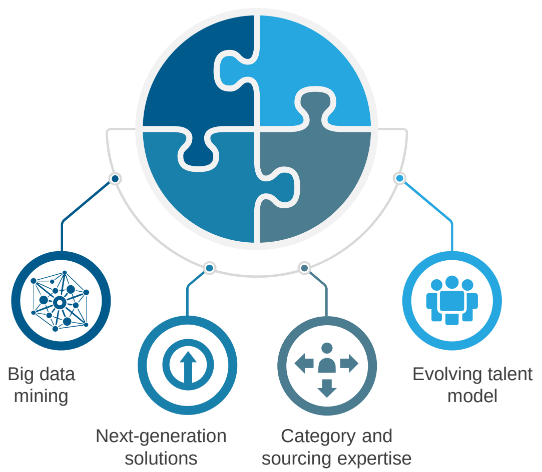


PO adoption by buyer industry

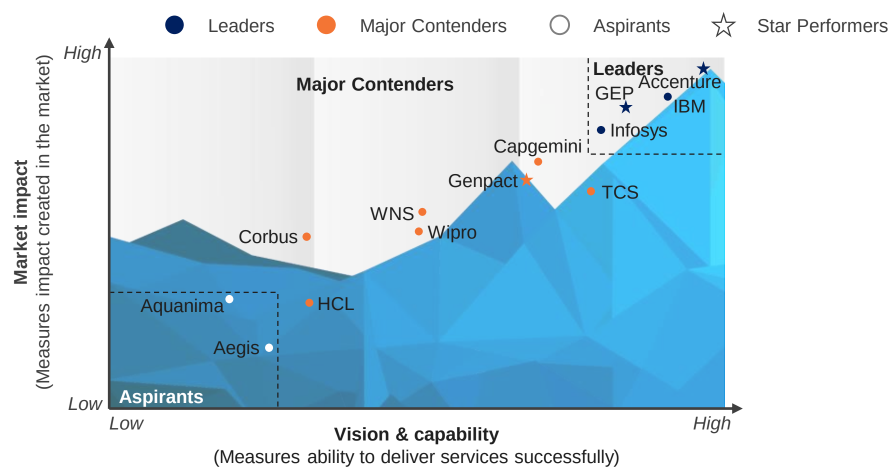
Distribution of new PO contracts by buyer industry
ACV in US$ million



Evolving solution characteristics in PO



Everest Group PEAK Matrix™ for PO



Research calendar – Procurement Outsourcing (PO)

Published | Planned | Current release

Flagship PO reports	Release date
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 toward Digital Transformation	July 2017
SCM BPO Service Provider Landscape with Services PEAK Matrix™ Assessment 2018	December 2017
Procurement Outsourcing (PO) Service Provider Landscape with Services PEAK Matrix™ Assessment 2018	March 2018
Supply Chain Management (SCM) Annual Report – Annual Report 2018	July 2018
Procurement Outsourcing (PO) Annual Report 2018: Driving Strategic Value from Procurement	**September 2018**

Thematic PO reports	Release date
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
The Future of Procurement in the Digital Age	March 2018
The Growing Importance of Supplier Management	June 2018
Strategic Sourcing Market Report	Q4 2018
Challenges and Trends in Outsourcing Direct Spend Management	Q4 2018

Note: For a list of all of our published PO reports, please refer to our website page

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) BPO – Annual Report 2018: Moving Toward a Digital Supply Chain Ecosystem** (EGR-2018-22-R-2704); 2018. This report examines the global SCM BPO market in 2017. It focuses on the state of the market, SCM BPO market size and adoption trends, and service provider landscape in the SCM BPO market

2. **The Growing Importance of Supplier Management for Perfect Harmony of Yin (Buyer) and Yang (Supplier)** (EGR-2018-22-R-2642); 2018. This paper highlights the challenges buyers and suppliers face in their relationships today and how supplier management can help to solve them

3. **Procurement Outsourcing (PO) BPO – Service Provider Landscape with Services PEAK Matrix™ Assessment 2018** (EGR-2018-22-R-2588); 2018. 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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