Procurement Outsourcing (PO) State of the Market 2023 – Driving Outcomes and Value Through Evolving Engagements

December 2023: Complimentary Abstract / Table of Contents

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Contents

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

Shirley Hung, Partner

Vignesh K., Vice President

Prateek Singh, Practice Director

Akash Thunga, Senior Analyst

Amir Khan, Senior Analyst

Anay Shrivastava, Analyst

Contents

Background and scope of the research

PO market grew significantly in 2022 as providers expanded scope into strategic procurement areas in addition to downstream procurement operations and improved penetration further across regions and industries. However, starting early 2023, high inflation and economic uncertainty, along with recessionary headwinds, have delayed decision-making concerned to large-scale digital transformation and high-value strategic engagements just as they seemed to pick up pace during 2021-22. While this will lead to growth moderation in 2023-24 period, PO market is still expected to grow steadily owing to the support providers offer in navigating through the economic uncertainty, handling cost pressures, and reducing Total Cost of Ownership (TCO). To make the most of outsourcing engagements, enterprises are looking to optimize value and achieve better RoI through better alignment on expectations and innovative engagement constructs. Value drivers for enterprises vary significantly across the S2P value chain depending on the nature of processes and their strategic importance. Similarly, outsourced spend managed by providers also impacts the value delivered depending on the nature and scale of spend and the categories outsourced. Providers and enterprises are trying to bridge the gap between expected value and value delivered through better understanding and alignment on the desired outcomes across the procurement value chain. While diverse SLAs/KPIs are leveraged to track and measure outcomes across processes, enterprises are showing increasing willingness to adopt innovative pricing constructs to ensure providers have more skin-in-the-game. Consequently, hybrid pricing constructs involving outcome- and output-based pricing components continue to be highly leveraged in current PO engagements.

This research also provides a comprehensive coverage of the PO market during 2022-23 and analyzes it across various aspects including regional variations, buyer adoption trends, growth drivers, and the PO service provider landscape.

In this research, we focus on:

- Value from outsourcing procurement function
- Capturing value through innovative pricing constructs
- PO market overview and adoption trends
- Key buyer adoption trends

Scope of this report

Geography
Global

Industry
Information about 23+ leading PO service providers across the globe has been leveraged for this study

Services
Procurement

Overview and abbreviated summary of key messages

This research provides comprehensive coverage of the PO market during 2022-23 and analyzes it across various aspects including regional variations, buyer adoption trends, and growth drivers.

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

Value from outsourcing procurement	• Providers deliver value through various approaches aimed at cost avoidance, cost reduction, and deliver value beyond savings such as stakeholder satisfaction, quality, compliance, and supplier relations
	• Strategic processes outsourcing is experiencing high growth driven by access to category expertise, spend insights, and market intelligence. P2P process outsourcing is driven by enterprises need to digitalize downstream procurement operations to drive higher efficiency, productivity, and accuracy along with reduced operational costs and cycle times
Capturing value through innovative pricing constructs	• As enterprises are using innovative pricing structures to extract value from outsourcing it is essential to understand that there is no one-size-fits-all pricing strategy
	• Hybrid pricing provides organizations with delivery assurance associated with traditional pricing constructs while encouraging innovation and risk sharing through output-/outcome-based constructs
PO market overview	• The PO market showed strong growth of 12-14% during 2021-22. We expect a marginal growth slowdown in 2023 and a bounce back to 11-13% growth in 2024
	• Service providers are expanding their S2C talent pool at a faster rate than P2P in line with increased demand from enterprises seeking support in upstream procurement areas
PO buyer trends	• Importance of operational impact and business impact reduced as cost reduction becomes the top priority for enterprises as they navigate the economic uncertainty around recessionary trends
	• There has been a reduction in enterprise satisfaction levels across most provider capability areas

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

Value from outsourcing procurement

	Spend analytics and insights	Category management and sourcing
Value drivers	• Improving spend visibility through unified spend data across processes and systems • Leveraging AI-/ML-based advanced analytics for identifying spend optimization opportunities • Predictive and prescriptive analytics-powered demand management • Deploying cognitive intelligence solutions to identify savings opportunities	• Network of global suppliers to enable sourcing across regions • Utilize category market intelligence on pricing, quality, and supplier base to devise better negotiation strategy • Access to a pool of diverse category experts to enable specialized category management • Support with ongoing supplier management including active risk monitoring and performance management • Assist in business continuity planning through backup suppliers • Streamline tactical sourcing through catalogs and preferred suppliers
Outcomes	• Improved spend visibility • Better demand management • Improved cost savings	• Reduction in supply disruption • Optimized category and portfolio strategy • Better negotiation success • Overall cost reduction • Reduction in maverick spend

Provider value proposition

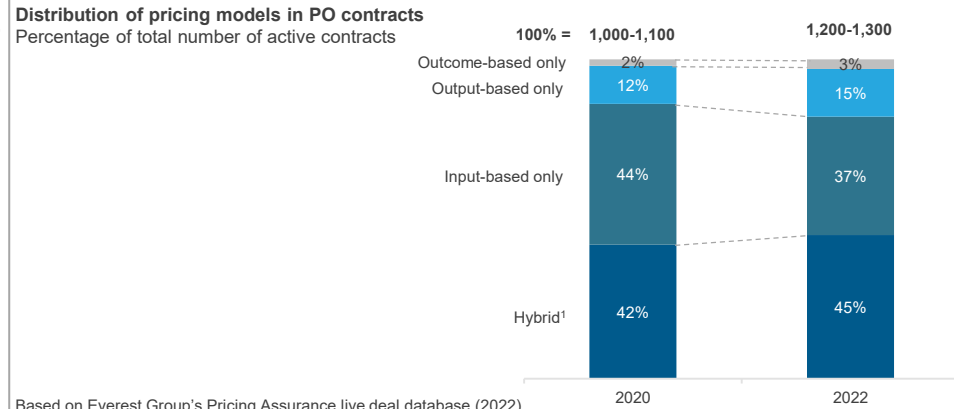Access to category experts | Advanced analytics solutions | Global sourcing capability | Global delivery presence | Category knowledge and strategy templates | Access to market intelligence
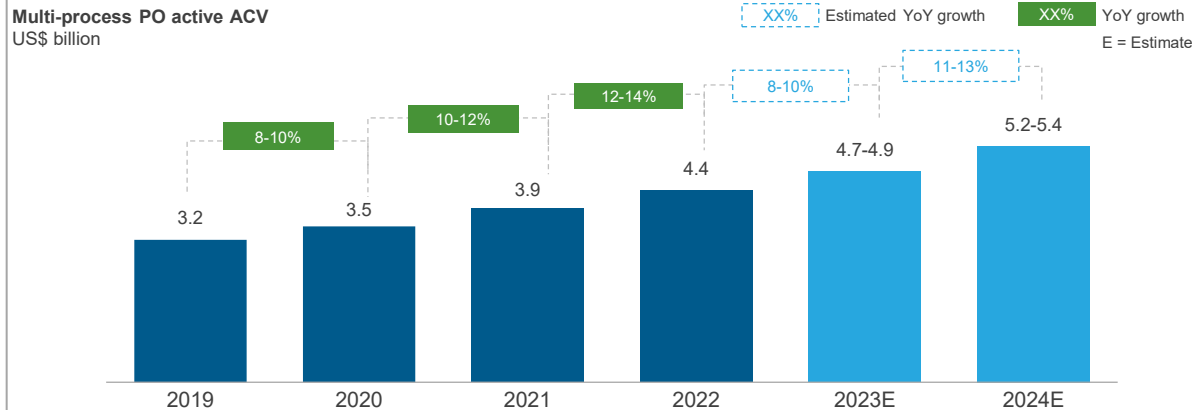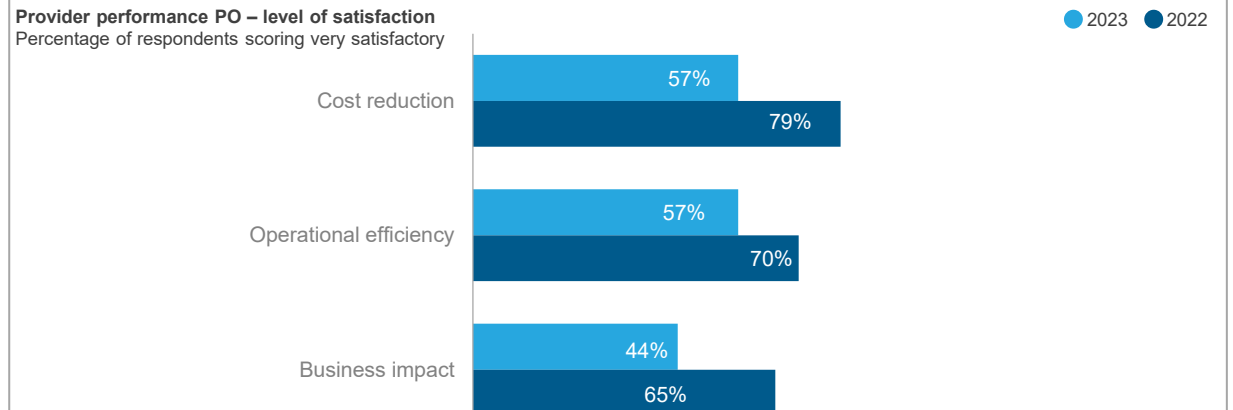
Pricing construct adoption within PO market

Distribution of pricing models in PO contracts
Percentage of total number of active contracts

100% =	1,000-1,100	1,200-1,300
Outcome-based only	2%	3%
Output-based only	12%	15%
Input-based only	44%	37%
Hybrid[1]	42%	45%
	2020	2022

Based on Everest Group's Pricing Assurance live deal database (2022)
1 Hybrid pricing model is leveraged in contracts that use more than one pricing model

PO market adoption

Multi-process PO active ACV
US$ billion

XX% Estimated YoY growth   XX% YoY growth
E = Estimate

Year	Value	Growth
2019	3.2	
2020	3.5	8-10%
2021	3.9	10-12%
2022	4.4	12-14%
2023E	4.7-4.9	8-10%
2024E	5.2-5.4	11-13%

Source: Everest Group (2023)

Buyer satisfaction results

Provider performance PO – level of satisfaction
Percentage of respondents scoring very satisfactory

● 2023   ● 2022

	2023	2022
Cost reduction	57%	79%
Operational efficiency	57%	70%
Business impact	44%	65%

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Research calendar
Procurement Outsourcing (PO)

Reports title	Release date
Procurement Outsourcing (PO) – Service Provider Compendium 2022	November 2022
Leveraging Data Analytics to Build a Truly Connected and Collaborative Supply Chain	November 2022
Procurement Outsourcing (PO) State of the Market Report 2023 – Modern Sourcing and Outsourcing in Uncertain Times	January 2022
Sourcing for Sustainability: Driving Environmental, Social, and Governance (ESG) Initiatives through Procurement	June 2023
Supply Chain Management (SCM) BPS – Service Provider Landscape with PEAK Matrix® Assessment 2023	June 2023
Supply Chain Management (SCM) BPS – Service Provider Compendium 2023	August 2023
Procurement Outsourcing (PO) – Service Provider Landscape with Services PEAK Matrix® Assessment 2023	September 2023
Evolution of the Procure to Pay Technology Landscape	September 2023
Supply Chain Management (SCM) BPS State of the Market Report 2023	December 2023
Procurement Outsourcing (PO) – Service Provider Compendium 2023	December 2023
Procurement Outsourcing (PO) State of the Market 2023 – Driving Outcomes and Value Through Evolving Engagements	**December 2023**
The Transformation of Procurement in the Generative AI Age	Q1 2024
Logistics of the Future	Q1 2024
Procurement Outsourcing Buyer Pulse Report 2024	Q1 2024
Exploring Circularity in Supply Chain	Q2 2024

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Stay connected

Dallas (Headquarters)
info@everestgrp.com
+1-214-451-3000

Bangalore
india@everestgrp.com
+91-80-61463500

Delhi
india@everestgrp.com
+91-124-496-1000

London
unitedkingdom@everestgrp.com
+44-207-129-1318

Toronto
canada@everestgrp.com
+1-214-451-3000

Website
everestgrp.com

Social Media
𝕏 @EverestGroup
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