



# **Procurement Outsourcing Annual Report – Preview Deck**

**April 2008**

---

## Background of the research

The Procurement Outsourcing (PO) market in 2007 continued on a growth path toward wider market adoption. With the number of new contract signings in 2007 matching that of 2006, the PO market is moving closer to entering a “rapid growth” phase as 2008 unfolds.

Several key dynamics took form in 2007, including:

- The emergence of a new PO value proposition representing the convergence of the traditional FAO and PO value propositions
- Shifts in the competitive landscape in response to growing and morphing opportunities in the PO space
- Emerging buyer adoption trends around transactional PO, end-to-end processes, and “phased” engagements

This report examines the global 2007 PO market and provides insights, detailed analyses and implications for stakeholders into 2008 and beyond

## In this research study, we focus on:

- Market size and buyer adoption patterns
- Changing transaction characteristics and value proposition
- Assessment of supplier landscape

## The scope of this report includes:

- Third-party PO contracts; it does not include shared services or captives
- Multi-process PO contracts that involves outsourcing of three or more activities from the Source-to-Pay (S2P) process, with at least US\$1 million of Annual contract value, and has a contract length of at least three years
- All multi-process PO contracts across all industries and geographies signed as of August 2007

Topic	Page no.
<b>Section I: PO market definition and key insights</b>	<b>7</b>
<b>Section II: Market size and buyer adoption</b>	<b>14</b>
■ Summary	15
■ Market size and growth	16
■ Buyer adoption trends	20
■ Supply and demand constraints	23
■ Impact of definition change	30
<b>Section III: Transaction characteristics and value proposition</b>	<b>31</b>
■ Summary	32
■ Emerging PO value proposition	33
■ Changing buyer adoption patterns	34
■ Changing supplier solution design	41
■ Impact of definition change	49
<b>Section IV: Supplier landscape</b>	<b>50</b>
■ Summary	51
■ Supplier categorization	52
■ Market share	53
■ Investment strategies	55
■ Impact of definition change	62



Topic	Page no.
<b>Section V: Implications for key stakeholders</b> .....	<b>63</b>
■ Implications for buyers .....	65
■ Implications for suppliers .....	67
■ Implications for technology providers .....	69
<b>Appendix</b> .....	<b>70</b>
■ Glossary of terms .....	71
■ References .....	75

# Overview and abbreviated summary of key messages

(page 1 of 2)



This report on the Procurement Outsourcing market summarizes key market trends and insights to assist management in making more informed business decisions. Key Insights are divided into three categories: Market size and buyer adoption, transaction characteristics and value proposition, and Supplier landscape, which are then summarized into an implications section. Each category contains 3-4 key trends, which are discussed in detail (and illustrated with supporting data and analysis) to provide the reader information in easy-to-apply, bite-size pieces.

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

## **Market size and buyer adoption**

- The overall GAO market had a relatively flat 2007 and PO followed suit
- The PO market is witnessing broad-based adoption across geographies, industries, and buyer segments
- Various demand and supply issues are holding back the market from more robust growth

## **Transaction characteristics and value proposition**

- The emerging value proposition represents a convergence of the traditional FAO and PO markets
- The market is witnessing an increased preference for “phased” approach, bundling of large procurement engagements with multi-tower GAO deals, rise in transactional procurement focus, and maturing of category scope
- Value-creation levers, solution-design elements, and contract structuring are being reconfigured

# Overview and abbreviated summary of key messages

(page 2 of 2)

## Supplier landscape

- Four sets of PO suppliers exist: global multi-tower, PO full scope, offshore centric, and PO specialists
- The entry of offshore centric players and PO specialists is changing the competitive landscape
- Few suppliers today have end-to-end S2P service capability and suppliers are differentiating themselves across four areas : process scope, industry, geography and buyer size

# The S2P process spans the entire procurement function



RESEARCH INSTITUTE

**Strategy (done in-house)**

- Mission/corporate strategy
- Business strategy
- Geographic strategy
- Technology strategy

**1 Spend data mgmt.**

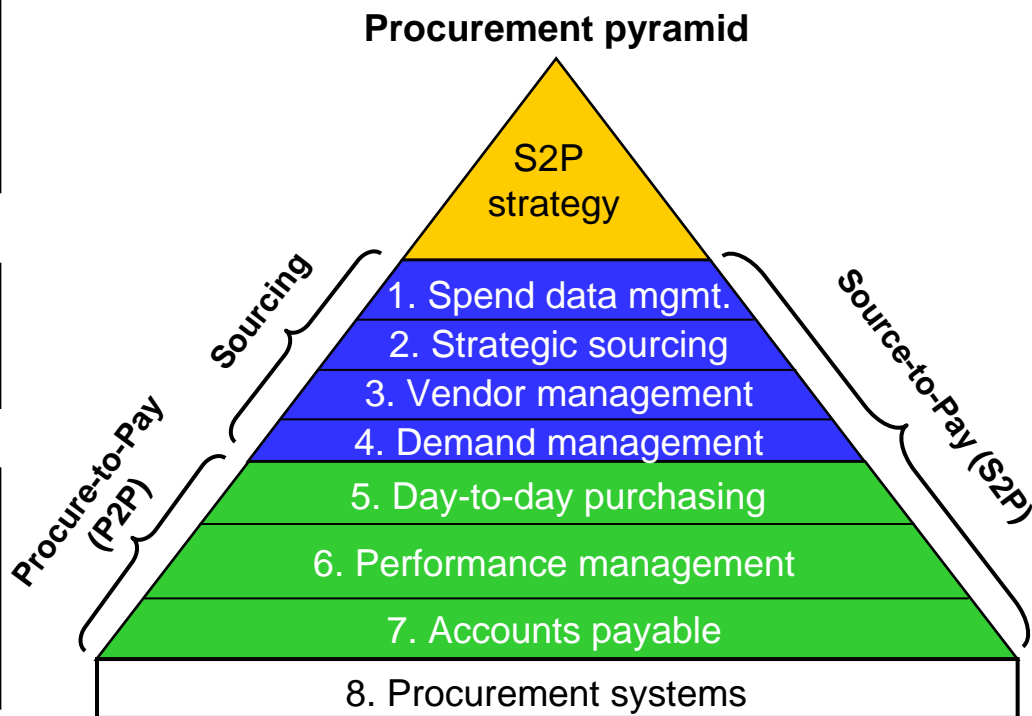
- Baseline analysis
- Data "cube" construct
- Opportunities definition

**2 Strategic sourcing**

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

**5 Day-to-day purchasing**

- Approval workflow
- Material requisition
- Purchase order
- Expediting/troubleshooting
- Material/invoice receipt
- Invoice payment



**6 Performance management**

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

**7 Accounts payable**

- Master data maintenance
- Process payment request
- T&E<sup>1</sup> claims processing
- EDI<sup>1</sup>/P-card<sup>1</sup> administration
- Month-end closing
- Vendor inquiries
- Reporting

**Strategy**

**Key processes**

**Transactional services**

**3 Vendor management**

- Vendor relationship management
- Contract administration
- SLA<sup>1</sup>/standards monitoring

**4 Demand management**

- Specifications/standards
- Transformation/change management
- Process and systems implementation

**8 Procurement systems**

- E-auctions
- Catalog management
- Solution hosting

1 Defined in Appendix

Source: Everest Research Institute (2008)

# To reflect the changing PO dynamics, Everest Research Institute has updated the definition of PO contracts

Parameter	Old definition	New definition <sup>1</sup>
<b>Process scope</b>	<ul style="list-style-type: none"><li>■ Involves outsourcing of three or more activities from S2P with at least one activity each from Sourcing and P2P</li></ul>	<ul style="list-style-type: none"><li>■ Involves outsourcing of three or more procurement activities</li></ul>
<b>Contract size</b>	<ul style="list-style-type: none"><li>■ Addresses at least US\$150 million of managed spend</li></ul>	<ul style="list-style-type: none"><li>■ Has an ACV of at least US\$1 million. Typically includes contracts with a managed spend of US\$50 million or greater</li></ul>
<b>Contract term (no change)</b>	<ul style="list-style-type: none"><li>■ Has a contract length of a minimum of three years</li></ul>	

- Everest analysis includes all PO contracts signed as of August 2007
- All analyses have been updated retrospectively and reflect the impact of definition change from 1994 onwards

1 Please refer to the "Procurement Outsourcing (PO) Market Definition Update" whitepaper, (ERI-2008-1-W-0233), for additional insight on this topic

Note: The impact of the definition change on Everest analyses is described in detail at the end of each section in this report

Source: Everest Research Institute (2008)

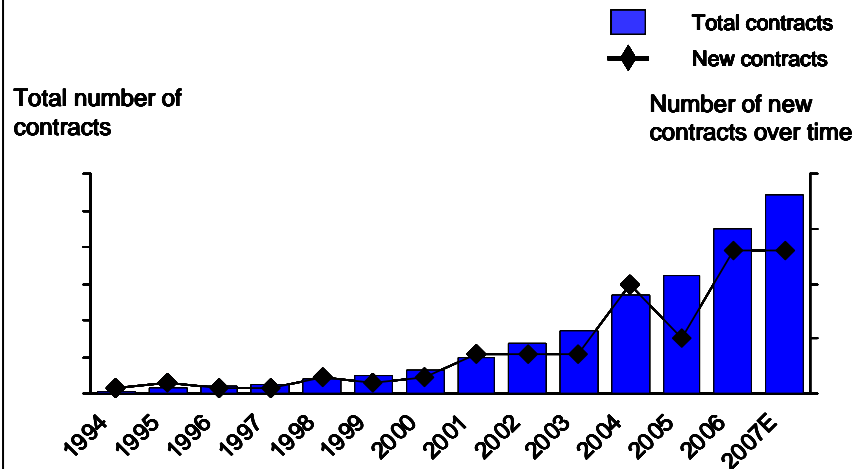


# The annual report has over 75 pages of relevant information; below are four charts to illustrate the depth of the report

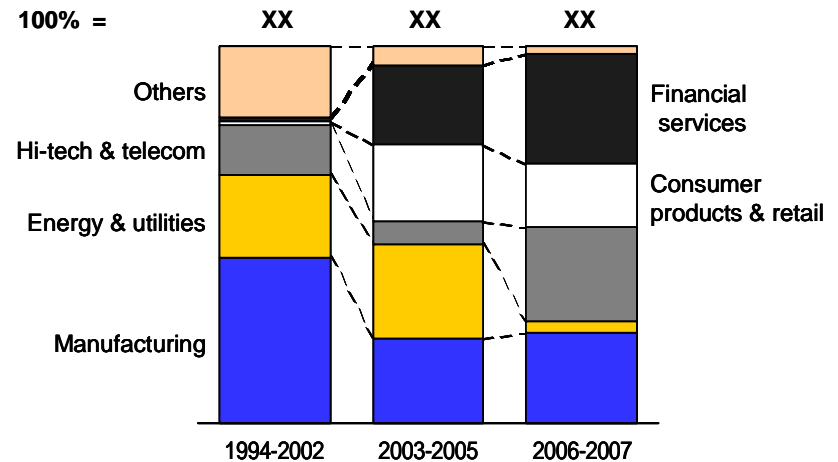


ILLUSTRATIVE RESEARCH INSTITUTE

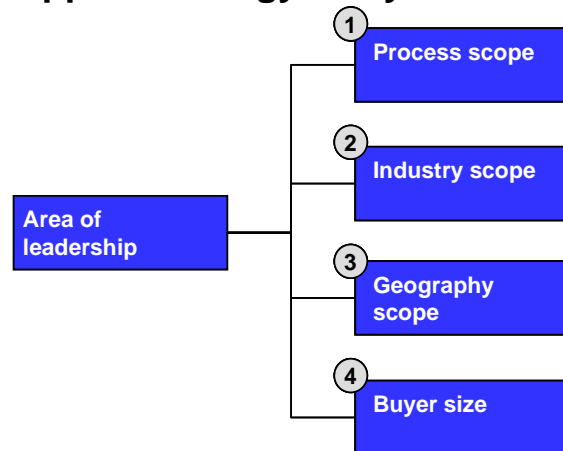
## Snapshot of PO contracts over time



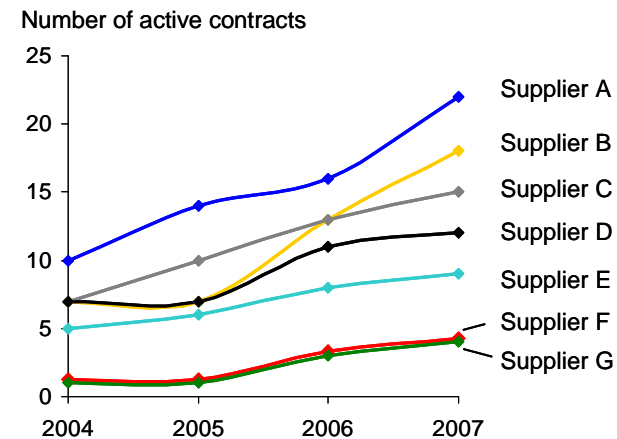
## Buyer adoption by industry



## Supplier strategy analysis



## Supplier market share



Source: Everest Research Institute (2008)

# Appendix: Additional PO research recommendations



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

1. **Outsourcing the Procure-to-Pay (P2P) Process (ERI-2008-1-R-0224); 2008.** This report examines the expanding market opportunity around the outsourcing of Procure-to-Pay (P2P) processes. It focuses on identifying the emerging value proposition of an end-to-end approach in addressing converging buyer requirements between the F&A and procurement processes. Based on extensive primary research, including a buyer survey and in-depth supplier interviews, the study explores perspectives on adoption trends, solution components, supplier capabilities, and the supplier landscape of the present market.
2. **Global Sourcing in PO (ERI-2007-1-R-0217); 2007.** This study analyzes the key trends emerging in the offshore PO market with a focus on offshore adoption in PO, role of global sourcing in PO, offshore supplier landscape, and the implications of global sourcing trends in PO for buyers and suppliers
3. **Roadmap for Realizing the Savings in PO (ERI-2007-1-W-0212); 2007.** This whitepaper discusses the issues with definition and realization of savings in PO, key features of different mechanisms that exist in the market to address the issues, and best practices to consider
4. **Procurement Outsourcing (PO) Annual Report 2006-2007 (ERI-2007-1-R-0154); 2007.** This research analyzes the global 2006-2007 PO market and provide insights, detailed analyses and implications for stakeholders along three key dimensions - Market size and buyer adoption, transaction characteristics and value proposition, and supplier landscape

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

**Katrina Menzigian**, Vice President:

[kmenzigian@everestgrp.com](mailto:kmenzigian@everestgrp.com)

**Saurabh Gupta**, Research Director:

[sgupta@everestgrp.com](mailto:sgupta@everestgrp.com)

**Ateendra Dabas**, Senior Analyst:

[adabas@everestgrp.com](mailto:adabas@everestgrp.com)

**PO team:**

[POresearch@everestgrp.com](mailto:POresearch@everestgrp.com)

**Everest Research Institute**

Two Galleria Tower

13455 Noel Road, Suite 2100

Dallas, TX 75240

Phone: +1-214-451-3110

Email: [info@everestresearchinstitute.com](mailto:info@everestresearchinstitute.com)

# Get the answers today that lead to tomorrow's success



Everest Research Institute has the resources, experience, and capabilities to provide companies with the strategic intelligence, analysis, and insight that are crucial to making the right decisions in today's outsourcing marketplace.

With the vision of our leadership team, the personal commitment, and indeed, the passion of our professionals to deliver real value to our clients, our organization is unsurpassed in its ability to guide your company's future success.

## **Everest Research Institute**

Two Galleria Tower  
13455 Noel Road, Suite 2100  
Dallas, TX 75240  
U.S.A.  
+1-214-451-3110  
[www.everestresearchinstitute.com](http://www.everestresearchinstitute.com)  
[info@everestresearchinstitute.com](mailto:info@everestresearchinstitute.com)

## **Everest Group**

150 E., 52<sup>nd</sup> Street, 16<sup>th</sup> Floor  
New York, NY 10022  
U.S.A.  
+1-646-805-4000

## **Everest Canada**

The Exchange Tower  
130 King Street West, Suite 1800  
Toronto, ON  
Canada M5X 1E3  
+1-416-865-2033



## **Everest UK**

83 Baker Street  
London, W1U 6LA  
United Kingdom  
+44-87-0770-0270



## **Everest Netherlands & Continental Europe**

Atrium Building 3<sup>rd</sup> Floor  
Strawinskylaan 3051  
1007 ZX Amsterdam  
+31-20-301-2138

## **Everest India**

Ground Floor, Tower A  
Unitech Business Park  
South City - I, Gurgaon  
National Capital Region  
India 122001  
+91-124-304-1000

## **Everest Australasia**

Level 6, 90 Mount Street  
North Sydney, NSW 2060  
Australia  
+61-3-9833-1018

## **Everest Australia**

409a Wattletree Road  
East Malvern  
Melbourne, VIC 3145  
Australia  
+61-3-9509-3933