Procurement Outsourcing (PO)
Market Update: May 2009 – Preview Deck

Topic: PO in Manufacturing Industry: Tangible Bottom-Line Savings Drive Further Adoption

ERI-2009-1-PD-0338

Background and scope of the research

Background of the research

The Procurement Outsourcing (PO) market remains on a growth trajectory with 30% YoY growth in 2008, primarily driven by organic growth and continued buyer interest. The manufacturing industry contributed significantly to the growth of the PO market; manufacturing buyers account for nearly 60% of all multi-process PO contracts signed and nearly 50% of overall multi-process PO market ACV

The key reason behind strong traction for PO among manufacturing buyers is the relatively high importance and maturity of the procurement function, leading to a viable business case. According to Everest estimates, PO has the potential to create US$50-150 million annual savings for a US$10 billion manufacturing organization

In this research, we focus on two primary areas:

- Business case and market size of PO in manufacturing
- Adoption trends and supplier landscape

The scope of analysis includes

- Third-party PO contracts and does not include shared services or captives
- Multi-process PO contracts that involve outsourcing of three or more activities from the Source-to-Pay (S2P) process, with at least US$1 million in Annual Contract Value, and a contract length of at least three years
- All multi-process PO contracts across all industries and geographies signed as of 2008
- Suppliers with multi-process PO capability including Accenture, buyingTeam, Capgemini, Corbus, DSSI, EDS-HP, Genpact, Global eProcure, HCL, IBM, ICG Commerce, Infosys BPO, TCS, Wipro, WNS, and Xchanging

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Overview and abbreviated summary of key messages

This report analyzes the dynamics of the PO market for the manufacturing industry across multiple dimensions. Some of the findings in this report, among others, are:

Business case and market size of PO in manufacturing

- PO has the potential to impact a significant cost base (~ 5-15% of the revenues) of a manufacturing organization. For a US$10 billion organization, the annual savings from PO translate to US$50-150 millions
- The relatively high degree of importance and maturity of the procurement function in manufacturing also drive PO adoption
- Manufacturing is the largest adopter of PO, and accounts for nearly 60% of all contracts signed and nearly 50% of the overall multi-process PO market ACV. Manufacturing industry has witnesses sustained growth in PO adoption since 2004

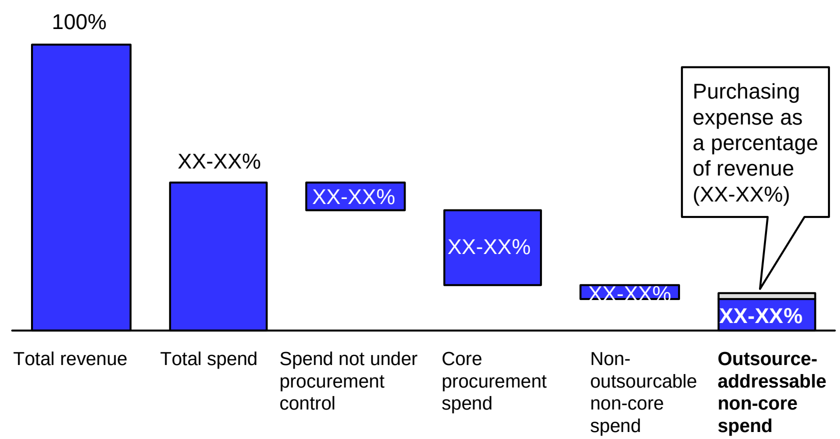
Adoption trends and supplier landscape

- US-based large manufacturing buyers continue to be the leading adopters of PO, and account for nearly 70% of contracts signed
- The average TCV of PO contracts in manufacturing is ~US$30 million. Within manufacturing, pharma, hi-tech, and consumer products sign the largest contracts
- IBM and ICG Commerce account for over 60% of the annual contract value within manufacturing. Other key PO suppliers with manufacturing experience include Accenture, EDS-HP, Global eProcure, Infosys BPO, and Wipro

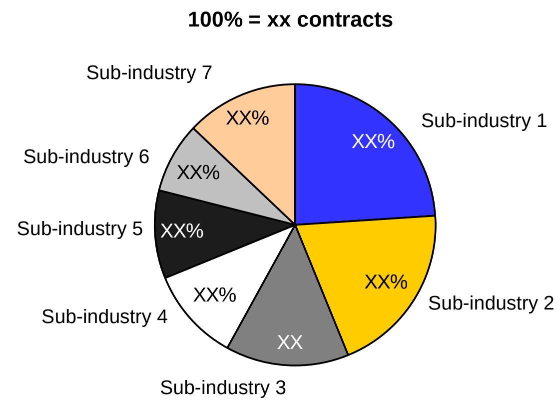
This study provides insights into key aspects of the PO market in manufacturing; below are four charts to illustrate the depth of the report

ILLUSTRATIVE

PO addressable cost-base in manufacturing organizations
Percentage of revenues



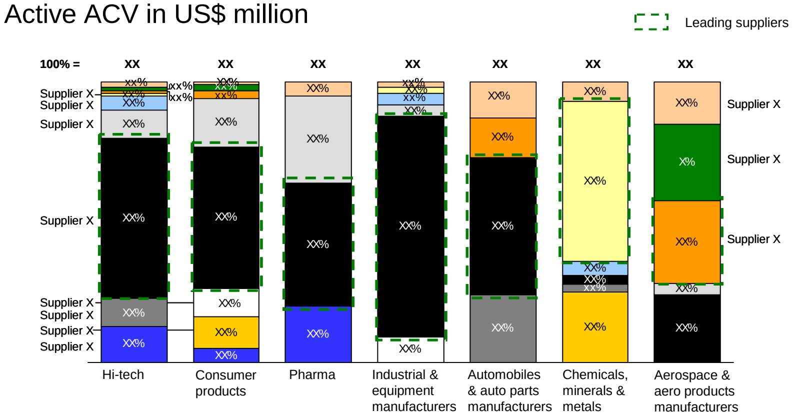
Distribution of PO contracts across manufacturing sub-industries
Number of contracts



Case studies of PO in manufacturing

Buyer	Buyer A	Buyer B	Buyer C
Supplier	Supplier X	Supplier Y	Supplier Z
Contract details	▪ Manufacturing sub-industry: XX ▪ Buyer revenue: XX ▪ Contract signing country: XX ▪ Signing year: XX ▪ Buyer geographies covered: XX	▪ Manufacturing sub-industry: XX ▪ Buyer revenue: XX ▪ Contract signing country: XX ▪ Signing year: XX ▪ Buyer geographies covered: XX	▪ Manufacturing sub-industry: XX ▪ Buyer revenue: XX ▪ Contract signing country: XX ▪ Signing year: XX ▪ Buyer geographies covered: XX
Business challenges	▪ Business Challenge 1 ▪ Business Challenge 2 ▪ Business Challenge 3	▪ Business Challenge 1 ▪ Business Challenge 2 ▪ Business Challenge 3	▪ Business Challenge 1 ▪ Business Challenge 2 ▪ Business Challenge 3
Results achieved	▪ Results achieved 1 ▪ Results achieved 2 ▪ Results achieved 3	▪ Results achieved 1 ▪ Results achieved 2 ▪ Results achieved 3	▪ Results achieved 1 ▪ Results achieved 2 ▪ Results achieved 3

Multi-process PO supplier market share across sub-industries within manufacturing
Active ACV in US$ million



Source: Everest Research Institute (2009)

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. **PO Annual Report 2009: Shifting Buyer Preferences Dictate New Engagement Models** (ERI-2009-1-R-0329); 2009. Examines the global 2008 PO market and provides insights, detailed analyses and implications for stakeholders into 2009 and beyond

2. **PO Technology Models: Creating Solutions That Deliver Value** (ERI-2009-1-R-0305); 2009. Investigates the role of procurement technology in PO and analyze the current technology landscape in the PO market

3. **Global PO Supplier Landscape** (ERI-2008-1-R-0265); 2008. Analyzes the fast-changing global PO supplier landscape, investigate the changing market dynamics and emerging supplier trends, assesses supplier delivery capability across scale, scope, technology, and delivery footprint. It also provides an insight into the typical characteristics of the supplier groups

4. **PO Supplier Profile Compendium** (ERI-2008-1-R-0273); 2008. Provides accurate, comprehensive, fact-based snapshots of 16 PO suppliers. Also analyzes the fast-changing global PO supplier landscape and emerging supplier trends

5. **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

6. **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

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