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Procurement Outsourcing (PO) Annual Report: April 2011 – Preview Deck

2010 – Best Year Ever for PO

ERI-2011-1-PD-0517

Background and methodology of the research

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Background of the research

- 2010 was the best year ever for PO in terms of new contract signings and contracts extensions. The market continued to witness an increase in the sourcing-focused contracts driven by the increasing need to generate quick savings. However, Everest expects that these contracts will expand into transactional services to ensure compliance and sustainability of savings. Everest predicts that 2011 will be strong year compared to 2010 and expects the PO market to grow at 15-20% YoY to reach ~US$1.5 billion in ACV

- In this research study, we analyze the global multi process PO market in 2010. We focus on:
  - Market size and buyer adoption trends
  - PO value proposition
  - Contract characteristics across process scope, technology, global sourcing, and pricing structures
  - Service provider evaluation and relative position on the Everest PEAK Matrix
  - 2010 PO Market Star Performers based on performance and capability building in 2010

The scope of analysis includes:

- Third-party PO deals; it does not include shared services or captives
- 250+ multi-process PO deals signed as of 2010 with a minimum of three procurement processes, over US$1 million in Annualized Contract Value (ACV), and a minimum contract term of three years
- Coverage across 15+ PO service providers with multi-process capability including Accenture, buyingTeam, Capgemini, Corbus, DSSI, Genpact, Global eProcure, HCL, HCMWorks, HP, IBM, ICG Commerce, Infosys BPO, TCS, Wipro, and Xchanging

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Overview and abbreviated summary of key messages (page 1 of 2)

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This report will assist key stakeholders (buyers, service providers, technology providers) understand the changing dynamics of the PO market and help them indentify the trends and outlook for 2010. In this backdrop, this report provides comprehensive coverage of the global PO market including detailed analysis on market size and growth, buyer adoption trends, PO value proposition, contract characteristics and service provider landscape

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

Market size and buyer adoption

- 2010 was the best year ever for PO in terms of new contract signings (over 50) and contracts extensions (over 30)
- The PO market size in terms of active ACV reached US$1.3 billion in 2010. 2010 YoY growth was similar to that witnessed in 2009

Value proposition and contract characteristics

- Despite improvements in the global economic conditions, buyers remained cautious in their approach
- While spend reduction is a key value-creation lever for sourcing-focused buyers, cost reduction due to higher labor arbitrage and productivity benefits P2P-focused buyers
- 2010 continued to witness an increase in the sourcing-focused contracts driven by the increasing need to generate quick savings
- Contracts leveraging FAO and PO synergies saw increased traction in the past few years, especially around the P2P area
- Adoption of platform-based PO offerings increased in 2010 with 10+ new platform-based PO deals

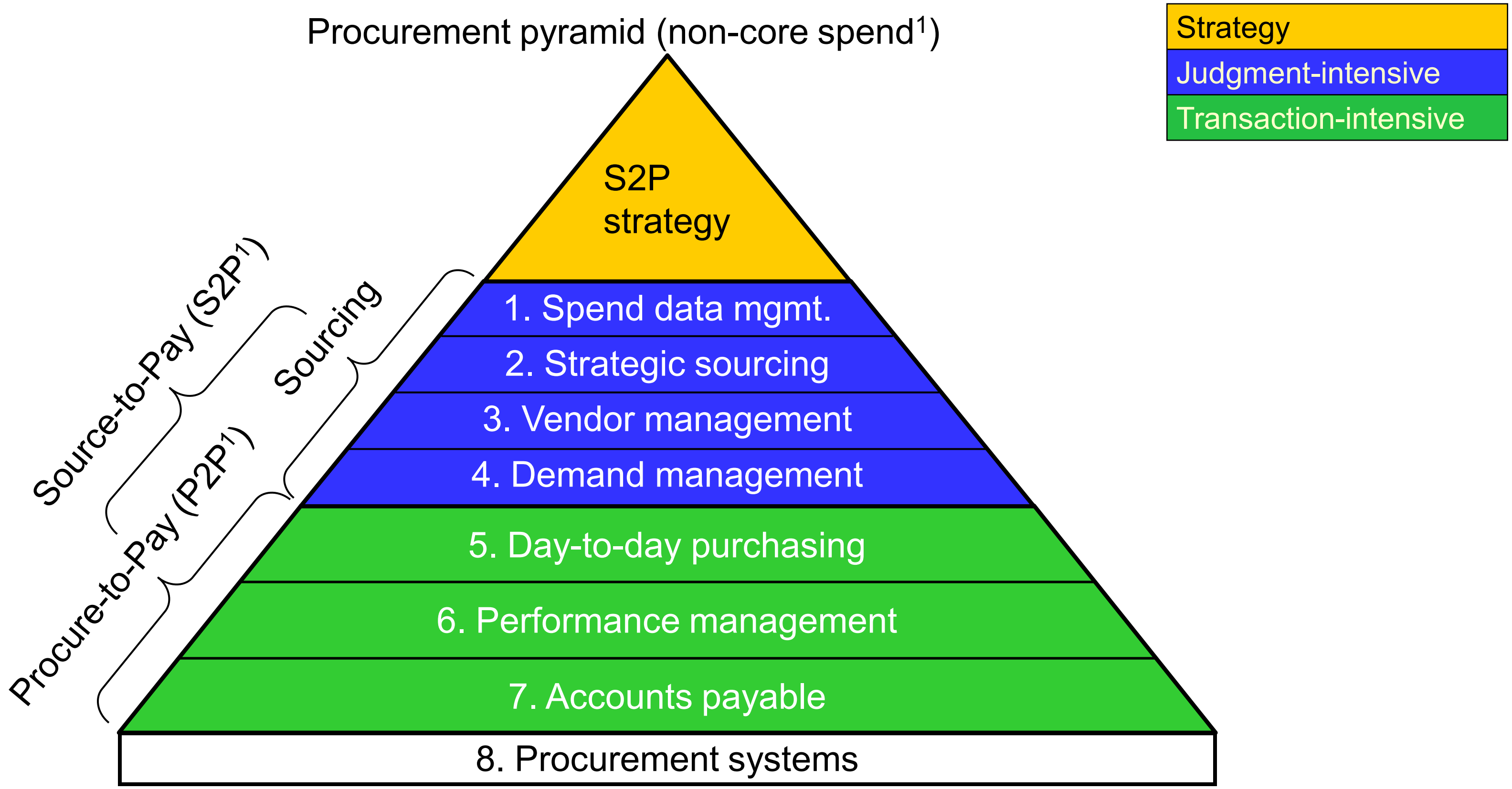
Overview and abbreviated summary of key messages (page 2 of 2)

Service provider landscape

- The PO service provider landscape shows a three-way division by type of core offering – sourcing-focused service providers, transactional or P2P-focused service providers, and end-to-end or S2P service providers
- Everest updated its classification of 15+ PO service providers on the Everest Performance| Experience| Ability| Knowledge (PEAK) Matrix into the categories of Leaders, Major Contenders, and Emerging Players. The PEAK Matrix is a framework to assess the absolute matrix success and overall capability of service providers
- Accenture, IBM, and ICG Commerce continued to hold their leadership positions. However, there is a large group of major contenders that has intensified the competition in the market
- Everest identified five service providers as the “2010 PO Market Star Performers” – Accenture, Genpact, IBM, ICG Commerce, and Infosys

Everest Research Institute distinguishes between sourcing and Procure-to-Pay (P2P) processes

Procurement pyramid (non-core spend[1])



- Everest's analyses include multi-process PO contracts with a minimum of three procurement processes, over US$1 million in Annualized Contract Value[1] (ACV), and a minimum contract term of three years. Typically, managed spend[1] is greater than US$50 million
- Everest analyses include all multi-process PO contracts signed through the calendar year 2010

1 Defined in Appendix

Source: Everest Research Institute (2011)

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

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S2P process

Procurement spend		Sourcing process (spend data management, strategic sourcing, vendor management)	P2P process (day-to-day purchasing, performance management, accounts payable)
Core-procurement spend	■ Goods and services that are required to manufacture/deliver the final product/service ■ Example: spend on raw materials, and employee salaries	✗	✓
Non-core procurement spend	■ Non-production goods and services that are not required to manufacture/deliver the final product/service but are required to operate the organization ■ Example: spend categories such as facilities, office supplies, travel and logistics, contract labor, marketing/sales-related spend, IT/telecom, and MRO	✓	✓

The category scope for PO contracts is highly dependent on the process scope. It is typically restricted to non-core procurement spend for the sourcing related process. However, procurement spend on several core categories can also be outsourced when the process scope is primarily focused around P2P

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

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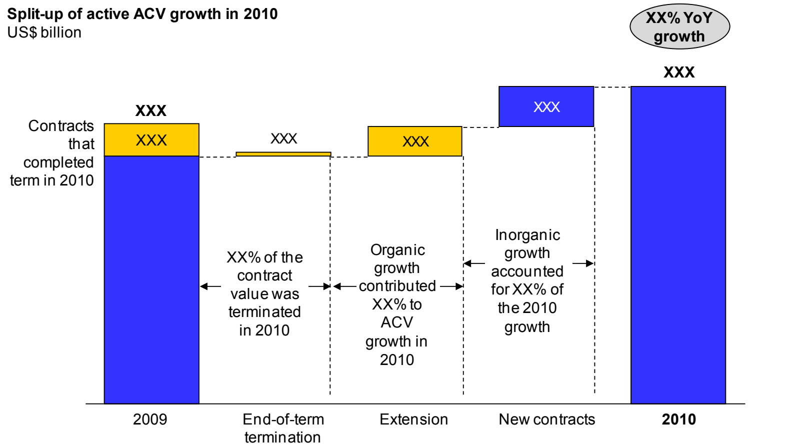
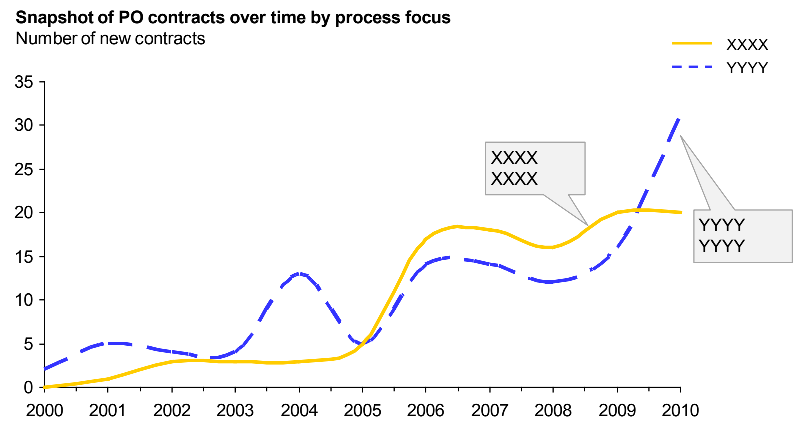
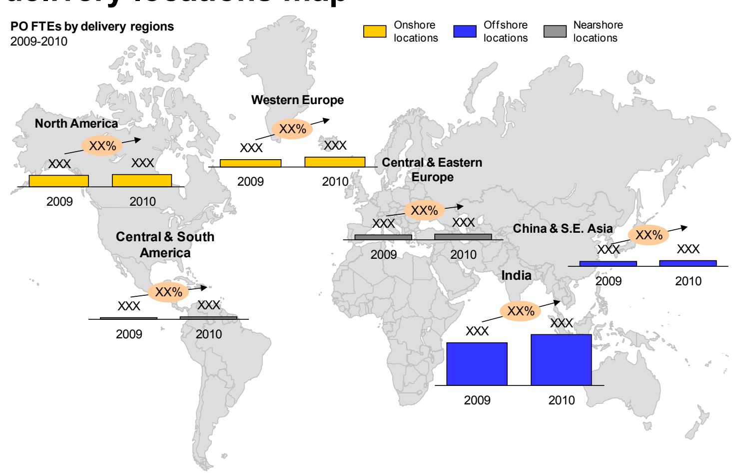
Components of PO ACV growth in 2010



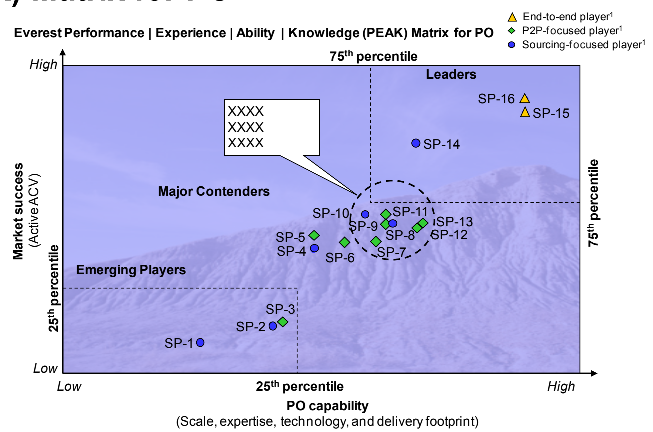
Snapshot of PO contracts over time by process focus



PO delivery locations map



Everest Performance | Experience | Ability | Knowledge (PEAK) Matrix for PO



Source: Everest Research Institute (2011)

Major upcoming research
Q1-Q2 2011 PO research plan

TENTATIVE

Title	Goals of the research
1 **PO service provider landscape**	▪ In this research study, we analyze the fast-changing global PO service provide landscape and its impact on the PO market. We focus on service provider position and market shares, delivery capability assessment, and modes of differentiation
2 **PO service provider profile compendium**	▪ Profile 15+ established PO service providers across various dimensions including overall revenues, FTEs strength, key delivery locations, PO service suite, market positioning, overall PO delivery capability assessment, and Everest perspective on service provider
3 **Procurement consulting vs. outsourcing – is one better than other?**	▪ Buyers can adopt two models of externally-sourced procurement-consulting and outsourcing. In this study we focus of procurement consulting – market overview, adoption trends, contract characteristics, service provider landscape, value proposition and challenges, and future outlook

Appendix: Additional PO research references

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 that may be of interest

1. **Technology Add-ons and Platform-based Solutions in Procurement Outsourcing (**ERI-2011-1-R-0509); 2011. This research focuses on key technology models in PO, trends in technology model adoption, evaluating tie-and-run, augmentation, and platform models, and examples of augmentation and platform models offered by leading service providers

2. **PO Annual Report** (ERI-2010-1-R-0401); 2010. This research includes comprehensive coverage of the PO market including market size and trends, buyer adoption, transaction mechanics, service provider capabilities and position, and comparison of PO with other BPOs

3. **Value Creation through PO – Perspectives of Mature Buyers** (ERI-2010-1-R-0470); 2010. The business case for PO may look attractive given that it addresses a larger cost base in comparison to other BPO segments. This report investigates the case of buyers who have created significant value from PO engagements. The report also highlights the drivers for adopting PO, service provider selection criteria, and challenges faced as indicated by the buyers

4. **Pricing Structures in PO – Ensuring "Win-Win" Solutions** (ERI-2009-1-R-0371); 2009. This research focuses on PO pricing structures prevalent today, market trends in adopting different pricing structures, factors affecting contract pricing and best practices for buyers and service providers

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

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