



# **Procurement Outsourcing (PO): November 2007 – Preview Deck**

**Topic: Global Sourcing in PO**

The value proposition of Procurement Outsourcing (PO) is centered around spend-related savings and not labor arbitrage. Consequently, the degree of offshoring in PO contracts is only around 25% – less than half of the typical offshore component in other outsourcing markets like Finance & Accounting Outsourcing (FAO). However, more recently we are witnessing increasing levels of offshoring in PO contracts, as global sourcing has the potential to become a significant enabler for outsourcing procurement by providing additional levers for managing the operational costs

**In this study, we analyze key trends emerging in the offshore PO market. We focused on:**

- Offshore adoption in PO
- Role of global sourcing in PO
- Offshore supplier landscape
- Implications for buyers and suppliers

**The scope of analysis includes:**

- Third-party PO contracts and not 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 one activity each from Sourcing and Procure-to-Pay (P2P), addresses at least US\$150 million of managed spend, and a contract length of at least three years
- All multi-process PO contracts signed as of August 2007

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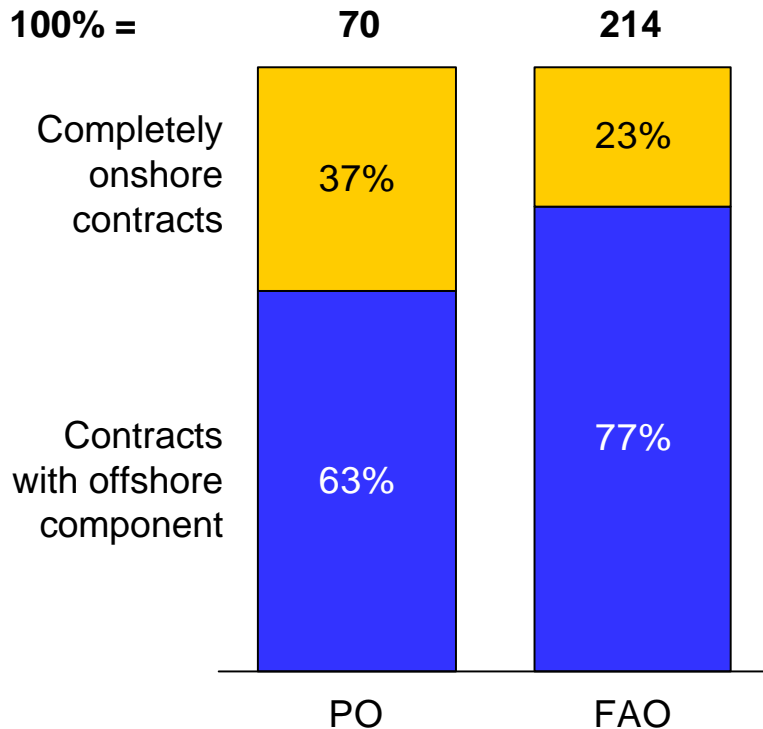
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# The adoption of offshore in PO has been limited when compared to other outsourced G&A functions like F&A



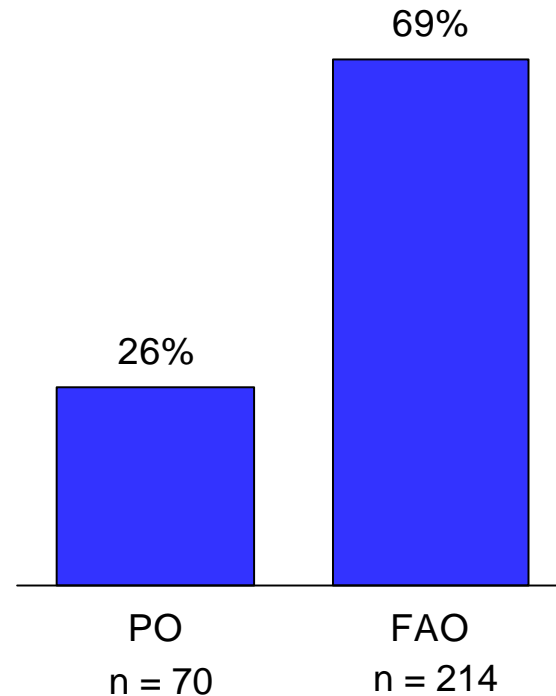
## Proportion of contracts with offshoring

Number of contracts



## Degree of offshoring

Average percentage of work done offshore

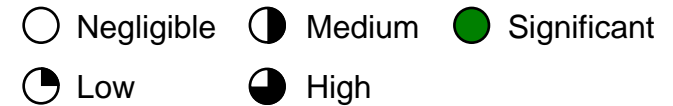


Sample size: 70 PO contracts as of August 2007; 214 FAO contracts as of March 2007  
Source: Everest Research Institute (2007)

# The key reason for low offshore adoption in PO is that labor arbitrage is not a key value creation lever



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## Value creation levers for BPO<sup>1</sup>

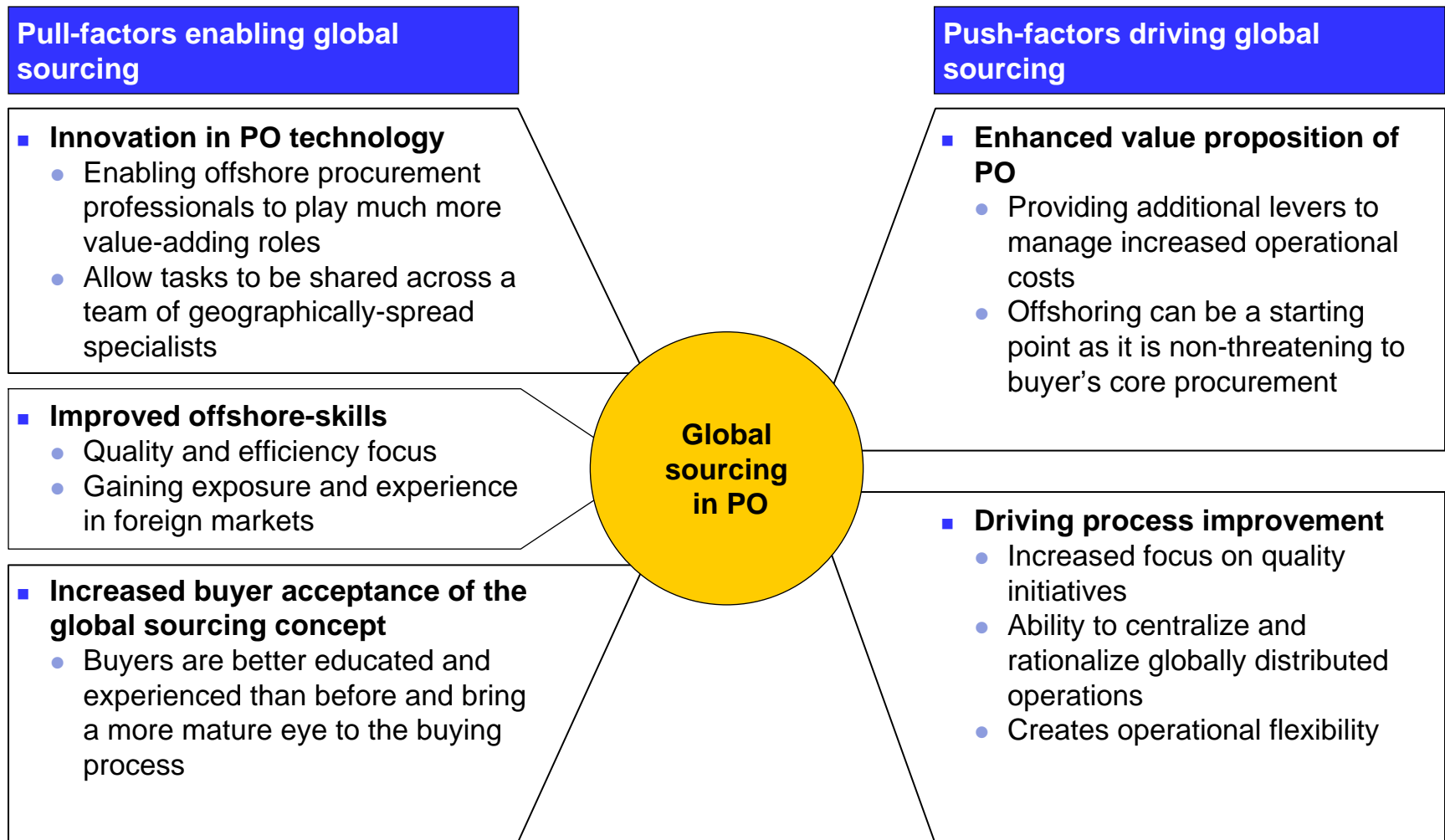
	People		Process		Technology	
	Labor arbitrage	Expertise	Efficiency	Effectiveness	Infrastructure	Applications
PO	◑	●	◑	◒	○	◒
HRO <sup>1</sup>	◑	◒	◒	◒	◑	●
FAO	●	◒	●	◑	○	◑

**The primary focus in PO is to reduce procurement spend on non-core goods and services and not on operational cost reduction. People expertise, process effectiveness, and technology are the three key levers for value creation in PO**

<sup>1</sup> Defined in appendix

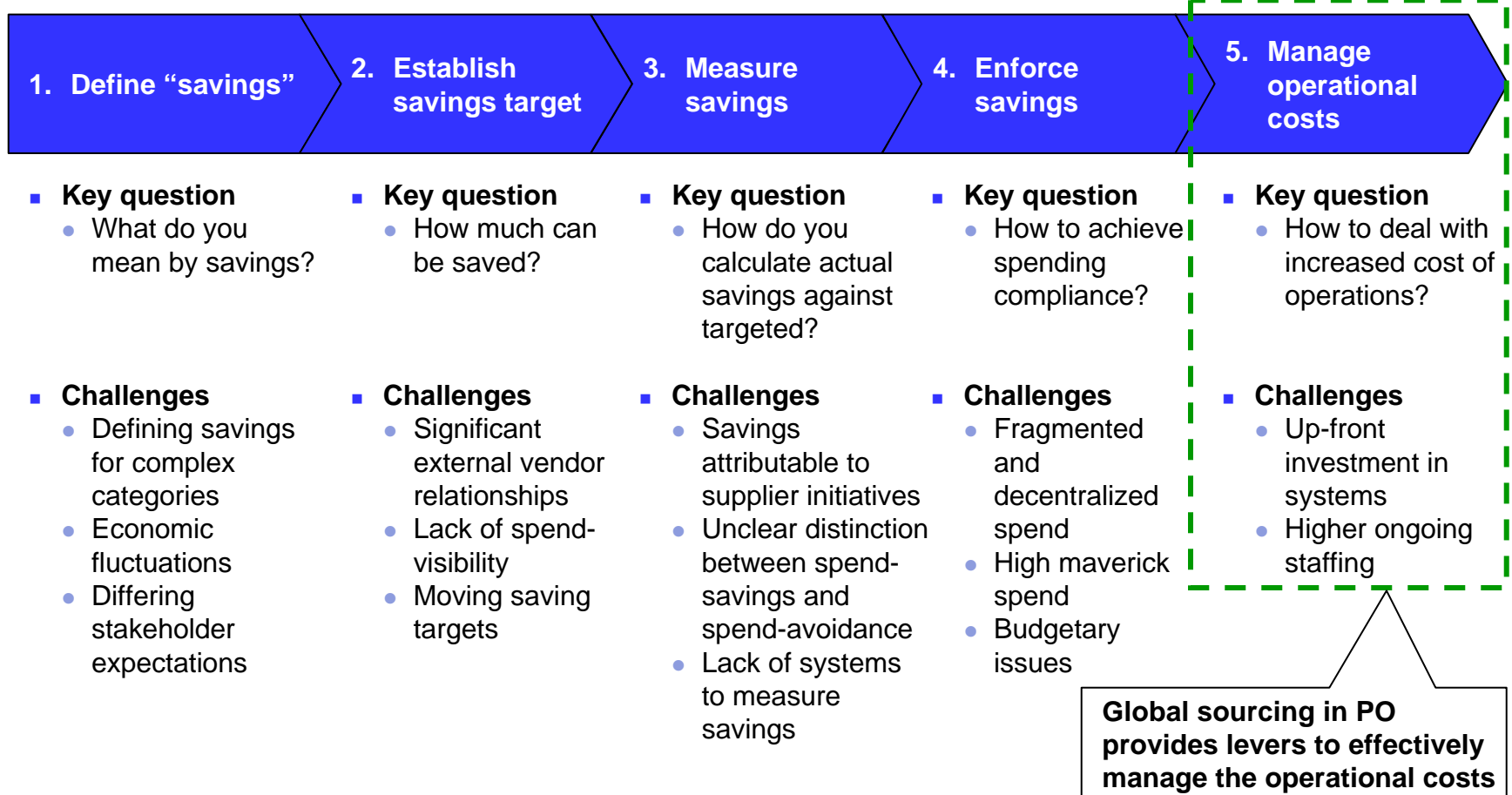
Source: Everest Research Institute (2007)

# Both pull and push factors are driving the increased use of global sourcing in PO



# The roadmap to realizing PO savings is complex and challenging

## Five-step roadmap to realize savings in PO



Note: For additional coverage on this topic refer to – Roadmap for Realizing Savings in PO (ERI-2007-1-W-0212); 2007  
Source: Everest Research Institute (2007)

# Opportunities for value creation through offshoring exist for P2P and analytics



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● High 
 ◐ Medium 
 ◑ Low

## Offshorability of sourcing related processes

- Spend analytics ●

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- Strategic sourcing ○
  - Sourcing strategy ○
  - Specification development ◐
  - Vendor selection ◐
  - Bid evaluation and award ◑
  - Trading and negotiation ◑

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- Category management ◑

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- Vendor management ○
  - Relationship management ○
  - Vendor enablement ◐
  - Vendor contract compliance ◑

## Offshorability of Procure-to-Pay (P2P) related processes

- Purchasing ●

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- Contract compliance ◑

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- Accounts payable ●

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- Helpdesk ●

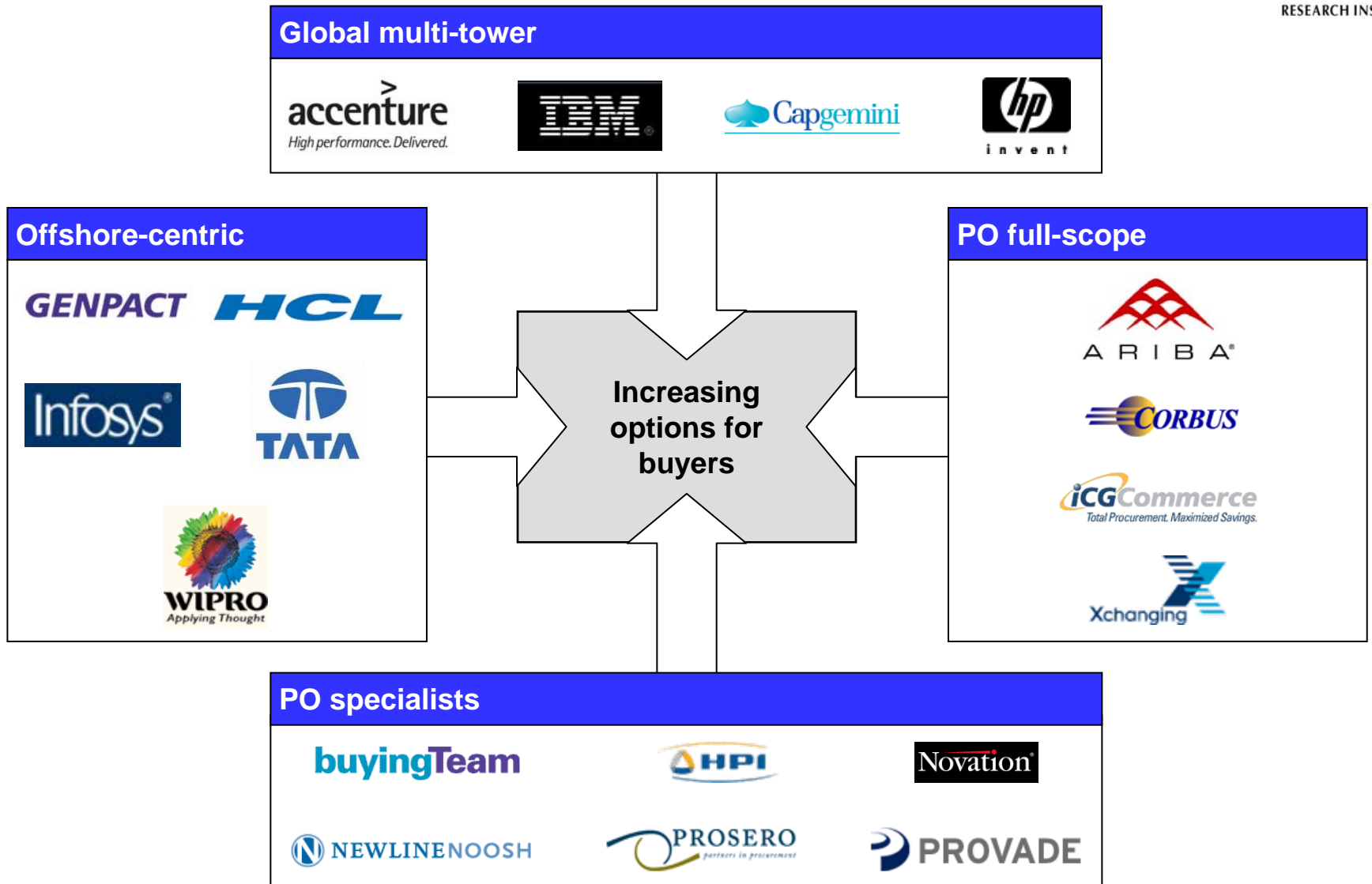
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- Procurement systems ○
  - E-auctions ●
  - Catalog management ●
  - Solution hosting ●

Along with P2P and analytics, there are sub-processes within strategic sourcing and vendor management that have medium-high offshore potential

Source: Everest Research Institute (2007)

# The PO supplier landscape is expanding



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