



Procurement Outsourcing

~ ~ ~

Market Assessment
July 2010

Table of Contents

Chapter 1: Introduction	1
A. Objectives and Scope	1
B. Methodology	2
C. Structure of the Report	3

Chapter 2: Executive Summary	4
A. Reducing Costs of Goods/Services Procured Remains Top Priority	4
B. 46% of Procurement Organizations Lack Confidence In Their Ability to Implement Major Change in Indirect Procurement Across their Organization	5
C. Half of Organizations Want to Improve Contract, Supplier Database & Catalog Management	8
D. Services Procurement Remains a Challenge for Many Firms	9
E. Initiatives Focuses on Improving Indirect Procurement Have Tended to Succeed: Particularly When These Include Outsourcing	10
F. Half of Organizations Work with External Service Providers for Support in Sourcing or Transaction Processing: High Satisfaction in Less Specialist Areas	10
G. Organizations Have Higher Expectations of Procurement BPO Partners	11
H. Perceptions of the Procurement BPO Vendor Landscape Have Improved, Along with Propensity to Outsource	12
J. Procurement BPO Vendors Need to Enhance Sourcing and Supplier Management Capabilities	13

Chapter 3: Procurement Outsourcing - Overall	14
A. Sourcing and Procurement Issues	14
B. Sourcing and Procurement Organization	31
C. Sourcing and Procurement Outsourcing	33
D. Procurement Service Delivery Approaches	37
E. Benefits and Vendor Selection Criteria	39

Chapter 4: Procurement Outsourcing by Sector	41
A. Sourcing and Procurement Issues	41
B. Sourcing and Procurement Organization	72
C. Sourcing and Procurement Outsourcing	74
D. Procurement Service Delivery Approaches	87
E. Benefits and Vendor Selection Criteria	93

Chapter 5: Procurement Outsourcing by Geography	94
A. Sourcing and Procurement Issues	94
B. Sourcing and Procurement Organization	102
C. Sourcing and Procurement Outsourcing	103
D. Procurement Service Delivery Approaches	110
E. Benefits and Vendor Selection Criteria	113

List of Exhibits

Procurement Capability Satisfaction5

Procurement Capability Satisfaction: By Sector6

Sourcing and Procurement Priorities7

Sourcing and Procurement Satisfaction by Process Area8

Sourcing and Procurement Satisfaction by Indirect Procurement Category9

Procurement Service Delivery Preferences: Overall11

Proportion of Organizations Intending to Purchase Or Seriously Evaluate Use Of BPO Services
Related To Their Sourcing And Procurement Activities.....12

Procurement Capability Satisfaction22

Sourcing and Procurement Issues.....23

Sourcing and Procurement Satisfaction by Process Area24

Sourcing and Procurement Satisfaction by Indirect Procurement Category25

Targeted Cost Reduction for Direct Goods & Services.....30

Targeted Cost Reduction for Indirect Goods & Services30

Targeted Cost Reduction for Sourcing & Procurement Operations.....30

Sourcing and Procurement Processes Outsourced.....33

Outsourcing Service Provision Satisfaction.....33

Processes for Which Organizations Would Use BPO Services35

Categories for Which Organizations Would Use BPO Services.....35

Inhibiting Factors to the Adoption of BPO36

Procurement Service Delivery Preferences: Overall37

Cost Reduction Threshold for Outsourcing Procurement Services38

Procurement Capability Satisfaction: CPG.....41

Procurement Capability Satisfaction: Financial Services42

Procurement Capability Satisfaction: High-Tech42

Procurement Capability Satisfaction: Manufacturing43

Procurement Capability Satisfaction: Pharmaceuticals43

Procurement Capability Satisfaction: Retail44

Satisfaction Levels With Control of Maverick Spend: By Sector44

Satisfaction Levels with Availability of Management Information: By Sector45

Satisfaction Levels with Strategic Sourcing of Direct Goods: By Sector.....45

Satisfaction Levels with Procure-to-Pay Process Service Quality: By Sector.....45

Satisfaction Levels with Procure-to-Pay Process Cost-Effectiveness: By Sector46

Satisfaction Levels with IT Systems and Processes: By Sector.....46

Satisfaction Levels with Category Management across All Areas of Indirect Spend: By Sector46

Satisfaction Levels for Achieving Volume Discounts from Suppliers for Indirect Goods: By Sector47

Satisfaction Levels with the Strategic Sourcing of Indirect Goods: By Sector47

Satisfaction Levels with the Ability to Implement Major Change: By Sector48

Sourcing and Procurement Issues: CPG48

Sourcing and Procurement Issues: Financial Services.....49

Sourcing and Procurement Issues: High-Tech.....50

Sourcing and Procurement Issues: Manufacturing.....51

Sourcing and Procurement Issues: Pharmaceuticals52

Sourcing and Procurement Issues: Retail.....53

Extent To Which Organizations Face Corporate Requirement for Ongoing Reductions in Costs of Goods and Services Provided: By Sector53

Extent To Which Organizations Face a Lack of Services Purchasing Capability: By Sector.....54

Extent To Which Organizations Face the Need to Consolidate Suppliers of Direct Goods and Services: By Sector.....54

Extent To Which Organizations Face Low Consistency of Sourcing and Procurement Processes Across Subsidiaries or Geographies: By Sector.....55

Extent To Which Organizations Face Procurement Systems that Differ by Subsidiary or Geography: By Sector.....55

Extent To Which Organizations Face a Lack of Sourcing or Category Management expertise for Indirect Procurement: By Sector.....55

Extent To Which Organizations Face the Need for High Manual Intervention: By Sector.....56

Extent To Which Organizations Face High Costs of Procurement Services: By Sector.....56

Extent To Which Organizations Face the Need to Consolidate Suppliers of Indirect Goods and Services: By Sector.....56

Extent To Which Organizations Face the Need for Improved Sourcing Capability in New Geographic/Emerging Market: By Sector.....57

Extent To Which Organizations Face a Lack of Control of Indirect Goods Purchasing: By Sector57

Extent To Which Organizations Face Lack of Spend Visibility: By Sector.....57

Extent To Which Organizations Face High Degree of Maverick Spend: By Sector58

Extent To Which Organizations Face Lack of Sourcing or Category Management Expertise for Direct Procurement: By Sector58

Sourcing and Procurement Satisfaction by Process Area: CPG.....58

Sourcing and Procurement Satisfaction by Process Area: Financial Services59

Sourcing and Procurement Satisfaction by Process Area: High-Tech59

Sourcing and Procurement Satisfaction by Process Area: Manufacturing60

Sourcing and Procurement Satisfaction by Process Area: Pharmaceuticals.....60

Sourcing and Procurement Satisfaction by Process Area: Retail.....61

Sourcing and Procurement Satisfaction by Indirect Procurement Category: CPG61

Sourcing and Procurement Satisfaction by Indirect Procurement Category: Financial Services.....62

Sourcing and Procurement Satisfaction by Indirect Procurement Category: High-Tech62

Sourcing and Procurement Satisfaction by Indirect Procurement Category: Manufacturing63

Sourcing and Procurement Satisfaction by Indirect Procurement Category: Pharmaceuticals63

Sourcing and Procurement Satisfaction by Indirect Procurement Category: Retail64

Proportion Of Organizations That Have Embarked On Major Initiatives Related To Indirect Procurement In Last 3 Years.....65

Major Indirect Procurement Initiative Success: CPG.....65

Major Indirect Procurement Initiative Success: Financial Services65

Major Indirect Procurement Initiative Success: High-tech.....65

Major Indirect Procurement Initiative Success: Manufacturing66

Major Indirect Procurement Initiative Success: Pharmaceuticals.....66

Major Indirect Procurement Initiative Success: Retail66

Targeted Cost Reduction for Direct Goods & Services: CPG66

Targeted Cost Reduction for Direct Goods & Services: Financial Services67

Targeted Cost Reduction for Direct Goods & Services: High-tech.....67

Targeted Cost Reduction for Direct Goods & Services: Manufacturing.....67

Targeted Cost Reduction for Direct Goods & Services: Pharmaceuticals.....67

Targeted Cost Reduction for Direct Goods & Services: Retail.....68

Targeted Cost Reduction for Indirect Goods & Services: CPG.....68

Targeted Cost Reduction for Indirect Goods & Services: Financial Services68

Targeted Cost Reduction for Indirect Goods & Services: High-Tech69

Targeted Cost Reduction for Indirect Goods & Services: Manufacturing69

Targeted Cost Reduction for Indirect Goods & Services: Pharmaceuticals.....69

Targeted Cost Reduction for Indirect Goods & Services: Retail69

Targeted Cost Reduction for Sourcing & Procurement Operations: CPG70

Targeted Cost Reduction for Sourcing & Procurement Operations: Financial Services.....70

Targeted Cost Reduction for Sourcing & Procurement Operations: High-Tech.....70

Targeted Cost Reduction for Sourcing & Procurement Operations: Manufacturing.....70

Targeted Cost Reduction for Sourcing & Procurement Operations: Pharmaceuticals.....71

Targeted Cost Reduction for Sourcing & Procurement Operations: Retail.....71

Importance of Sourcing & Transactional P2P Integration: CPG.....72

Importance of Sourcing & Transactional P2P Integration: Financial Services72

Importance of Sourcing & Transactional P2P Integration: High-tech72

Importance of Sourcing & Transactional P2P Integration: Manufacturing73

Importance of Sourcing & Transactional P2P Integration: Pharmaceuticals.....73

Importance of Sourcing & Transactional P2P Integration: Retail73

Sourcing and Procurement Processes Outsourced: CPG74

Sourcing and Procurement Processes Outsourced: Financial Services74

Sourcing and Procurement Processes Outsourced: High-Tech.....75

Sourcing and Procurement Processes Outsourced: Manufacturing.....75

Sourcing and Procurement Processes Outsourced: Pharmaceuticals.....75

Sourcing and Procurement Processes Outsourced: Retail.....76

Outsourcing Service Provision Satisfaction: CPG77

Outsourcing Service Provision Satisfaction: Financial Services77

Outsourcing Service Provision Satisfaction: High-Tech.....78

Outsourcing Service Provision Satisfaction: Manufacturing.....78

Outsourcing Service Provision Satisfaction: Pharmaceuticals.....79

Outsourcing Service Provision Satisfaction: Retail.....79

Proportion of Organizations Intending to Purchase Or Seriously Evaluate Use Of BPO Services
Related To Their Sourcing And Procurement Activities.....80

Processes for Which Organizations Would Use BPO Services: CPG.....80

Processes for Which Organizations Would Use BPO Services: Financial Services81

Processes for Which Organizations Would Use BPO Services: High-Tech81

Processes for Which Organizations Would Use BPO Services: Manufacturing82

Processes for Which Organizations Would Use BPO Services: Pharmaceuticals.....82

Processes for Which Organizations Would Use BPO Services: Retail83

Categories for Which Organizations Would Use BPO Services: CPG83

Categories for Which Organizations Would Use BPO Services: Financial Services.....84

Categories for Which Organizations Would Use BPO Services: High-Tech.....84

Categories for Which Organizations Would Use BPO Services: Manufacturing.....84

Categories for Which Organizations Would Use BPO Services: Pharmaceuticals.....85

Categories for Which Organizations Would Use BPO Services: Retail.....85

Inhibiting Factors to the Adoption of BPO: By Sector86

Importance of Service Provider Attributes in Procurement BPO: CPG87

Importance of Service Provider Attributes in Procurement BPO: Financial Services.....88

Importance of Service Provider Attributes in Procurement BPO: High-Tech.....88

Importance of Service Provider Attributes in Procurement BPO: Manufacturing.....89

Importance of Outsourcer Factors for Procurement Outsourcing: Pharmaceuticals.....89

Importance of Service Provider Attributes in Procurement BPO: Retail90

Proportion of Organizations Prepared To Move To Platform-Based Delivery Model If Outsourcing
Procurement90

Savings Threshold for Outsourcing Procurement Services: CPG91

Savings Threshold for Outsourcing Procurement Services: Financial Services91

Savings Threshold for Outsourcing Procurement Services: High-Tech91

Savings Threshold for Outsourcing Procurement Services: Manufacturing92

Savings Threshold for Outsourcing Procurement Services: Pharmaceuticals.....92

Savings Threshold for Outsourcing Procurement Services: Retail.....92

Perceptions of Procurement BPO Vendor Community: By Sector93

Willingness to Outsource Procurement Alongside F&A.....93

Procurement Capability Satisfaction: Europe.....94

Procurement Capability Satisfaction: U.K.95

Procurement Capability Satisfaction: U.S.95

Sourcing and Procurement Issues: Europe.....96

Sourcing and Procurement Issues: U.K.97

Sourcing and Procurement Issues: U.S.97

Sourcing and Procurement Satisfaction by Process Area: Europe98

Sourcing and Procurement Satisfaction by Process Area: U.K.....98

Sourcing and Procurement Satisfaction by Process Area: U.S.....99

Sourcing and Procurement Satisfaction by Indirect Procurement Category: Europe.....99

Sourcing and Procurement Satisfaction by Indirect Procurement Category: U.K.100

Sourcing and Procurement Satisfaction by Indirect Procurement Category: U.S.100

Perceptions of Success of Major Indirect Procurement Initiatives: By Geography101

Targeted Cost Reduction for Direct Goods & Services: By Geography.....101

Targeted Cost Reduction for Indirect Goods & Services: By Geography101

Targeted Cost Reduction for Sourcing & Procurement Operations: By Geography.....102

Importance of Sourcing & Transactional P2P Integration: By Geography102

Sourcing and Procurement Processes Outsourced: Europe.....103

Sourcing and Procurement Processes Outsourced: U.K.....103

Sourcing and Procurement Processes Outsourced: U.S.....104

Outsourcing Service Provision Satisfaction: Europe104

Outsourcing Service Provision Satisfaction: U.K.....104

Outsourcing Service Provision Satisfaction: U.S.....105

Processes for Which Organizations Would Use BPO Services: Europe106

Processes for Which Organizations Would Use BPO Services: U.K.....106

Processes for Which Organizations Would Use BPO Services: U.S.....107

Categories for Which Organizations Would Use BPO Services: Europe.....107

Categories for Which Organizations Would Use BPO Services: U.K.....108

Categories for Which Organizations Would Use BPO Services: U.S.....108

Inhibiting Factors to the Adoption of Procurement BPO: Europe109

Inhibiting Factors to the Adoption of Procurement BPO: U.K.109

Inhibiting Factors to the Adoption of Procurement BPO: U.S.109

Importance of Outsourcer Factors for Procurement Outsourcing: Europe110

Importance of Outsourcer Factors for Procurement Outsourcing: U.K.....111

Importance of Outsourcer Factors for Procurement Outsourcing: U.S.....111

Cost Reduction Threshold for Outsourcing Procurement Services: By Geography.....112
Perceptions of Procurement BPO Vendor Capabilities: By Geography113
Willingness to Outsource Activities to an F&A BPO Provider: By Geography113

Chapter

1

Introduction

A

Objectives and Scope

The purpose of this report is to identify perceptions by procurement organizations about the issues they face and their current priorities and their attitudes towards procurement business process outsourcing (BPO).

In particular the survey uses interviewing to identify:

- The principal sourcing and procurement issues procurement organizations are facing in 2010
- The major initiatives being planned to address these issues
- The success they have achieved in recent initiatives
- Their satisfaction with their internal capabilities in a number of criteria
- Their satisfaction with their internal capabilities in selected processes and activities
- Their perceptions of their IT systems and how these systems could be improved
- Their attitudes to outsourcing
- Their propensity to outsource, by process area and by spend category
- The level of satisfaction with the service provision where they have outsourced
- Drivers and inhibitors to outsourcing
- Their attitudes about preferred procurement service delivery approaches
- Cost reduction thresholds
- Benefits sought from outsourcing
- Their attitudes about BPO service provision, and principal vendor selection criteria where they to outsource.

NelsonHall's "Indirect Procurement BPO Customer Requirements" report is designed for:

- Marketing, sales and business managers developing strategies to target segments of the indirect procurement outsourcing market
- Executives in purchasing organizations seeking an understanding of indirect procurement delivery issues
- Consultants advising purchasing organizations in service and vendor selection.

The geographic scope of the study is the U.S., the U.K. and Continental Europe.

B

Methodology

The approach taken to analyze this market is targeted user research: interviewing 160 Procurement Executives in companies in selected targeted sectors and geographies to ascertain their procurement organizations' attitudes in each of the areas mentioned above.

The user research of 160 interviews was broken down by region:

- U.S. 55
- Continental Europe 55
- U.K. 50

And by industry sector as follows:

Sector	# Organizations Participating
CPG	30
Banking	20
High-Tech	30
Pharmaceuticals	30
Other Manufacturing	30
Retail	20
Total	160

The rating system used to assess importance and satisfaction throughout the user survey is a 1 to 5 scale, with

- 1 being not at all important/ satisfied
- 5 being extremely important /satisfied.

C

Structure of the Report

The report is structured into the following chapters:

Chapter I: Introduction

Chapter II: Executive Summary

Chapter III: Procurement Attitudes Overall, including:

- Key Business Challenges identifying the major issues faced by procurement organizations and their current levels of satisfaction with their indirect capabilities, also recent initiatives to address these issues
- Sourcing and Procurement Organization
- Sourcing and Procurement Outsourcing
- Procurement Service Delivery Approaches
- Benefits Sought and Vendor Selection Criteria

Chapter IV: Attitudes (as above) By Sector

Chapter V: Attitudes (as above) By Geography.