

NelsonHall Forecasts Nascent Procurement BPO Market

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To Grow By CAGR of 26 Percent

WASHINGTON & LONDON (May 24, 2004) — BPO market research firm NelsonHall today announced that the current worldwide market for procurement BPO is just \$200 million, and is expected to reach \$640 million by 2008 (CAGR 26 percent.)

Said John Willmott, founder of NelsonHall, "While there have been published announcements of large market size and growth figures for procurement services, the reality is that most contracts are still based on a mix of consulting and applications hosting. Very few of them include more than minimal procurement process handling, such as requisitioning. True procurement BPO services are currently at the embryonic stage, but on the evidence of several landmark contracts signed in 2003 and early 2004, we see the market for indirect procurement BPO services starting to take off in the next two years."

Early Adopters Show the Way in Procurement BPO Market

At present, procurement BPO activity is piecemeal, with organizations outsourcing specific indirect spend categories, such as technology and office supplies and contract labor. However, within the last 12 months, multi-national organizations such as WorldWide Technology, Deutsche Bank, Avaya and Goodyear Dunlop Europe have signed outsourcing contracts for the management of part or all of their indirect spend, and the success of these foundation contracts will determine the rate of take-up by the rest of the market.

Said Willmott, "The Chief Procurement Officers of major multi-nationals are beginning to view procurement BPO as a complementary activity to in-house and procurement consulting activities. Some organizations lack the coordinated procurement capabilities to execute their sourcing strategies, and decentralized procurement functions often need an external provider to assist migration to a centralized function and to enforce in-house procurement compliance. We anticipate these emerging drivers will significantly expand the market for procurement BPO."

Cost Reduction Remains the Primary Market Driver, But Others Emerge

Organizations adopting procurement BPO are primarily expecting a reduction in procurement costs,

typically of between five and 10 percent. Secondary expected benefits include improving management of compliance across the organization, immediate return on investment (ROI), improved spend management, improved access to goods and services (e.g. temporary labor), and access to expertise, technology and best practices unavailable in-house.

The principal indirect spend categories currently being outsourced are IT, business travel, telecommunications, contract labor, and office supplies and equipment. Growing areas include professional services (e.g. legal services), marketing, and MRO (maintenance, repair, and operations.) The high-tech/manufacturing and financial services sectors show most procurement BPO activity globally, with the consumer packaged goods (CPG) sector likely to emerge in the near future.

No Clear Leaders Yet in Supply-Side of Procurement BPO Market

With the market still in its infancy, there are no clear leaders in the supply of procurement BPO services. The supplier landscape is currently populated by a few “pure play” BPO vendors such as Xchanging and Exult, niche procurement BPO vendors such as ICG Commerce, and a number of global IT services vendors including Accenture, Capgemini, EDS and IBM Global Services, who are developing their service offerings. There is also evidence of software vendors beginning to develop managed services offerings through acquisition (e.g. Ariba’s acquisition of Alliente.)

The larger vendors are typically targeting Global 500 companies, with indirect spend of over \$1 billion, that need to centralize their procurement function. Thereafter, vendors will target mid-market companies which can gain the benefits of aggregation by being served from the same delivery center as the larger clients.

Over the next two years vendors will jostle for position, likely resulting in the acquisition of smaller niche procurement vendors by the global services vendors as market demand picks up.

Winning Suppliers Will Combine Cost Benefits with Process Excellence

Suppliers operating in this embryonic market face a number of challenges, including initial market caution, access to C-level executives, and the need to articulate a clear value proposition that emphasizes operational benefits beyond cost reduction – such as improved supplier management, improved compliance management and access to procurement expertise. The winning suppliers will be those who can offer the right mix of long-term cost savings, operational excellence, and attractive pricing models.

About NelsonHall

Based in the U.K. with offices in the U.S., NelsonHall provides buy-side and sell-side organizations with deeper research and analyses in front office, mid-office and back office BPO than any other research firm in the world. The company’s subscription-based model provides subscribers with robust market analyses, case studies, vendor assessments, contract analyses, market reports and access to a content-rich BPO contracts database. The firm covers a wide range of industries including financial services, government and utilities sectors, and tracks worldwide and regional BPO activity. NelsonHall’s home page is www.nelson-hall.com.