

Procurement Outsourcing to Enjoy Rapid Growth, 2008 Black Book of Outsourcing Authors Say

Expect 2008 Growth to be 37%; What Provider Criteria are Considered Most Critical?

SCDigest Editorial Staff

Procurement functions represent one of the most rapid areas of outsourcing growth, with that rapid growth expected to continue strongly for 2008 and beyond. So say **Scott Wilson** and **Doug Brown**, authors of the popular book [The Black Book of Outsourcing](#), and founders of consulting firm Brown & Wilson Advisors.

Again for this year, Wilson and Brown have completed a report specifically on the state of procurement outsourcing (**The Black Book of Procurement Outsourcing**), based on survey data from a large respondent pool of more than 3500 procurement and supply chain executives and managers from across the globe.

What is Procurement Outsourcing?

Brown and Wilson define it as follows: "**Procurement Outsourcing** (PO) involves the outsourcing of parts or all of a company's procurement functions (people, processes, systems, and expenditures) to an external service provider. Today, the procurement BPO focus is on indirect (non-core) procurement. Procurement outsourcing typically includes many of the traditional IT outsourcing elements - systems integration, transition, change management, service level agreements (SLAs), and governance."

Based on the survey data, the report predicts the PO market will grow by 37% in 2008, with a very bright future ahead of it for years to come.

Why? Because procurement has an advantage over most other forms of outsourcing. In addition to allowing a company to focus on core competencies, reduce fixed costs, and other benefits of outsourcing

Again this year, Brown and Wilson asked respondents what the most important criteria were for choosing a procurement outsourcing provider. The top 3: the breadth of a potential provider's services and capabilities; support for hybrid centralized/decentralized procurement strategies and approach to procurement savings.

generally, one promise of procurement outsourcing is that it can potentially reduce the cost of procured goods as well by leveraging the outsourcer's buying power, technology, expertise and other skills.

"By virtue of the quick pay-back period associated with procurement outsourcing, the value proposition for these initiatives is fairly compelling to prospective buyers," say the authors.

So far, most procurement outsourcing contracts have focused on indirect procurement – goods and services needed for running the company generally (office supplies, maintenance items, light bulbs, janitorial services, etc.), not direct materials used for manufacturing or resale.

"One of the important payoffs realized by PO adopters is the opportunity of utilization of top-notch procurement systems and processes without making huge capital investments," the authors say. "Procurement outsourcing as a strategy works

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well for companies who constantly battle with the nonconformist buying issues despite having made considerably large investments in strategic sourcing and e-procurement in the form of time and money."

More End-to-End Offerings

The Black Book segments the procurement outsourcing market into four primary services or "domains":

- Total Spend Management
- Sourcing & Supply Chain/Logistics (Procure-to-Pay)
- Category management
- Transaction Processing: Transactional requisition to pay processes

The report says more "end-to-end" contracts that encompass all four of these services are being signed of late, versus the more "ala carte" offering and deals of past years.

"More than half of the PO contacts signed in 2008 were by end-to-end suppliers as sourcing-centric contracts are requiring additional support services the ala carte providers are not delivering," the report says.

Criteria for Selecting a Procurement Outsourcing Provider

Again this year, Brown and Wilson asked respondents what the most important criteria were for choosing a procurement outsourcing provider. As shown in the table nearby, the breadth of a potential providers services and capabilities was the most important attribute, followed by support for hybrid centralized/decentralized procurement strategies and approach to procurement savings.

Most Attractive PO Characteristics (Select Top 3)	% Selecting in Top 3
Arsenal of Sourcing Strategies & Solutions	93.1
Supports Regional/Decentralized Purchasing	92.8
Savings Implementation	90.2
Vertical Expertise	81.8
Improved Supplier Compliance	81.1
Comprehensive/End-to-End Capabilities	70.4
High Staff and Consultant Expertise Levels	67.7
Project-Based Solutions	64.3
Purchase-to-Pay Transaction Expertise	54.2
Sourcing Database & Analytics	52.2
Engineering + Procurement Capabilities	40.9
Spend Analysis	38.4
Technological Procurement Innovation	37.2
Supplier Performance Reporting	21.5
Breadth of Category Experience	18.2
Comprehensive/End-to-End Capabilities	11.8
Global Currency Exchange Expertise	10.4
Post Merger & Acquisition Synergies	5.6

Next week, we will summarize how Black Book respondents view individual procurement outsourcing providers.