2010 Procurement Outsourcing (PO) Market Star Performers on Everest PEAK Matrix

Focus on IBM
Introduction and scope

Everest Research recently released its latest PO Annual Report, which provides a comprehensive analysis of the 2010 PO market across size and growth, buyer adoption, contract characteristics, and service provider landscape.

As a part of the study, Everest updated its classification of 15+ PO service providers on the Everest Performance | Experience | Ability | Knowledge (PEAK) Matrix for PO into leaders, major contenders, and emerging players. The PEAK Matrix is a framework that provides an objective, data-driven, and comparative assessment of PO service providers based on their absolute market success and capability. Everest also identified five service providers as the “2010 PO Market Star Performers” based on the relative movement of 15+ PO service providers on the Everest PEAK Matrix from 2009 to 2010.

Based on the analysis, IBM emerged as a 2010 Star Performer strengthening its position in the PO market. This report focuses on IBM’s PO experience and capabilities, and includes:

- Overview of the 2010 PO service provider landscape
- IBM’s movement on PEAK Matrix for PO and key accomplishments in 2010
- IBM’s PO services profile

It is important to note that while a service provider’s position on the PEAK Matrix is a useful starting point, the results from the assessment may not be directly prescriptive for each buyer. Buyers will need to consider their unique situation and requirements and match them against service provider capability to meet their specific objectives.
Service provider landscape – summary

- The PO service provider landscape shows a three-way division by type of core offerings – sourcing-focused service providers, transactional or Procure-to-Pay (P2P)-focused service providers, and end-to-end Source-to-Pay (S2P) service providers
  - Accenture and IBM are the only two service providers that offer end-to-end S2P capabilities on a global scale
  - However, 2009-2010 witnessed a number of partnerships between P2P-focused and sourcing-focused service providers aiming to offer a full suite of S2P services. This included Corbus-Perfect Commerce, HP-Global eProcure, TCS-Denali, and Steria-HPI among others
  - In 2010, Capgemini acquired IBX and launched a broad S2P offering and Accenture acquired Ariba’s sourcing services to strengthen S2P capability
- 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 market success and overall capability of service providers
  - Leaders: Accenture, IBM, and ICG Commerce continue to hold their leadership positions
  - Major Contenders: Comprises a number of sourcing-focused players (buyingTeam, Global eProcure, and Xchanging) and P2P-focused players (Capgemini, Corbus, Genpact, HP, Infosys, TCS, and Wipro) that have intensified competition in the market
  - Emerging Players: DSSI, HCL, and HCMWorks constitute the Emerging Players category. HCMWorks is a new entrant to this list
- Market leaders further strengthened their leadership positions in 2010
  - Leaders (Accenture, IBM, and ICG Commerce) accounted for nearly 75% of the overall market by Annual Contract Value (ACV) and ~50% of the new contract signings in 2010
- Everest identified five service providers as the “2010 PO Market Star Performers” – Accenture, Genpact, IBM, ICG Commerce, and Infosys BPO. These five service providers were chosen based on the relative movement on the Everest PEAK Matrix from 2009 to 2010 out of 15+ PO service providers
  - The Star Performers’ designation relates to YoY performance for a given service provider and does not reflect overall market leadership positions. Those identified as the 2010 Star Performers include both leaders and major contenders
  - The star performers accounted for nearly 65% of the contracts signed in 2010
Everest classifies the PO service provider landscape into Leaders, Major Contenders, and Emerging Players on the Everest Performance | Experience | Ability | Knowledge (PEAK) Matrix

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

- **Leaders**: Top quartile performance across market success and capability
- **Major Contenders**: 2\textsuperscript{nd} or 3\textsuperscript{rd} quartile performance across market success and capability
- **Emerging Players**: 4\textsuperscript{th} quartile performance across market success and capability

**Market success** (Active ACV) vs. **PO capability** (Scale, expertise, technology, and delivery footprint)

Source: Everest Research Institute (2011)
IBM further strengthened its market position as a leader in an increasingly competitive market

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

Note: Please look for our upcoming report on the service provider landscape in PO for detailed analysis and trends

Source: Everest Research Institute (2011)
Everest also recognized IBM as one of the five “2010 PO Market Star Performers”

Methodology
Everest chose the five 2010 PO Market Star Performers based on the relative movement on the Everest PEAK Matrix for PO from 2009 to 2010 of each PO service provider.

To assess advancements on **market success**, we assessed the performance of each of the 15+ service providers on PEAK across a number of parameters including:

- 2010 ACV growth
- Number of new contract signings
- Number of contract extensions
- Value of contract signings in 2010

To assess advancements on **capability**, we assessed the performance of each of the 15+ service providers on PEAK across a number of parameters including:

- Growth in scale
- Increase in scope of services
- Expansion of delivery footprint
- Technology investments

The top quartile performers on each of the above parameters were identified and the “Star Performer” rating was awarded to the service providers with:

- The maximum number of top-quartile performances across all of the above parameters
- At least one area of top-quartile performance in both market success and PO capability advancements

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IBM’s strong movement on the Everest PEAK matrix was enabled by a combination of market success and capability advancements.

IBM’s PO market success in 2010
- **Strong inorganic and organic growth in 2010**
  - Top quartile performance among all service providers with eight new multi-process contract signings
  - Most new TCV signing among all service providers
  - Most contract renewals among all service providers
  - 10% YoY growth in ACV driven by strong new contract signings and contract renewal activity
- **Growth drivers in 2010**
  - ~70% of new ACV came from CPG & retail
  - Strong traction in U.S. with six new multi-process contract signings in that geography
  - Large buyers accounted for ~80% of new ACV signed
- **Outlook for 2011**
  - Strong sales pipeline, looking to leverage strong capability in CPG and Retail vertical and Asia Pacific geography, both of which are new and high growth areas in PO

IBM emerged as a star performer in the 2010 PO market further strengthening its leadership position on the Everest PEAK Matrix for PO
- One of the two established leaders that offer end-to-end outsourced S2P services in the global market
- Continuous investment in technology capability through multiple acquisitions
- Global market share of 35-40% in terms of active 2010 ACV

IBM’s capability growth in 2010
- **Key area of capability-related investment in 2010**
  - Delivery footprint: Global delivery network that extends across Europe, North America, Central and South America, and Asia Pacific
  - Scale: Manages US$50 billion+ of non-core spend on behalf of PO clients across 45+ multi-process contracts
  - Scope: Developed joint go-to-market for combined PO-FAO offering; expanded to adjacent supply chain processes such as logistics, asset management, and supply chain visibility
  - Technology: Continued investments through acquisition of Lombardi, Sterling Commerce, Clarity Systems, Core Metrics, Cast Iron, OpenPages, and Datacap

2010 change in IBM's positioning on Everest PEAK Matrix for PO

Market success
- Leaders
- Major Contenders

Capability

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IBM (page 1 of 5)
PO service suite and scale of operations

Key PO leaders
- Don Schulman, GM, F&A and SCM Practice, GPS
- Bill Schaefer, VP, SCM & Procurement Services, GPS

PO service suite
- Sourcing-related services: Spend analytics, opportunity identification and analysis, strategy development, strategic sourcing, category management, supplier performance management, compliance management.
- Transactional procurement services: Tactical sourcing, procure to pay, order execution, supplier enablement, catalog/content administration, accounts payable, call center, GERS travel and expenses management

Category expertise
Management of all indirect categories (Marcom, travel, IT, software, subcontracted services, connectivity, business services, FMO, capital equipment, logistics) covering all industry sectors

Key PO-related developments
- 2010: Acquired Sterling Commerce and Lombardi to expand B2B and workflow capabilities
- 2010: Acquired Clarity Systems, Cast Iron and Datacap to boost technology capability
- 2010: Acquired Core Metrics to expand web analytics capability
- 2010: Acquired OpenPages to expand risk management capability
- 2009: Acquired Redpill Solutions and SPSS to boost analytics capability
- 2008: Acquired Cognos to enhance its performance management/decision support offerings
- Acquisition of MR Software (Maximo); Viacore (BusinessTone); and KeyMRO (strategic sourcing services)
- Partnerships with Ariba, SAP, Hubwoo, and Emptoris

Spend managed for external clients
More than US$50 billion

Source: Everest Research Institute (2011)
IBM (page 2 of 5)
PO client portfolio

Major PO clients

<table>
<thead>
<tr>
<th>Major PO clients</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SaraLee</td>
<td></td>
</tr>
<tr>
<td>Telstra</td>
<td></td>
</tr>
<tr>
<td>Unilever</td>
<td></td>
</tr>
<tr>
<td>KEB</td>
<td></td>
</tr>
</tbody>
</table>

Recent publicly announced PO engagements

<table>
<thead>
<tr>
<th>Time</th>
<th>Client</th>
<th>Contract Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2010</td>
<td>Client not disclosed</td>
<td>5-year contract with a consumer goods company</td>
</tr>
<tr>
<td>Q3 2010</td>
<td>Client not disclosed</td>
<td>7-year contract with a chemical company</td>
</tr>
<tr>
<td>Q4 2009</td>
<td>Client not disclosed</td>
<td>5-year contract with a leading retailer</td>
</tr>
<tr>
<td>Q3 2009</td>
<td></td>
<td>5-year contract with DTCC</td>
</tr>
<tr>
<td>Q1 2009</td>
<td>SaraLee</td>
<td>7-year contract with Sara Lee</td>
</tr>
</tbody>
</table>

PO revenue geography mix (2010)

- U.S.: 35-40%
- Rest of Europe: 5-10%
- Asia-Pacific: 40-45%
- Others: 5-10%
- UK: 5-10%

PO revenue industry mix (2010)

- Financial services: 20-25%
- Manufacturing: 15-20%
- CPG & retail: 25-30%
- Hi-tech & telecom: 30-35%
- Others: 1-5%

PO revenue buyer size mix (2010)

- Large buyers: 65-70%
- Mid-market: 30-35%

Note: Based on contractual and operational information as of November 2010
Source: Everest Research Institute (2011)
IBM (page 3 of 5)
PO delivery locations

Source: Everest Research Institute (2011)
Offered as a complete end to end managed service for source to pay
- Providing improved effectiveness / cost savings, efficiency / reduced process execution expense, and improved supplier relationship management
- Integrated supporting IT solutions and data management
- Serving across all organization sizes, industries and geographies
- Delivery model includes global support through on-shore, near-shore and off-shore centers of excellence

Sourcing to pay including:
- Strategic sourcing / spend analytics
- Tactical buying / RFx management, catalog management & operations
- Order execution & management,
- Travel & Expense management
- Accounts payable, audit recovery

Designed to integrate with client’s existing finance & HR systems, & preferred travel reservation & corporate credit card providers
- Serving more than 500 clients, with a majority in mid-market segment
- Recently expanded solution as a cloud-based offering

Leveraging ERPs including Ariba, SAP, PeopleSoft, Oracle, JD Edwards,
- Support software including Emptoris,, Iron Mountain, ACL, OB-10
- IBM assets including COGNOS, SPSS, Websphere Business Modeler, DB2 & Content Manager, Maximo and IBM developed tools: RAPID and TVC

 Mostly proprietary platforms
- IBM developed GERS Cloud-based e2e platform

Hosted, single client, and multi-client
- Up-front implementation fees, license fees, pay per transaction, bundled in FTE pricing
- Contingency fee for Audit Recovery

Licensed, hosted SaaS; single client, and multi-client
- Up-front implementation fees, license fees, pay per transaction
- Subscription fee for compliance analytics service

Source: Everest Research Institute (2011)
IBM is a leader on the 2010 Everest PEAK Matrix for PO

Delivery capability assessment1

<table>
<thead>
<tr>
<th>Assessment dimension</th>
<th>Rating</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale</td>
<td>High</td>
<td>40+ multi-process PO contracts signed; US$450+ million active ACV; 50+ external spend managed</td>
</tr>
<tr>
<td>Scope</td>
<td>High</td>
<td>End-to-end S2P process capability with category-focused offerings; strong capabilities in spend analytics</td>
</tr>
<tr>
<td>Technology capability</td>
<td>High</td>
<td>Acquired Clarity Systems, Cast Iron, Datacap, OpenPages, RedPill, Cognos, SPSS, and Sterling Commerce</td>
</tr>
<tr>
<td>Delivery footprint</td>
<td>High</td>
<td>Global coverage that spans across India, Hungary, U.S., China, Philippines, and Brazil</td>
</tr>
</tbody>
</table>

Market success assessment

Global multi-process PO market share1

<table>
<thead>
<tr>
<th>Percentage</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of contracts</td>
<td>15-20%</td>
<td>35-40%</td>
<td>35-40%</td>
</tr>
<tr>
<td>ACV</td>
<td>35-40%</td>
<td>35-40%</td>
<td>35-40%</td>
</tr>
<tr>
<td>TCV</td>
<td>35-40%</td>
<td>35-40%</td>
<td>35-40%</td>
</tr>
<tr>
<td>MS</td>
<td>35-40%</td>
<td>35-40%</td>
<td>35-40%</td>
</tr>
</tbody>
</table>

Global multi-process PO market share over time1

<table>
<thead>
<tr>
<th>Percentage share by ACV</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>35-40%</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Market share in key buyer segments1

<table>
<thead>
<tr>
<th>By signing region</th>
<th>By industry</th>
<th>By client size</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-35% in U.S.</td>
<td>50-55% in Hi-tech &amp; Telecom</td>
<td>25-30% in enterprise</td>
</tr>
<tr>
<td>35-40% in UK</td>
<td>50-55% in CPG &amp; Retail</td>
<td>25-30% in large org.</td>
</tr>
<tr>
<td>20-25% in RoE</td>
<td>25-30% in Manufacturing</td>
<td>40-45% in mid-market</td>
</tr>
<tr>
<td>75-80% in Asia Pacific</td>
<td>10-15% in Media</td>
<td>&lt;1% in SMB</td>
</tr>
</tbody>
</table>

Overall remarks:

- One of the two market-leading and pioneering PO providers that offer end-to-end S2P capabilities on a global scale
- Global market share of 35-40% with a strong spike in CPG, and hi-tech & telecom industries across U.S., UK, and Asia Pacific
- Strengthened its leadership position with a strong performance in 2010. Named by Everest as one of the five “2010 PO Market Star Performers”

1 Based on contractual and operational information as of November 2010
Source: Everest Research Institute (2011)
About Everest Group

Everest Group is an advisor to business leaders on next generation global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research, and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies, and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and www.everestresearchinstitute.com.
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