



# Global IT-BPO outsourcing deals analysis

3Q16 analysis

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# About global IT-BPO outsourcing deals analysis

KPMG's Shared Services and Outsourcing Advisory (SSOA) practice publishes a quarterly analysis on Information Technology and Business Process Outsourcing (IT-BPO) contracts signed across industries and geographies, with a Total Contract Value (TCV) of USD5 million and above per deal.

## **Methodology and limitations of the study:**

The analysis and findings presented in this report are based on select third party deals database including, publicly available outsourcing data as identified throughout this presentation. It does not include contract information gathered from KPMG Sourcing Advisory business engagements.

The count and value of the deals may vary notably in reality and is only indicative of market movements and trends in the IT-BPO space. Readers are requested to use their discretion while assessing the global IT-BPO market accordingly.

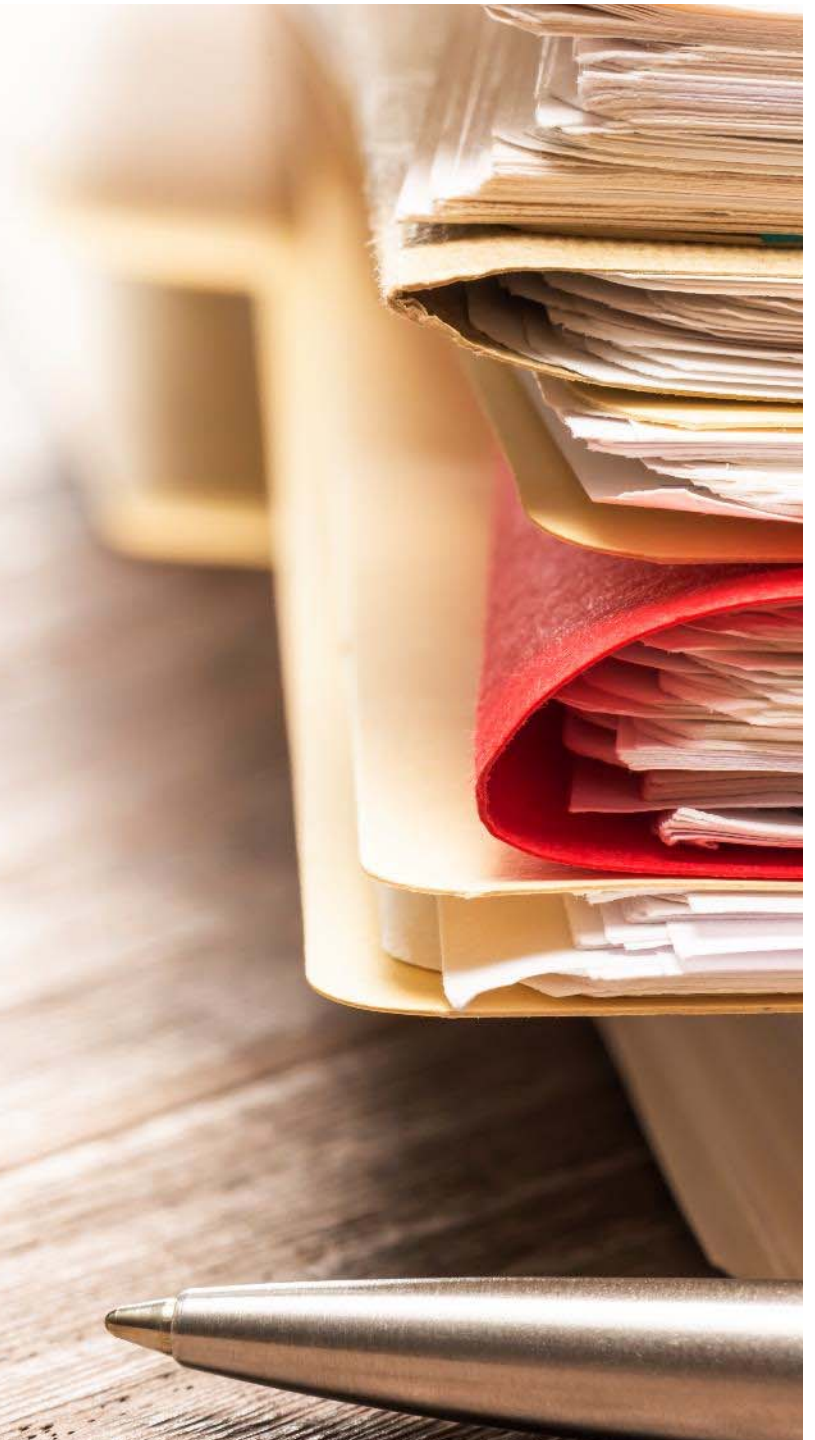
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# Section 1

## Global deals: An overview

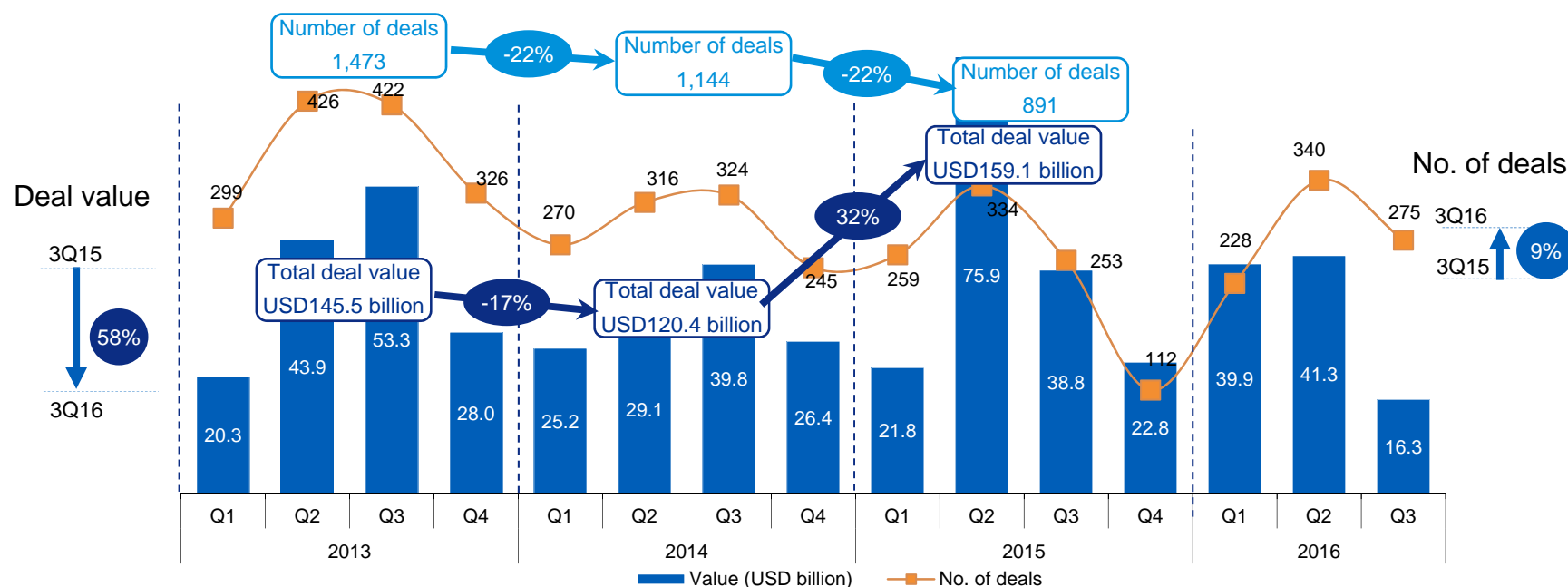
# A summary

- ▶ In 3Q16, **243 ITO contracts** worth **USD13.0 billion** and **13 BPO contracts** worth **USD973 million** were signed, worldwide
- ▶ Globally **19 IT-BPO bundled** deals were signed in 3Q16 with contract value worth **USD2.3 billion**
- ▶ In terms of value, approximately **40.2 percent of deals** originated from the **United States** followed by **Australia** at **9.1 percent**. India and the United Kingdom were two other key outsourcing markets
- ▶ The **average deal tenure** decreased to **4 years** in 3Q16 from 5 years 5 months in 2Q16
- ▶ **Telecom and Government** sectors were the top consumers of IT-BPO services contributing to **24 percent** and **22 percent** in terms of value of outsourcing deals signed in 3Q16. **Defense** sector was the next big contributor in terms of deal value
- ▶ **IT Bundled Services** and **CRM** contributed approximately **USD4.3 billion** and **USD706.8 million** respectively and were the largest procured services globally within ITO and BPO services, respectively
- ▶ **Average annualized contract value** in 3Q16 was **USD16.4 million** as compared to **USD23.0 million** in 2Q16 showing a decrease of **29 percent** between the two quarters

Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

# Snapshot Quarterly deal movements

## Quarterly movements of global IT-BPO deals\*

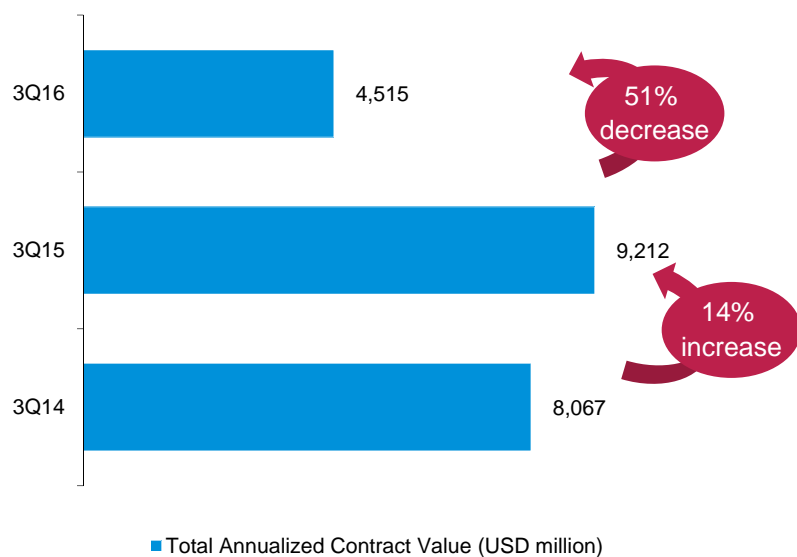


\*The term deals is interchangeably used with contracts throughout the analysis unless otherwise specified. Deals analyzed are global sourcing contracts of size USD5.0 million and above only. Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

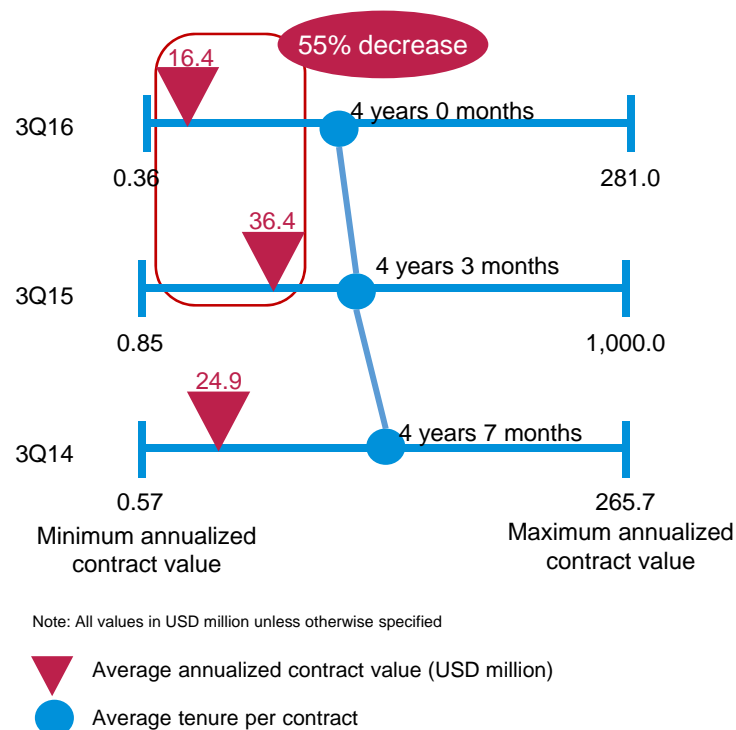
- 3Q16 witnessed a sharp drop in deal activity as compared to 2Q16. There was a decrease of 61 percent in total contract value and 19 percent decrease in total number of deals in 3Q16 as compared to 2Q16
- The average contract value also decreased by 51 percent in 3Q16 as compared to 2Q16

# Q-o-Q comparison Annualized Contract Value (ACV)

## Annualized\* contract value comparison per quarter



\* Annualized contract value = ( total value of a contract / tenure in months ) x 12  
Contract value for contracts having tenure less than 1 year is considered as annualized value for the analysis. Graph is not to scale and only represents the division across different parameters  
Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database



- Total annualized contract value in 3Q16 decreased by 51 percent as compared to 3Q15. The average annualized contract value also decreased by 55 percent during the same period
- The average contract tenure decreased by 3 months to 4 years in 3Q16 as compared to 3Q15

# Q-o-Q comparison Deals analysis by sector

## Trends in deal movement from 3Q15 to 3Q16

Sector	Total Contract Value				Total Number of Contracts				Average Contract Value			
	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16	2Q16 -> 3Q16
Automotive & Aerospace	Decrease >=25%	Decrease <25%	Increase >=25%	Decrease <25%	Decrease <25%	No change	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%
Banking & Financial Services	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Decrease <25%	Decrease <25%
Defense	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%
Energy & Utilities	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%
Government	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease <25%
Insurance	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%
Manufacturing	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%
Pharma & Healthcare	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%
Publishing, Media & Entertainment	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%
Retail	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%
Telecom	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%
Travel & Logistics	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%
Others*	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%

\*Others: Construction, Consumer and Recreational Services, Education, Professional services, Securities and investment services, Social services, Trade unions, Technology, Wholesale  
Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

Decrease >=25% Decrease <25% No change Increase <25% Increase >=25%

- In 3Q16, Defense, Insurance and Pharma & Healthcare sectors have shown an increase in total contract value of more than 25 percent as compared to 2Q16. Most other sectors have had a decrease in total contract value during the same period
- Banking & Financial services, Defense and Telecom sectors have shown an increase in total number of contracts. All other sectors have had a reduced number of contracts signed in the quarter as compared to 2Q16



# Q-o-Q comparison Deals analysis by category

## Trends in deal movement from 3Q15 to 3Q16

Deal Type	Total Contract Value				Total Number of Contracts				Average Contract Value			
	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16	2Q16 -> 3Q16
ITO	Decrease >=25%	Increase >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease >=25%	Decrease >=25%
BPO	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase >=25%	Decrease <25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase >=25%
Bundled	Increase >=25%	Decrease >=25%	Decrease <25%	Increase >=25%	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase >=25%
Less than USD 100 mn	Decrease >=25%	Increase >=25%	Increase <25%	Decrease <25%	Decrease >=25%	Increase >=25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%
Between USD 100-500 mn	Decrease >=25%	Increase >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%
More than USD 500 mn	Decrease <25%	Increase >=25%	Decrease <25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease <25%
Less than 1-year	Increase >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase >=25%
Between 1 to 5-years	Decrease <25%	Decrease <25%	Decrease <25%	Decrease <25%	Decrease >=25%	Increase >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Decrease <25%
More than 5-years	Decrease >=25%	Increase >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase <25%	Decrease >=25%	Decrease <25%	Increase <25%	Decrease >=25%	Decrease >=25%

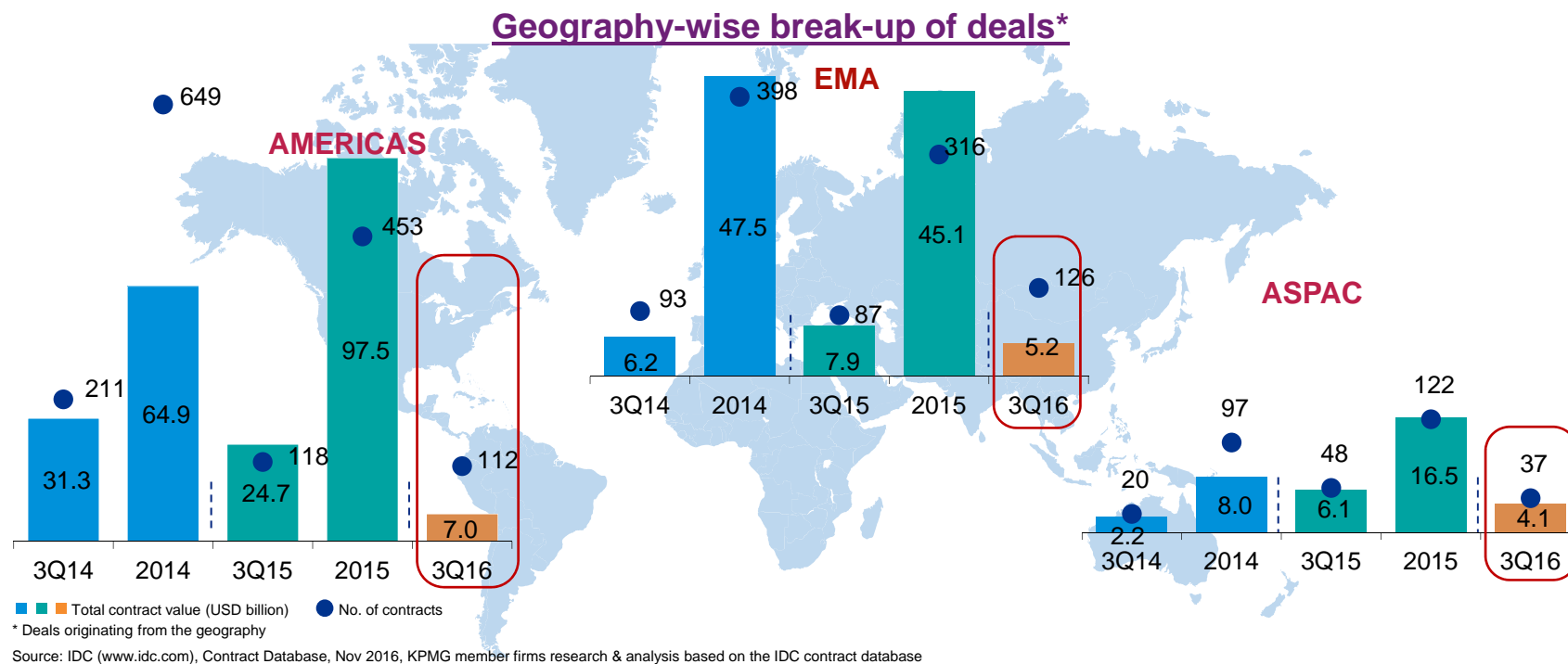
Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

Decrease >=25% Decrease <25% No change Increase <25% Increase >=25%

- Whilst ITO deals showed over 25 percent decrease in total contract value, both BPO and bundled deals increased by over 25 percent in 3Q16 over 2Q16
- Continuous growth over last two quarters in terms of both number and total contact value was observed in shorter tenure deals (deals with tenure less than one year) indicating that organizations preferred short-term outsourcing
- The average contract value of long tenure (more than five years) deals has decreased consistently by over 25 percent in the last two quarters

# IT-BPO deals across geographies: Q-o-Q comparison

## Geography analysis



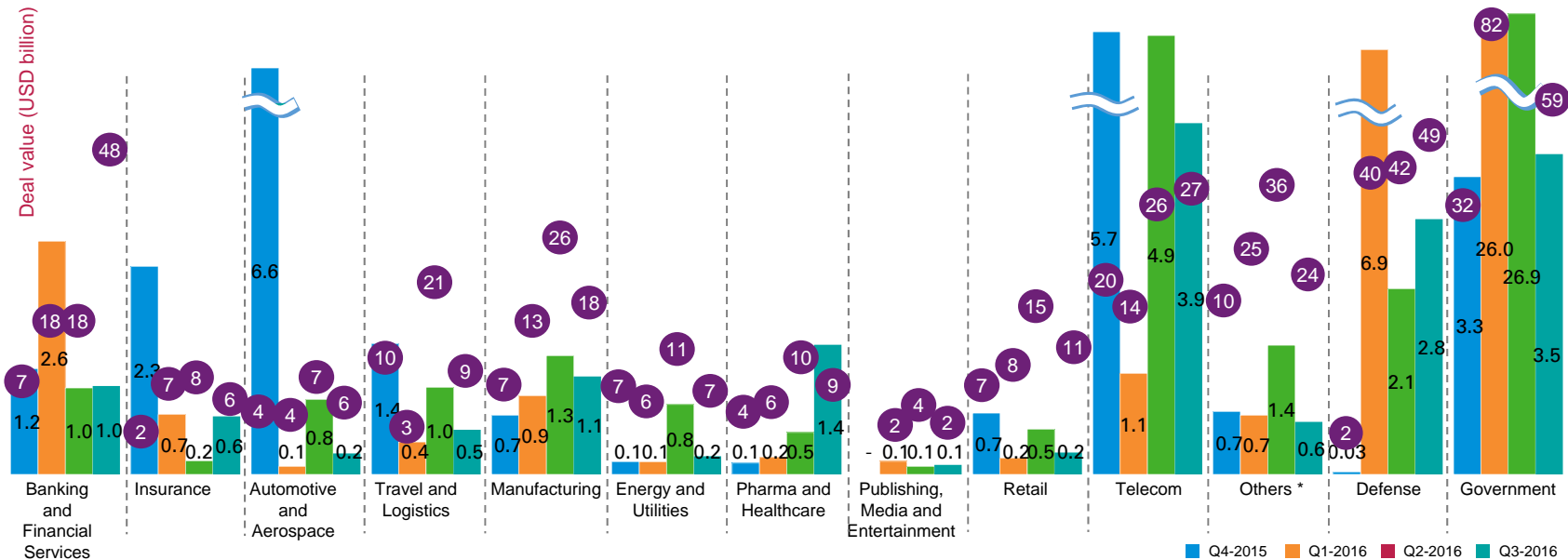
- AMERICAS continue to be the major outsourcing region contributing 43 percent of the total deal value in 3Q16
- Share of EMA and ASPAC regions has increased in terms of deal value to 32 percent from 16 per cent and to 25 percent from 9 percent respectively as compared to 2Q16
- AMERICAS experienced a sharp drop (77 percent) in total contract value as compared to 2Q16. The decrease in total contract value for EMA was comparatively lesser (24 percent decrease) during the same period

# IT-BPO deals across sectors by value and numbers

## Sector analysis

### Sector-wise break-up of deals (4Q15 to 3Q16)

TCV : USD 16.3 billion  
No. of contracts: 275



\* Others: Construction, Consumer and Recreational Services, Education, Professional services, Securities and investment services, Social services, Trade unions, Technology, Wholesale

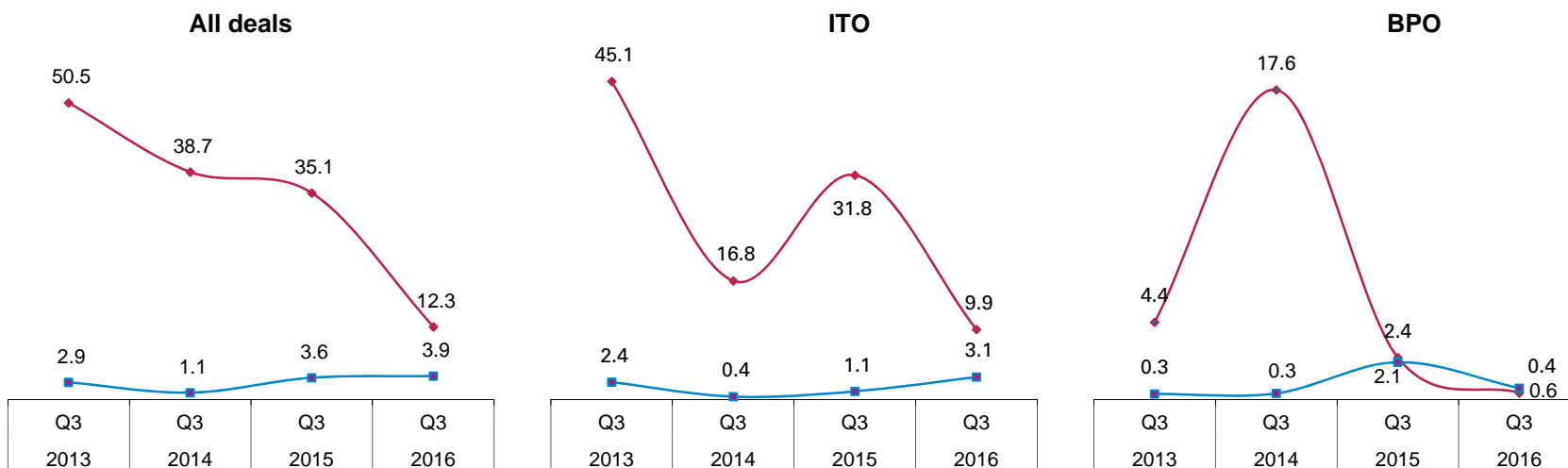
Graph is not to scale and only represents the division across different parameters. Figures may not add up to 100 per cent due to rounding off

Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

- The Government and Telecom sector lead deal activity, contributing to 24 percent and 22 percent in terms of value of outsourcing deals signed in 3Q16
- Defense sector is the next big contributor in terms of deal value, with a contribution of 17 percent to the total deal value of deals signed in 3Q16

# Q-o-Q comparison New and renewal\* deal analysis

## Analysis of new and renewal\* deals



\* Renewal deals include contracts which have been extended, expanded, extended & expanded and renegotiated

Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

Total contract value (in USD bn)

■ New ■ Renewal

- An analysis of new deals vs renewed deals show that the drop in deal activity in 3Q16 is majorly due to fewer new deals signed. The total contract value of renewed deals showed a slight increase as compared 3Q15
- Total contract value of renewed BPO deals in 3Q16 is more than that of new BPO deals signed in the quarter

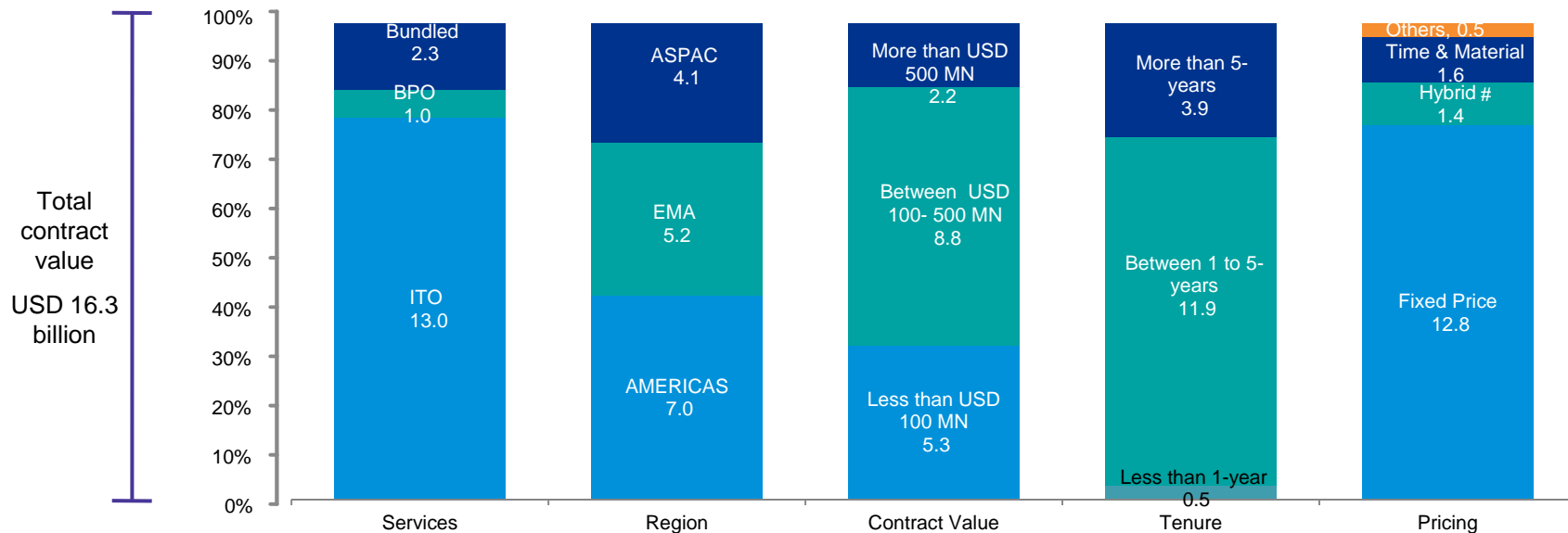


# Section 2

## 3Q16 deal analysis

# Deal value

## IT-BPO deals\* signed in 3Q16 (Total contract value: USD16.3 billion)



\* Deals analyzed are USD5.0 million and above only, throughout the analysis. Graph is not to scale and only represents the division across different parameters. Figures may not add up to 100 per cent due to rounding off

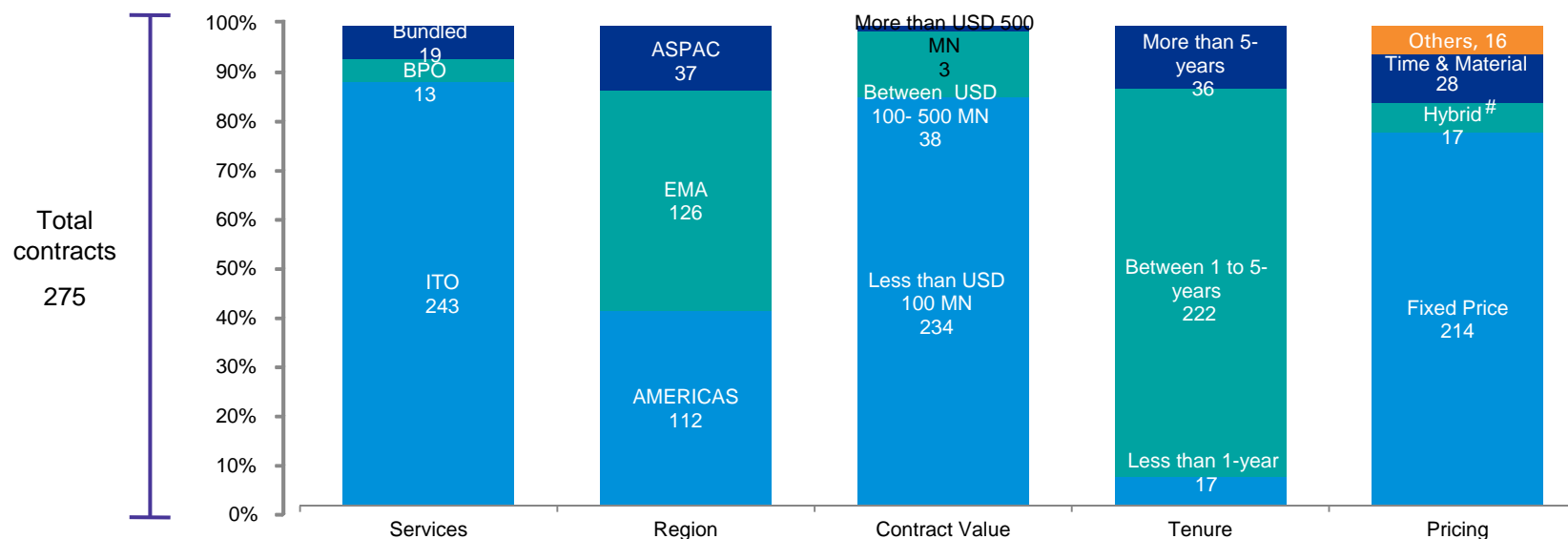
# Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

- ITO deals continue to dominate the outsourcing space with a contribution of 80 percent to the total deal value signed in 3Q16
- AMERICAS continue to be the major outsourcing region contributing 43 percent of the total deal value signed in 3Q16. EMA and ASPAC contribute 32 percent and 25 percent respectively
- Fixed price contracting model showed dominance, contributing over 79 percent of the deal value in 3Q16

# Number of deals

## IT-BPO deals\* signed in 3Q16 (Total number of contracts: 275)



\* Deals analyzed are USD5.0 million and above only, throughout the analysis. Graph is not to scale and only represents the division across different parameters. Figures may not add up to 100 per cent due to rounding off

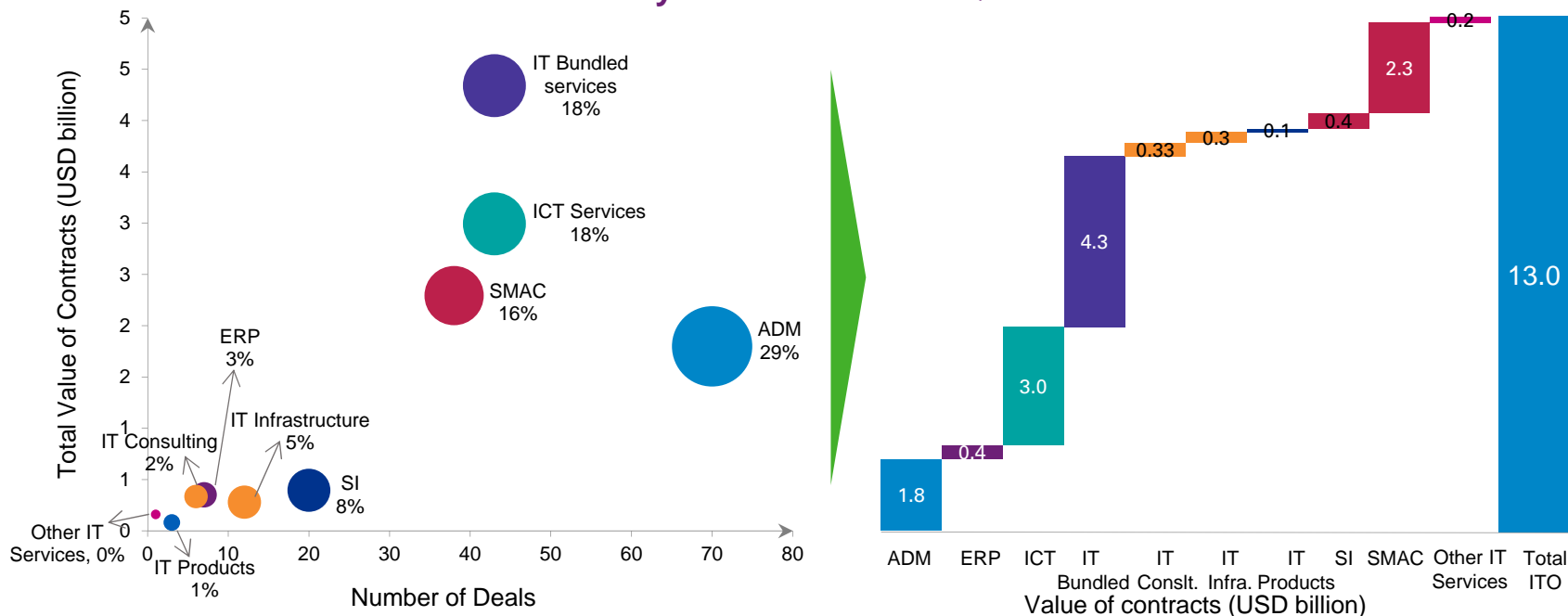
# Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

- ITO deals and BPO deals contribute to 88 percent and 5 percent respectively in terms of number of deals signed in 3Q16
- Clients preferred mid tenure deals of length between one to five years, which contributed to 81 percent of the total number of deals signed in 3Q16
- 85 percent of the deals, in terms of number of deals signed in 3Q16, were of value less than USD100 million. Only three of the deals signed in 3Q16, were of value more than USD500 million

# Services segmentation

## Analysis of ITO deals 3Q16



Note: Size of bubble indicates per centage share of the total number of ITO deals  
 SI – System Integration, Other IT services – Software testing, IT Education and Training  
 Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

Note: All values in USD billion. Scale of graph is just representative to illustrate the division across different parameters. Figures may not add up to 100 per cent due to rounding off. Refer L.H.S. figure for legend

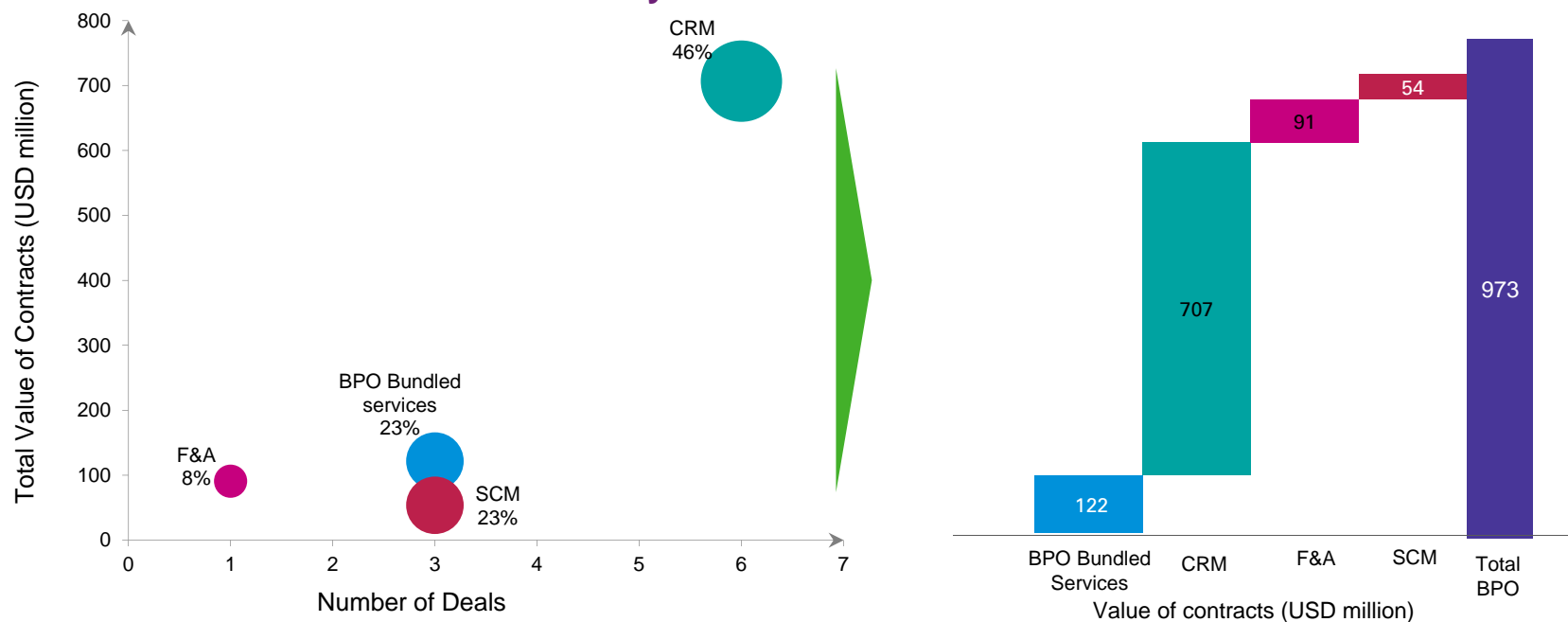
Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

- ICT Services and IT Bundled together contributed to 56 percent of all ITO deals in terms of value and 35 percent in terms of number of deals during 3Q16
- SMAC and ADM services are other key contributors to the ITO deals in 3Q16



# Services segmentation

## Analysis of BPO deals 3Q16



Note: Size of bubble indicates per centage share of the total number of BPO deals

Other BPO services – Data management, etc.

Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

Note: All values in USD million. Scale of graph is just representative to illustrate the division across different parameters. Figures may not add up to 100 per cent due to rounding off. Refer L.H.S. figure for legend

Source: IDC (www.idc.com), Contract Database, Nov 2016, KPMG member firms research & analysis based on the IDC contract database

- CRM deals contributed to the most deal activity amongst BPO deals – 73 percent of all BPO deals in terms of value and 46 percent in terms of number of deals during 3Q16



# Section 3

## IT-BPO outsourcing outlook

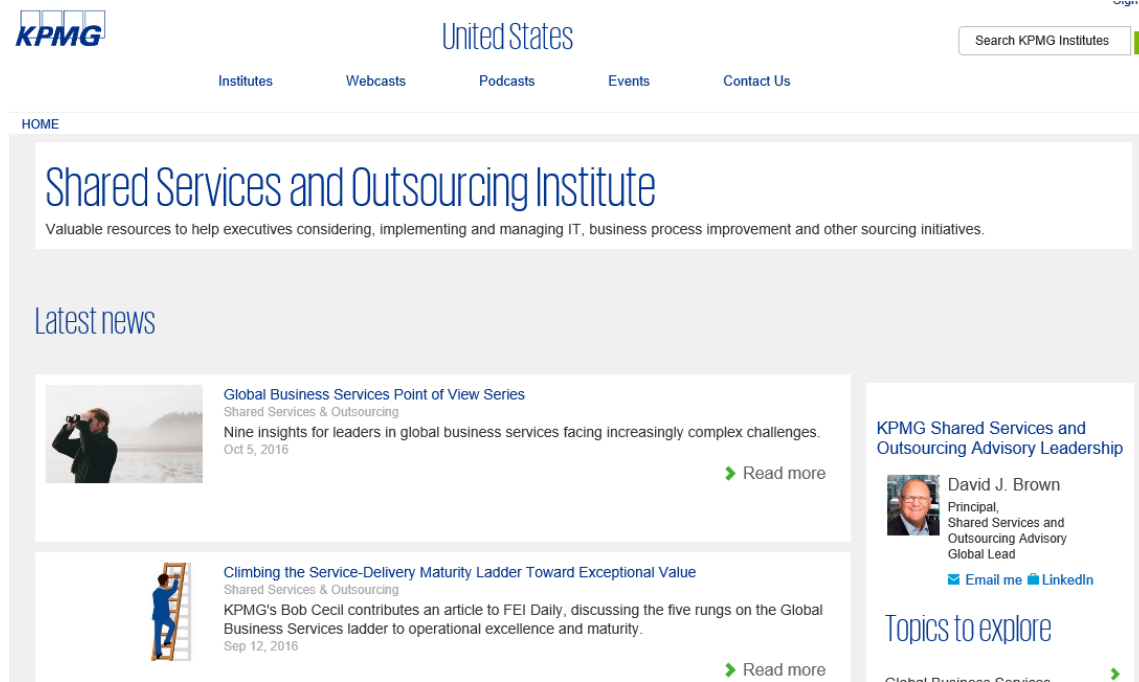
# Global outsourcing industry Outlook

- 3Q16 witnessed a sharp drop in deal activity as compared to 2Q16. There was a decrease of 61 percent in total contract value and 19 percent decrease in total number of deals in 3Q16 as compared to 2Q16
- Organizations are moving from a traditional silo-based and transactional outsourcing services, to more of a holistic end-to-end approach through bundled deals
- We are seeing a reducing dominance of AMERICAS in the global buyer market for outsourcing services although it continues to be the major outsourcing region contributing 43 percent of the total deal value in 3Q16. EMA is gaining momentum gradually with ASPAC fast catching up
- SMAC services and automation are major drivers for the commoditization of the outsourcing services and this is especially true for IT services. SMAC deals are increasingly replacing IT infrastructure deals within IT outsourcing space
- Telecom sector is continuously featuring amongst the top contributors to outsourcing industry for the last two quarters. It is mostly leveraging ICT and SMAC services from service providers and is expected to continue so
- Traditional pricing models are relatively highly prevalent as compared to a hybrid model which has been the trend in the last few years. While this may indicate a reduced risk appetite of the vendors, the deal activity indicates that organizations are experimenting with multiple pricing models.

# KPMG Shared Services and Outsourcing Advisory (SSOA) research

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- Working to deliver competitive advantage with intelligent services governance



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Global IT-BPO Outsourcing Deals Analysis: <http://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/KPMG-Deal-Tracker/Pages/Default.aspx>

# Glossary (1/2)

Terms	Definition
<b>ACV</b>	Annualized Contract Value = ( total value of a contract/tenure in months ) x 12
<b>AMERICAS</b>	North America and South America
<b>ASPAC</b>	Asia and Oceania
<b>BPO</b>	Business Process Outsourcing
<b>EMA</b>	Europe, Middle East and Africa
<b>ITO</b>	Information Technology Outsourcing
<b>TCV</b>	Total Contract Value

# Glossary (2/2)

Terms	Definition
<b>ITO Services</b>	
ADM	Application Development and Maintenance
ERP	Enterprise Resource Planning implementation and support services
ICT Services	Information and Communication Technology services (e.g. contact center technology, telecommunication, and related services)
IT Bundled Services	Any combination of two or more IT services mentioned above
IT Consulting	Information Technology Consulting services
IT Infrastructure	IT hardware deployment (e.g. data center outsourcing, network management, hardware deploy and support, hosting services, etc.)
IT Products	Software products typically developed and branded by IT companies and sold as own Intellectual Property
Other IT Services	Typically services that do not fall in other buckets (e.g. Software testing, IT helpdesk support services, Cyber security)
SMAC	Social, Mobile, Analytics and Cloud services (i.e. Social Media, Mobility, Analytics and Cloud computing)
System Integration	IT system integration services (application or enterprise system integration services)
<b>BPO Services</b>	
BPO Bundled Services	Any combination of two or more BPO services mentioned above
Content Management	Data management services (e.g. document management, print management, etc.)
CRM	Customer Relationship Management solutions and services
F&A	Finance and Accounting services
HRO	Human Resource Outsourcing services
KPO	Knowledge Process Outsourcing services
Other BPO Services	Typically services that do not fall in other buckets (e.g. Industry specific processes, Facilities Management)
SCM	Supply Chain Management services (including procurement, logistics etc.)

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