



Global IT-BPO outsourcing deals analysis

Annual analysis
for 2016

February 2017

KPMG.com



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 member firms 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.

For more information on this market research, please get in touch with Kartik Ramakrishnan (kartikramakrishnan@kpmg.com).

Foreword

At the dawn of 2017, an analysis of the achievements and challenges of 2016 could help us plan a better future.

The SSOA practice is pleased to bring to you the year-end 2016 edition of the KPMG Global IT-BPO Outsourcing Deals Analysis.

The current edition looks at IT-BPO outsourcing contracts signed in the last three years, from 2014 to 2016, and identifies the major trends influencing the market, across geographies. This report also includes the regular analysis feature for the latest quarter Q4-2016 (October – December).

In 2016, the number of deals signed globally in the IT-BPO space were 1077 with a total contract value (TCV) of USD115 billion. Of the three years (2014 - 16) analyzed in this report, the year 2015 is the strongest year for outsourcing. Both 2014 and 2016 had similar deal activity.

With a shift in focus on cost cutting to value addition, client and service providers are laying importance on value-added services and innovation.

Hope you will find this market trends study on the IT-BPO deals useful. Happy reading!

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A stack of books with various colored covers (yellow, red, white) is visible on the right side of the image. A silver pen lies horizontally on a wooden surface in the bottom right corner. The background is a soft-focus wooden surface.

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Section 1

Global deals: An overview

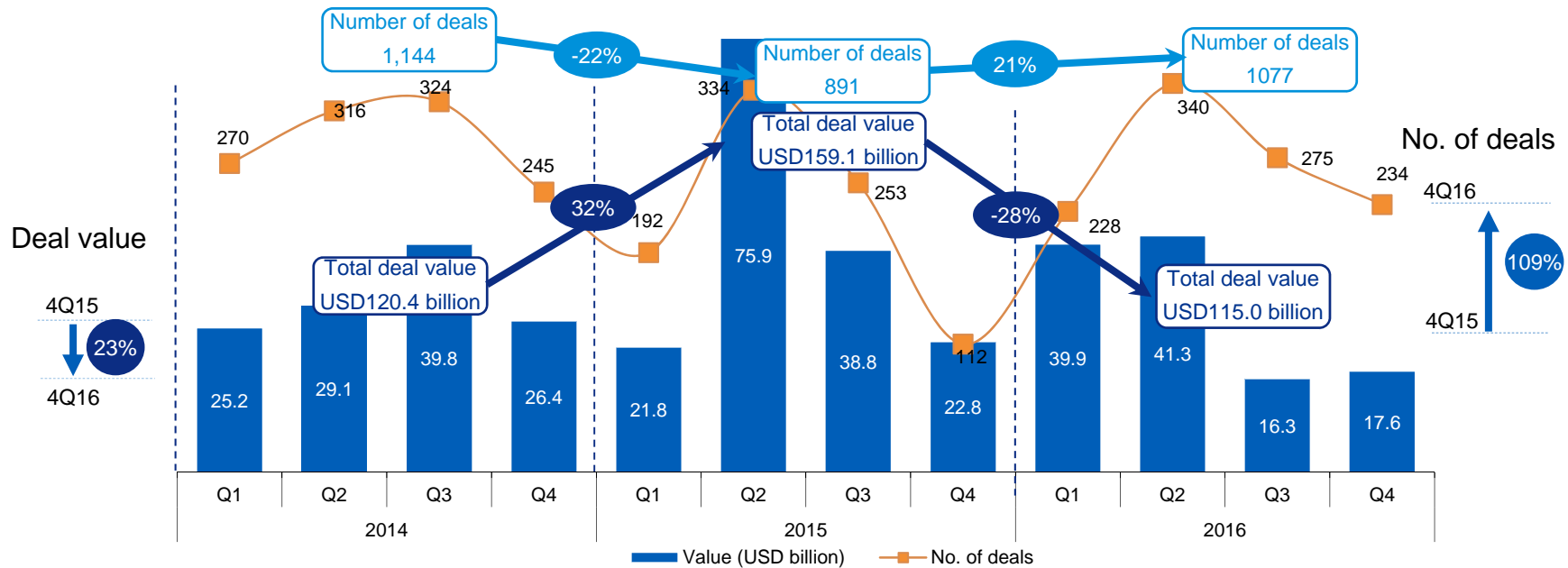
A summary

- ▶ In 2016, **951 ITO contracts** worth **USD102.4 billion** and **81 BPO contracts** worth **USD8.7 billion** were signed, worldwide
- ▶ Globally **45 IT-BPO bundled** deals were signed in 2016 with aggregate contract value worth **USD3.9 billion**
- ▶ In terms of value, approximately **64.7 percent of deals** originated from the **United States** followed by the **United Kingdom** at **9.2 percent**. Australia and France were two other key outsourcing markets
- ▶ The **average deal tenure** increased to **4 years 7 months** in 2016 from 4 years 1 month in 2015
- ▶ **Government and Defense** sectors were the top consumers of IT-BPO services contributing to **55 percent** and **13 percent** in terms of value of outsourcing deals signed in 2016. **Telecom** sector was the next big contributor in terms of deal value
- ▶ **IT Bundled Services** and **SCM** contributed approximately **USD63.2 billion** and **USD3.6 billion** respectively and were the largest procured services globally within ITO and BPO services, respectively
- ▶ **Average annualized contract value** in 2016 was **USD21.3 million** as compared to **USD43.5 million** in 2015 showing a decrease of **51 percent** between the two years.

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

Snapshot Quarterly deal movements

Quarterly movements of global IT-BPO deals*

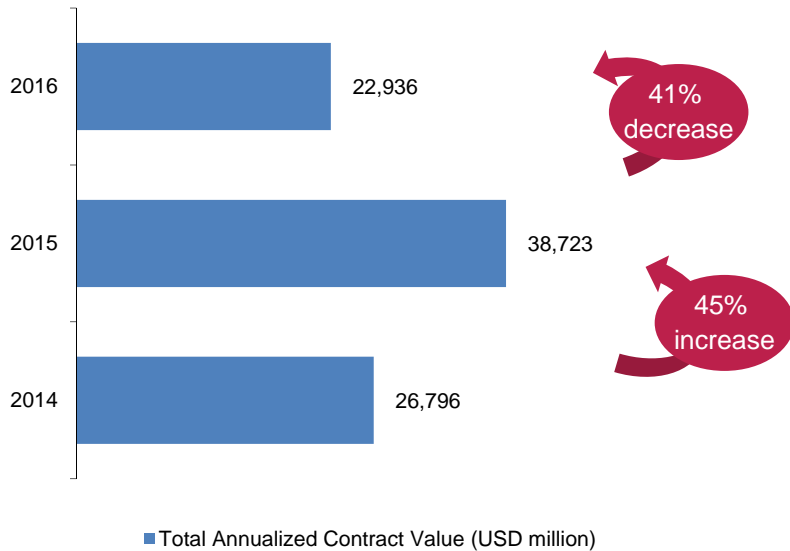


*The term deals is interchangeably used with contracts throughout the analysis unless otherwise specified. Deals analyzed are global sourcing contracts of size USD5 million and above only. Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

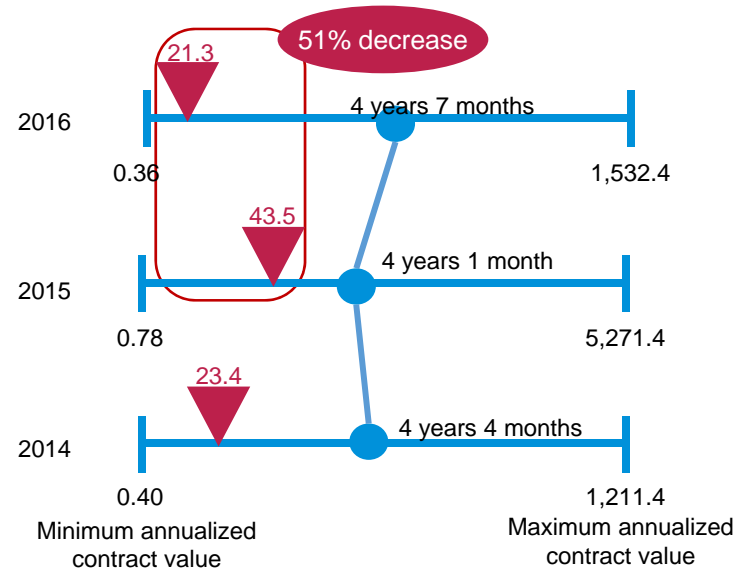
- 2016 witnessed a drop in deal activity as compared to 2015. There was a decrease of 28 percent in total contract value but a 21 percent increase in total number of deals in 2016 as compared to 2015
- Deal activity in 4Q16 was almost similar to 3Q16, though there was a 15 percent decrease in number of deals
- The average contract value also increased by 27 percent in 4Q16 as compared to 3Q16

Y-o-Y comparison Annualized Contract Value (ACV)

Annualized* contract value comparison 2014-16



* 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, January 2017, KPMG member firms research and analysis based on the IDC contract database



Note: All values in USD million unless otherwise specified

- ▼ Average annualized contract value (USD million)
- Average tenure per contract

- Total annualized contract value in 2016 decreased by 41 percent as compared to 2015. The average annualized contract value also decreased by 51 percent during the same period
- The average contract tenure increased by 6 months to 4 years 7 months in 2016 as compared to 2015

Y-o-Y comparison Deals analysis by sector

Trends in deal movement from 2013 to 2016

Sector	Total Contract Value			Total Number of Contracts			Average Contract Value		
	2013->2014	2014->2015	2015->2016	2013->2014	2014->2015	2015->2016	2013->2014	2014->2015	2015->2016
Automotive & Aerospace	Green	Green	Red	Red	Green	Orange	Green	Light Green	Red
Banking & Financial Services	Light Green	Orange	Red	Orange	Red	Green	Green	Green	Red
Defense	Red	Green	Red	Red	Light Green	Red	Orange	Green	Red
Energy & Utilities	Light Green	Red	Red	Orange	Orange	Orange	Green	Red	Red
Government	Orange	Red	Green	Orange	Red	Green	Orange	Orange	Green
Insurance	Orange	Green	Red	Orange	Light Green	Light Green	Light Green	Green	Red
Manufacturing	Green	Light Green	Red	Light Green	Red	Green	Green	Green	Red
Pharma & Healthcare	Light Green	Orange	Orange	Green	Red	Green	Orange	Light Green	Red
Publishing, Media & Entertainment	Red	Red	Green	Red	Orange	Orange	Red	Red	Green
Retail	Red	Green	Red	Orange	Yellow	Green	Red	Green	Red
Telecom	Green	Orange	Red	Light Green	Orange	Orange	Green	Light Green	Orange
Travel & Logistics	Green	Orange	Red	Orange	Orange	Light Green	Green	Light Green	Red
Others*	Light Green	Green	Red	Orange	Light Green	Green	Green	Green	Red

*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, January 2017, KPMG member firms research and analysis based on the IDC contract database

Red Decrease >=25% Orange Decrease <25% Yellow No change Light Green Increase <25% Green Increase >=25%

- In 2016, Government and Publishing, Media and Entertainment sectors have shown an increase in total contract value of more than 25 percent as compared to 2015. Most other sectors have had a decrease of more than 25 percent in total contract value during the same period
- Defense, Automotive and Aerospace, Energy and Utilities, Publishing, Media and Entertainment and Telecom sectors have shown a decrease in total number of contracts in 2016. All other sectors have increased the number of contracts signed in the year as compared to 2015

Y-o-Y comparison Deals analysis by category

Trends in deal movement from 2013 to 2016

Deal Type	Total Contract Value			Total Number of Contracts			Average Contract Value		
	2013->2014	2014->2015	2015->2016	2013->2014	2014->2015	2015->2016	2013->2014	2014->2015	2015->2016
ITO	Decrease <25%	Increase >=25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase >=25%	Decrease <25%	Increase <25%	Decrease >=25%
BPO	Increase <25%	Decrease >=25%	Decrease >=25%	Decrease <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease <25%
Bundled	Decrease >=25%	Decrease <25%	Decrease >=25%	Decrease >=25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease >=25%
Less than USD100 mn	Decrease <25%	Decrease <25%	Increase <25%	Decrease >=25%	Decrease <25%	Increase >=25%	Increase <25%	Increase <25%	Decrease <25%
Between USD100- 500 mn	Decrease <25%	Decrease <25%	Decrease <25%	Decrease <25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%
More than USD500 mn	Decrease <25%	Increase >=25%	Decrease >=25%	Decrease <25%	Decrease <25%	Increase >=25%	Increase <25%	Increase >=25%	Decrease >=25%
Less than 1 year	Decrease >=25%	Decrease <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%
Between 1 to 5 years	Decrease <25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease <25%	Increase >=25%	Increase >=25%	Increase >=25%	Decrease >=25%
More than 5 years	Decrease >=25%	Increase >=25%	Decrease <25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Decrease <25%	Increase >=25%	Decrease >=25%

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

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

- Both BPO deals and Bundled deals have experienced continuous decrease over the last two years in terms of both, numbers and total contact value
- Whilst ITO deals showed over 25 percent increase in total number of deals, their total KPMG contract value has decreased in 2016 over 2015, thus decreasing the average contract value over the period
- While total number of deals with a tenure of less than one year has decreased by more than 25 percent in 2016 over 2015, total number of deals with a tenure of more than one year has increased by more than 25 percent during the period

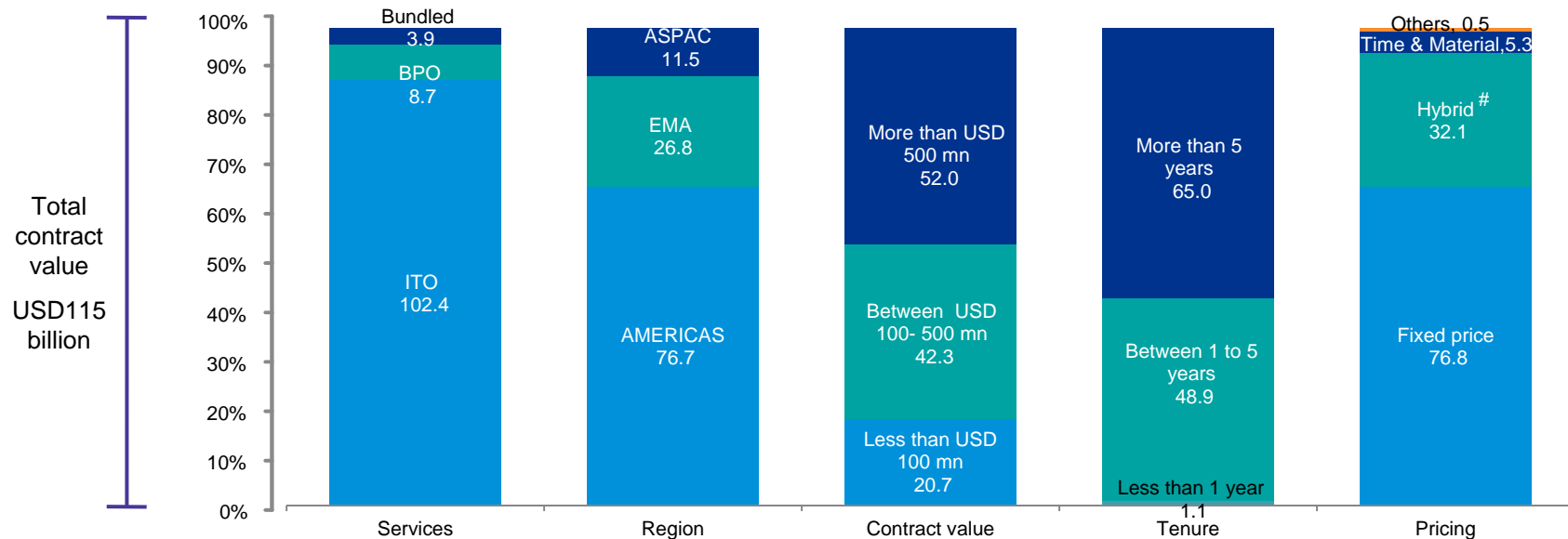


Section 2

Deals analysis: 2016

Deal value

IT-BPO deals* signed in 2016 (Total contract value: USD115 billion)



* Deals analyzed are USD5 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 percent due to rounding off

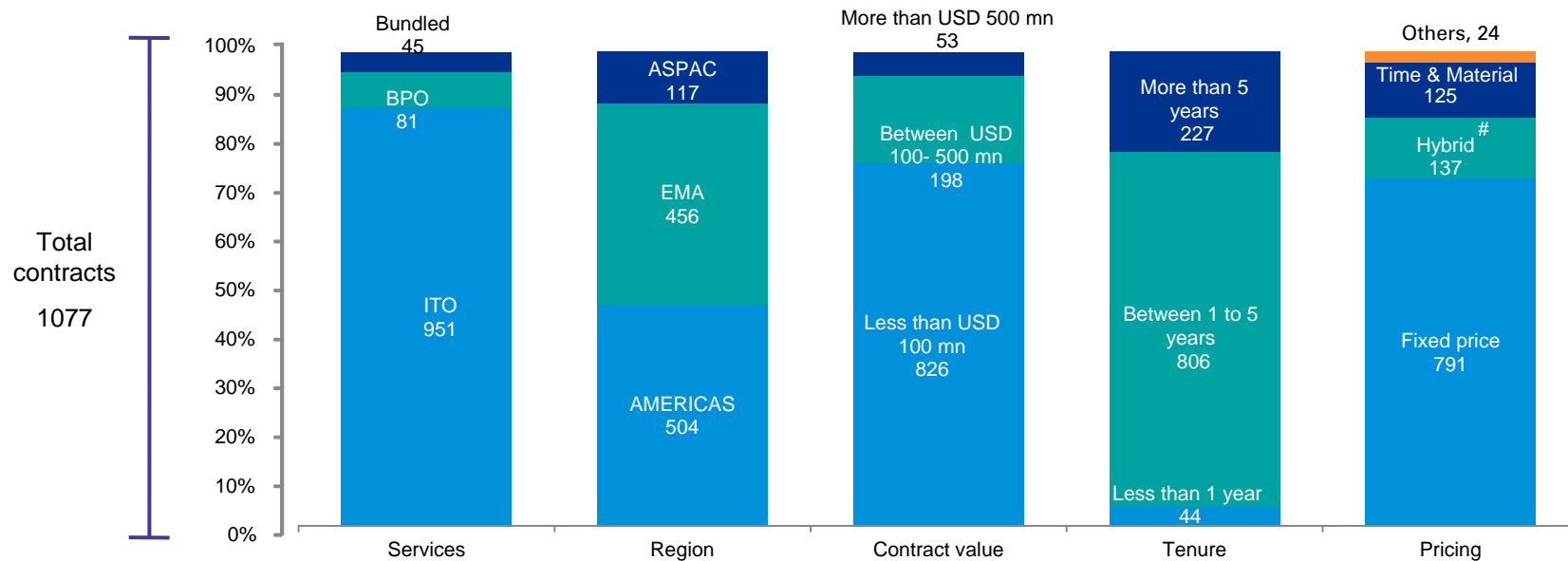
Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

- ITO deals continue to dominate the outsourcing space with a contribution of 89 percent to the total deal value signed in 2016
- AMERICAS continue to be the major outsourcing region contributing 67 percent of the total deal value signed in 2016. EMA and ASPAC contribute 23 percent and 10 percent respectively
- Fixed price contracting model showed dominance, contributing over 67 percent of the deal value in 2016, followed by Hybrid model with contribution of 28 percent of total deal value

Number of deals

IT-BPO deals* signed in 2016 (Total number of contracts: 1077)



* Deals analyzed are USD5 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 percent due to rounding off

Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

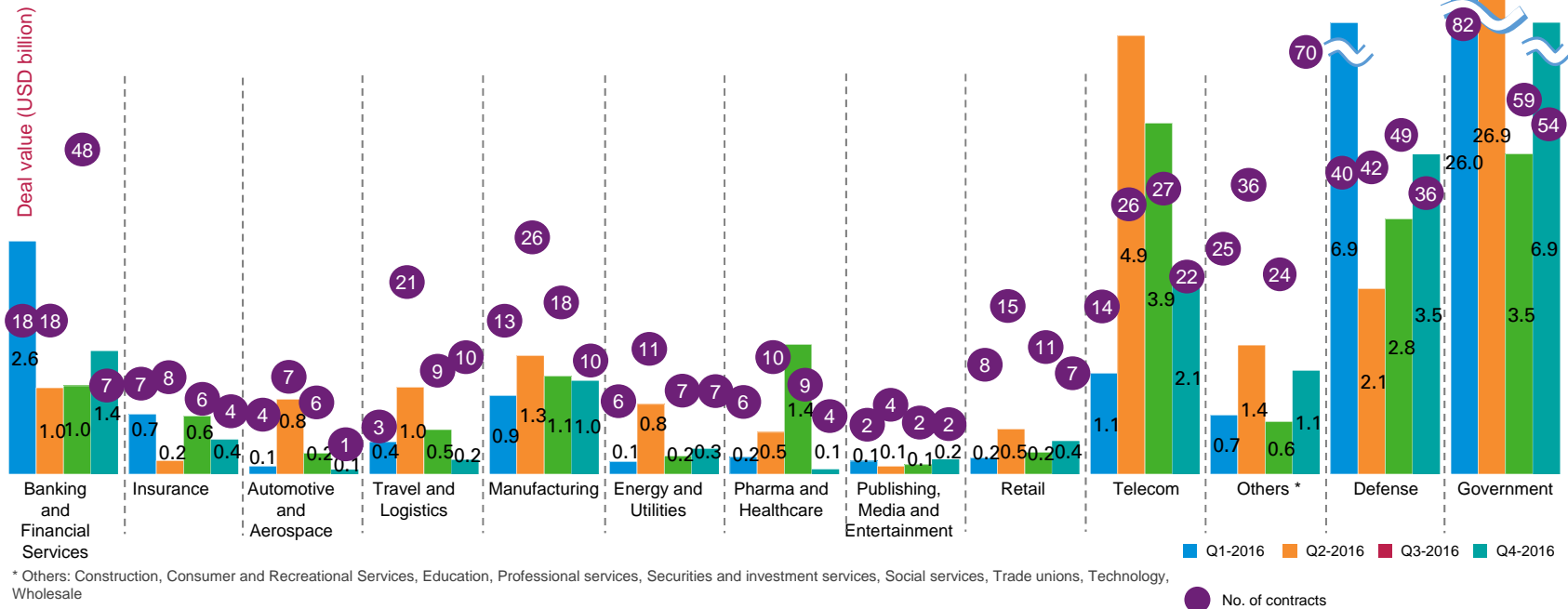
- ITO deals and BPO deals contribute to 88 percent and 8 percent respectively in terms of number of deals signed in 2016
- Clients preferred mid tenure deals that cover the span of one to five years, which contributed to 75 percent of the total number of deals signed in 2016
- 77 percent of the deals, in terms of number of deals signed in 2016, were of value less than USD100 million. 5 percent of total number deals signed in the year were of value more than USD500 million

IT-BPO deals across sectors by value and numbers

Sector analysis

Sector-wise break-up of deals in 2016

TCV : USD115 billion
No. of contracts: 1077



* 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 percent due to rounding off

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

- The Government and Defense sector lead deal activity, contributing to 39 percent and 20 percent in terms of value of outsourcing deals signed in 4Q16
- Telecom sector is the next big contributor in terms of deal value, with a contribution of 12 percent to the total deal value of deals signed in 4Q16

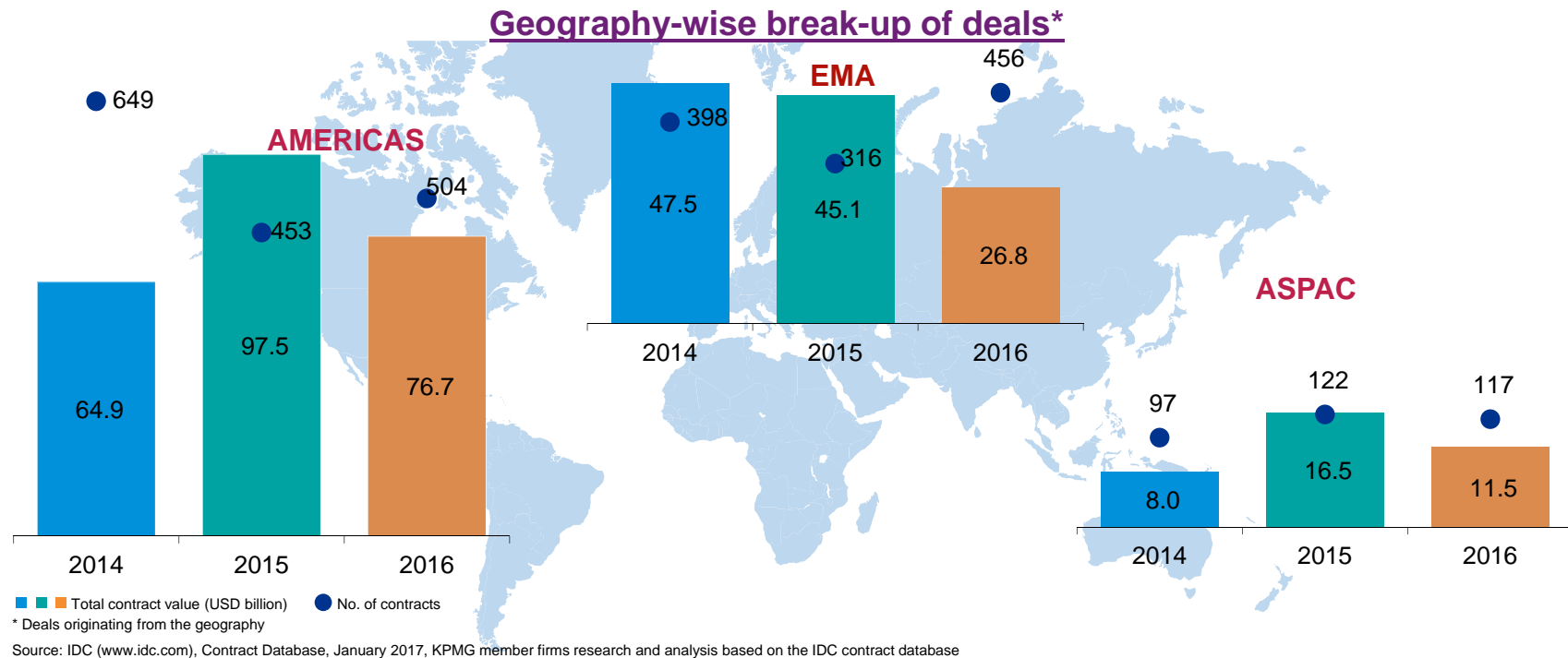


Section 3

Deals by geography

IT-BPO deals across geographies: Y-o-Y comparison

Geography analysis



- AMERICAS continue to be the major outsourcing region contributing 67 percent of the total deal value in 2016
- AMERICAS experienced a drop of 21 percent in total contract value as compared to 2015. The decrease in total contract value for EMA and ASPAC were 41 percent and 30 percent respectively during the same period

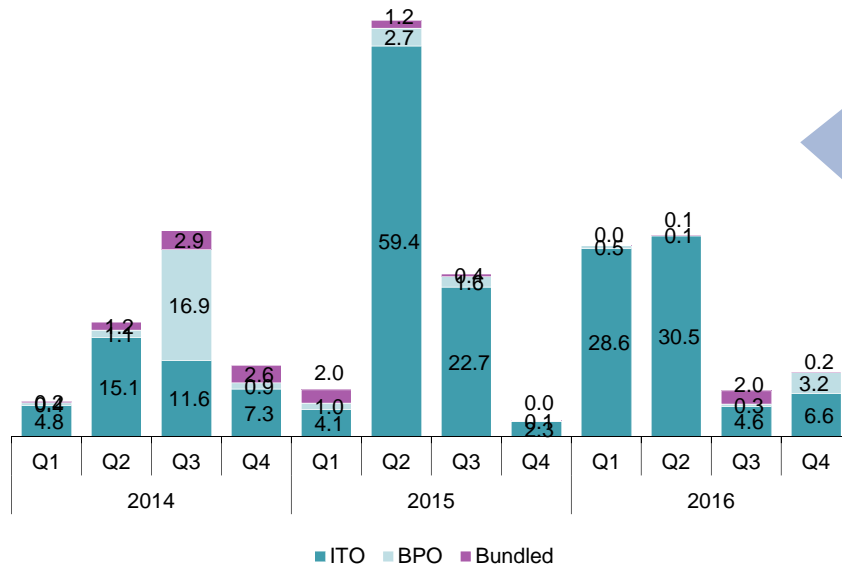


AMERICAS

Geography analysis

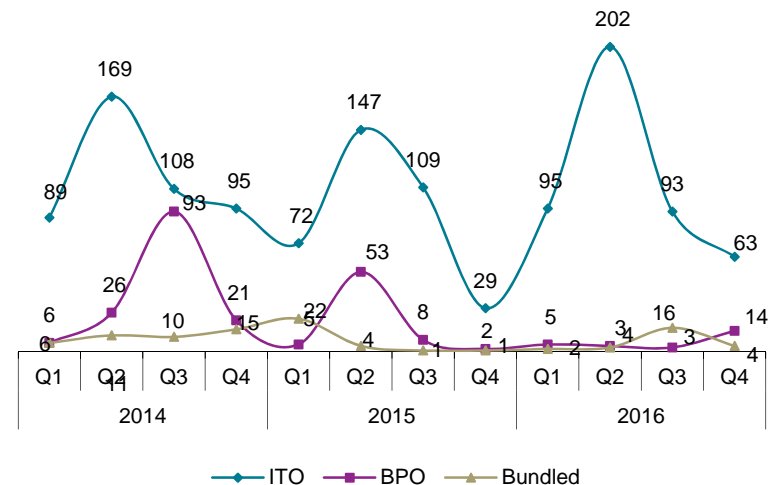
- IT-BPO deals in AMERICAS: Value and number of deals

Geography-wise break-up of deals*



- Total deal value of AMERICAS has decreased by 21 percent in 2016 as compared to 2015
- While quarters 1Q16 and 2Q16 were strong, quarters 3Q16 and 4Q16 were weak, which lowered the total deal value generated from the region
- IT outsourcing made 92 percent of the total contract value of 2016

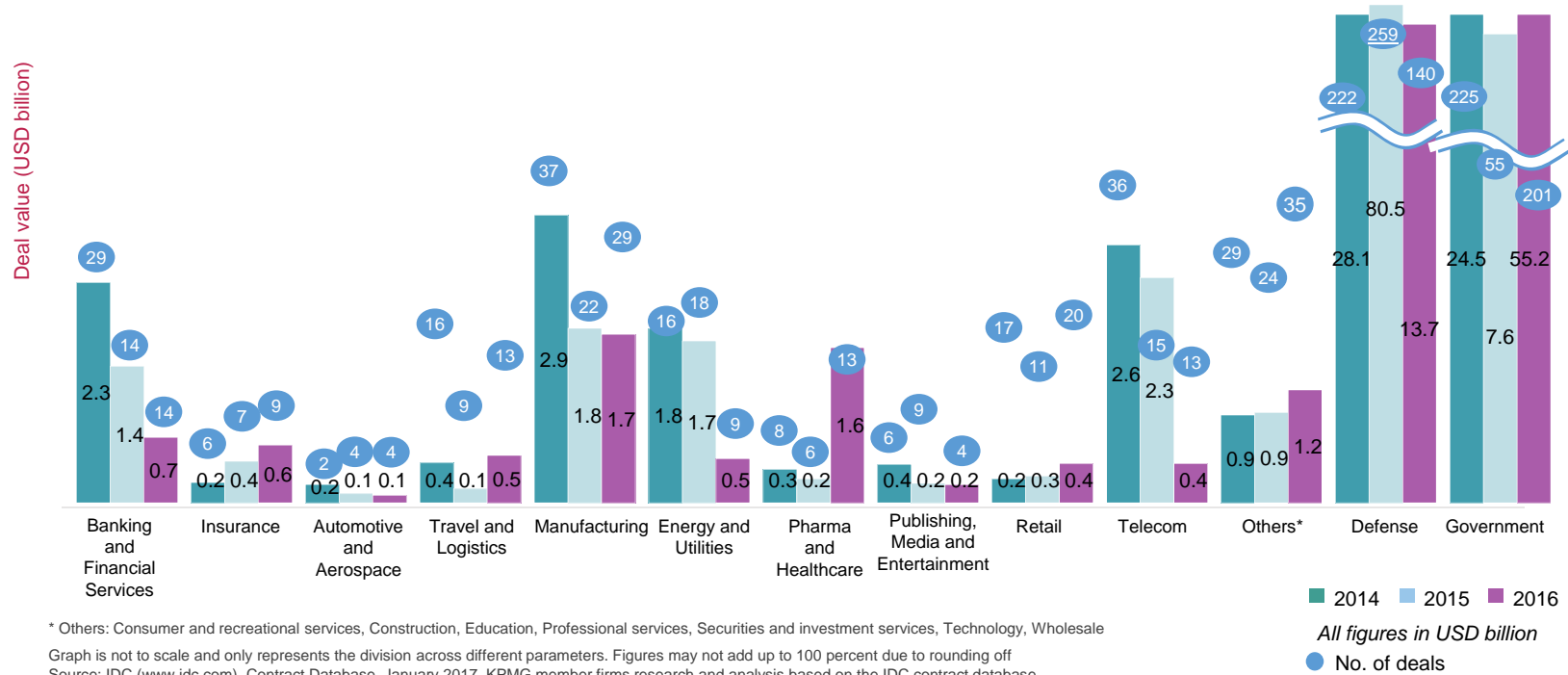
- In terms of volume of deals signed, 2016 displayed similar quarterly movement as previous years
- 2Q16 had the largest number of ITO deals signed in the last three years



* Deals originating from the geography
Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

Geography analysis - IT-BPO deals in AMERICAS

Sector-wise break-up of deals*

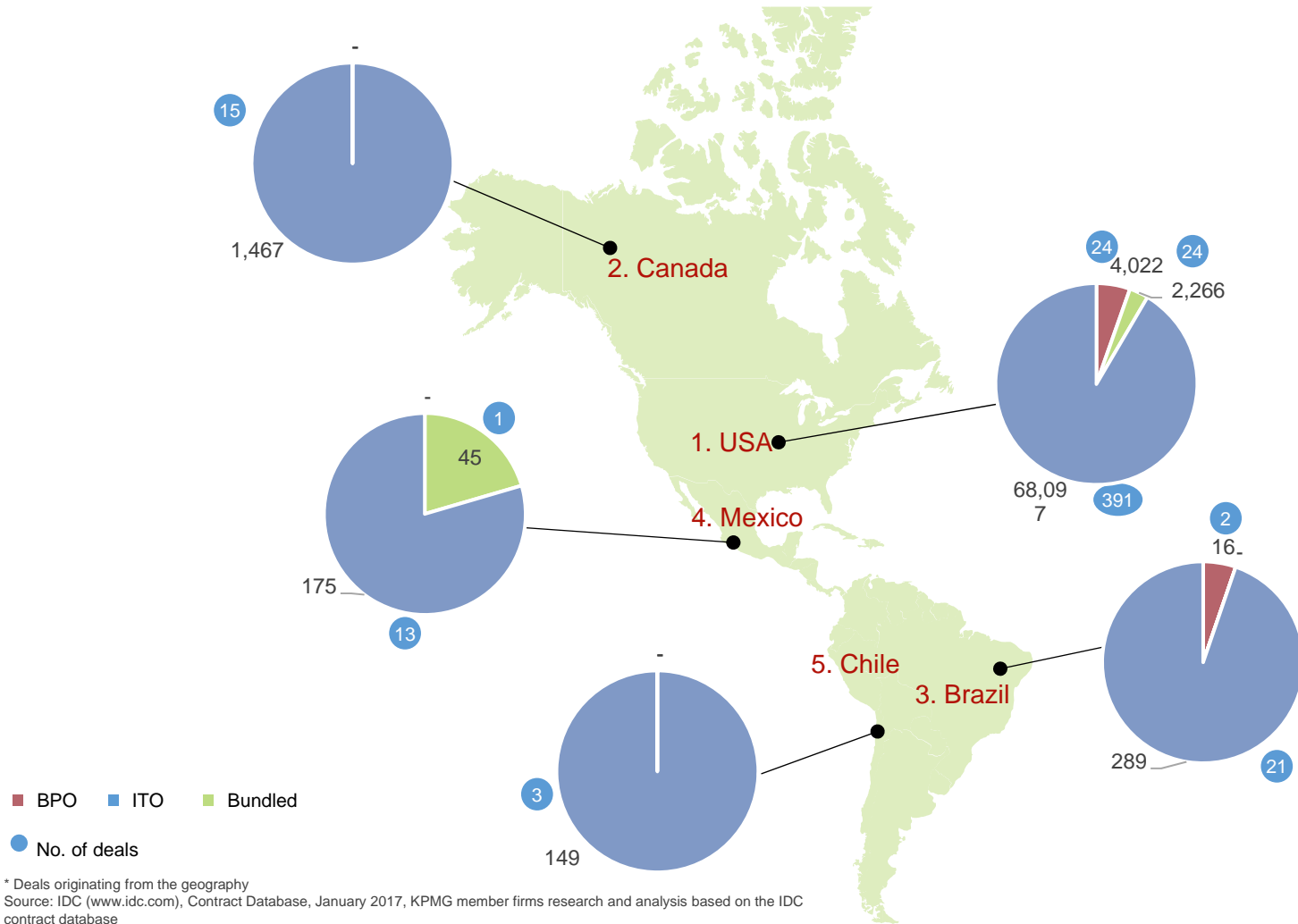


- Government and Defense sectors of AMERICAS remain the strongest users of outsourcing in 2016 with total contribution of 90 percent to deal value
- Government, and Pharma and Healthcare sectors displayed multifold increase in the deal value in 2016 over 2015. Defense and Telecom sectors displayed significant decrease of over 80 percent in the deal value in 2016 over 2015

Geography analysis

- IT-BPO deals country comparison: AMERICAS

Top five countries by TCV (USD million) in 2016



The KPMG logo consists of the letters 'KPMG' in a bold, italicized, sans-serif font. Above each letter is a small square, with the 'K' having two squares, 'P' having one, 'M' having two, and 'G' having one. The logo is white and positioned in the upper left quadrant of the slide.

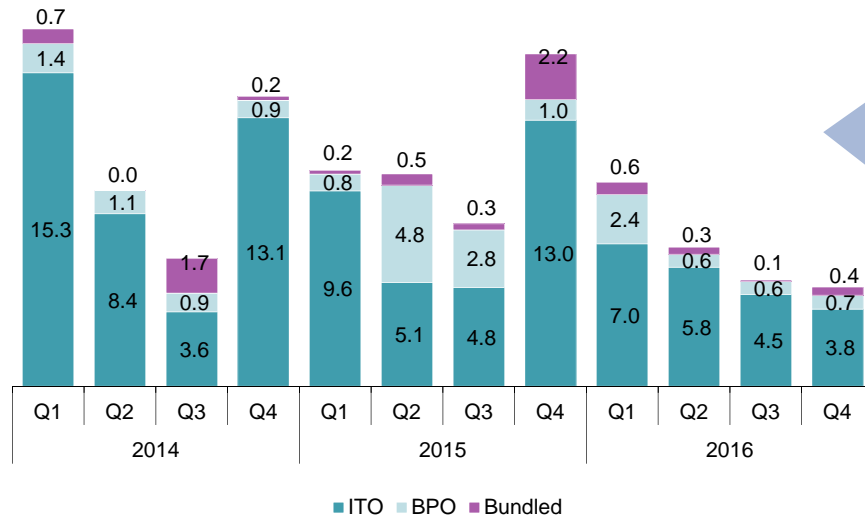
KPMG

EMA

Geography analysis

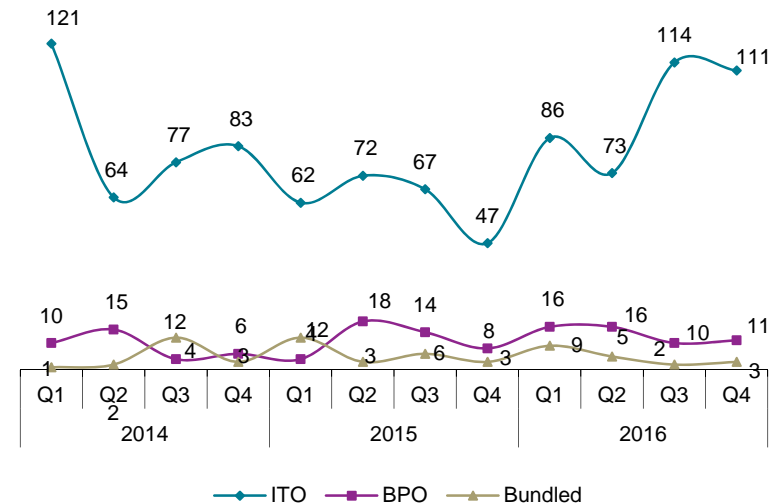
- IT-BPO deals in EMA: Value and number of deals

Geography-wise break-up of deals*



- Total deal value of EMA has decreased by 41 percent in 2016 as compared to 2015
- After a strong 4Q15, TCV has been continuously decreasing in EMA over each quarter of 2016
- ITO contributed 78 percent, BPO – 5 percent, and Bundled – 16 percent of the total contract value in 2016

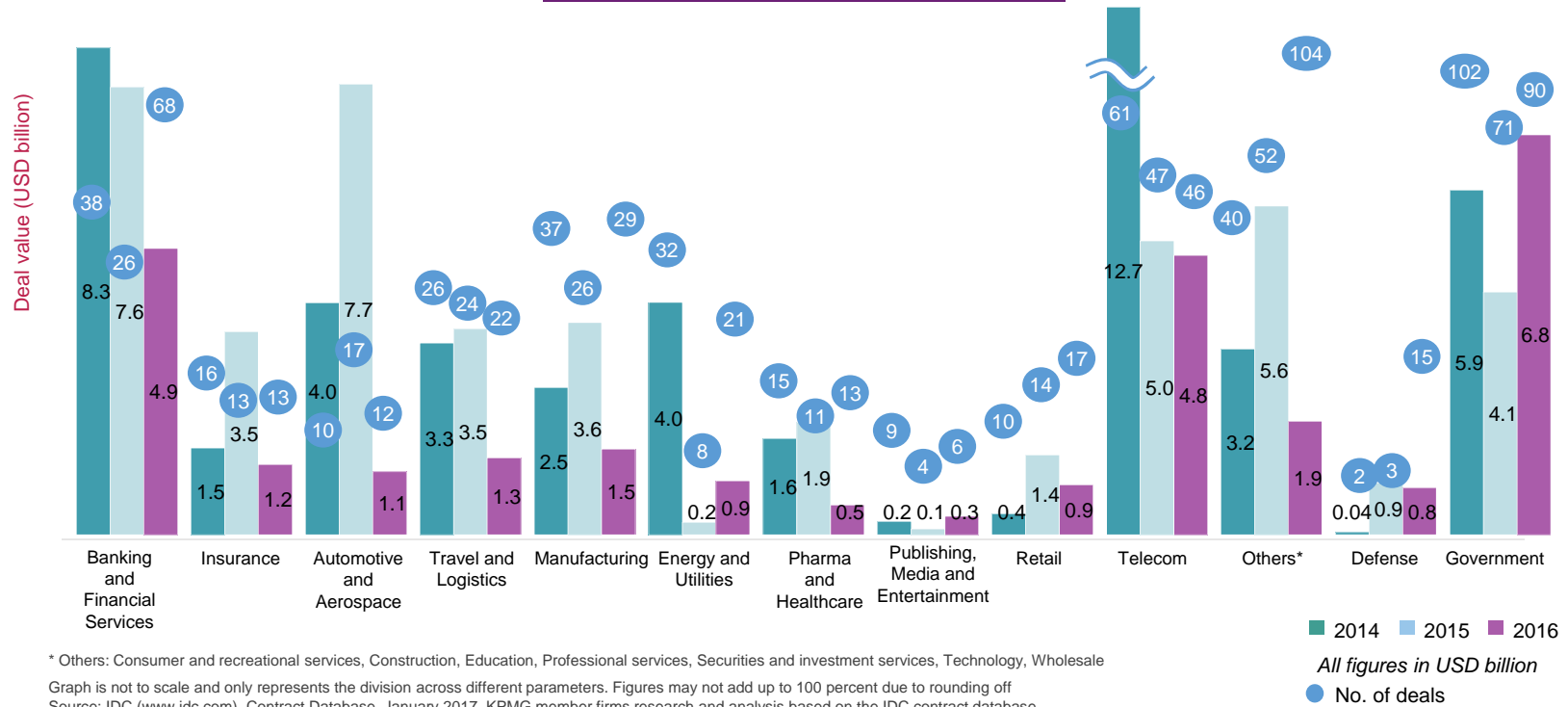
- In EMA, though 2016 showcases lower TCV, it had greater number of deals signed as compared to 2015
- Also, though the quarters 3Q16 and 4Q16 had the lowest total deal values, the number of deals signed in the quarters were amongst the highest, in the last three years



* Deals originating from the geography
Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

Geography analysis - IT-BPO deals in EMA

Sector-wise break-up of deals*

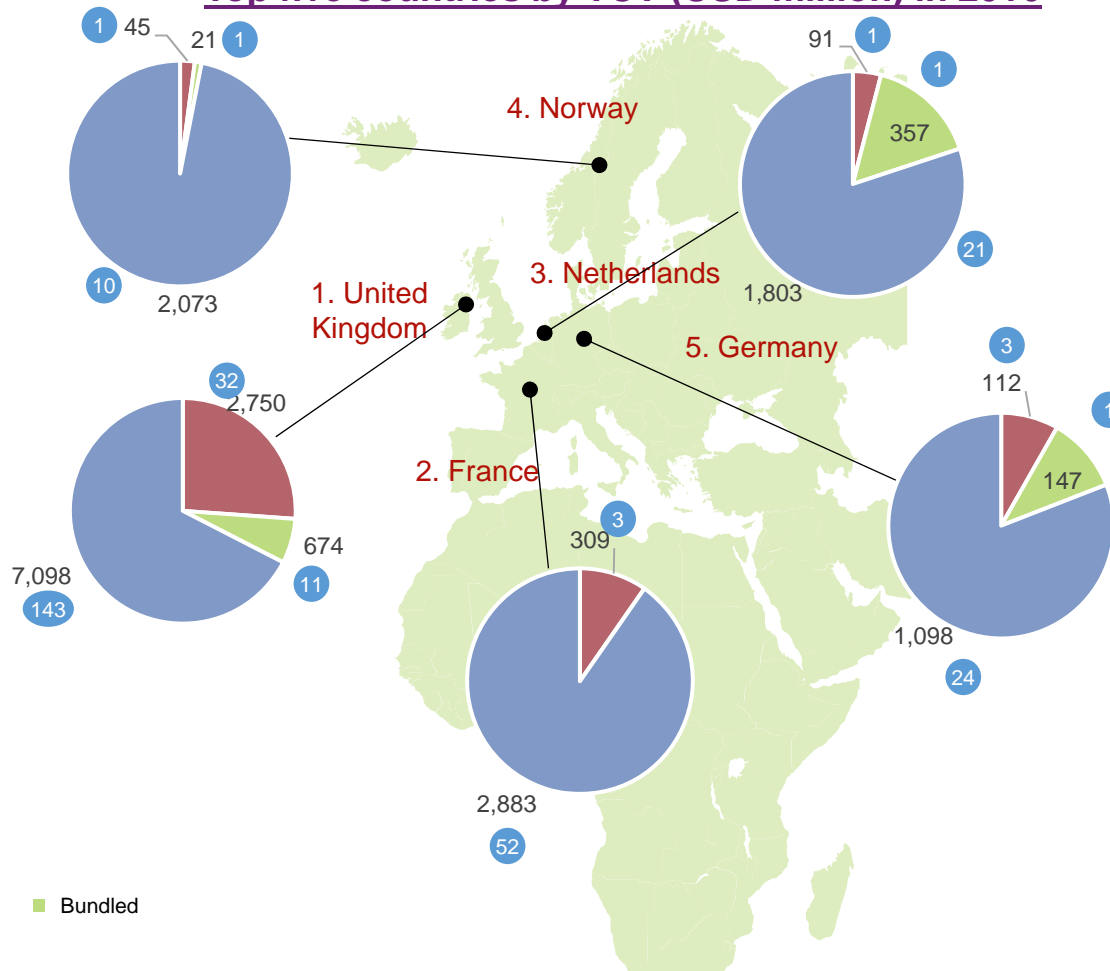


- Government, Telecom and Banking sectors continue to be the dominant consumers of IT-BPO services in the EMA region, with total contribution of 61 percent to the total deal value in 2016
- Automotive and Aerospace, and Banking sectors displayed a significant decrease of 86 percent and 36 percent in total deal value in 2016 over 2015

Geography analysis

- IT-BPO deals country comparison: EMA

Top five countries by TCV (USD million) in 2016



* Deals originating from the geography
 Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

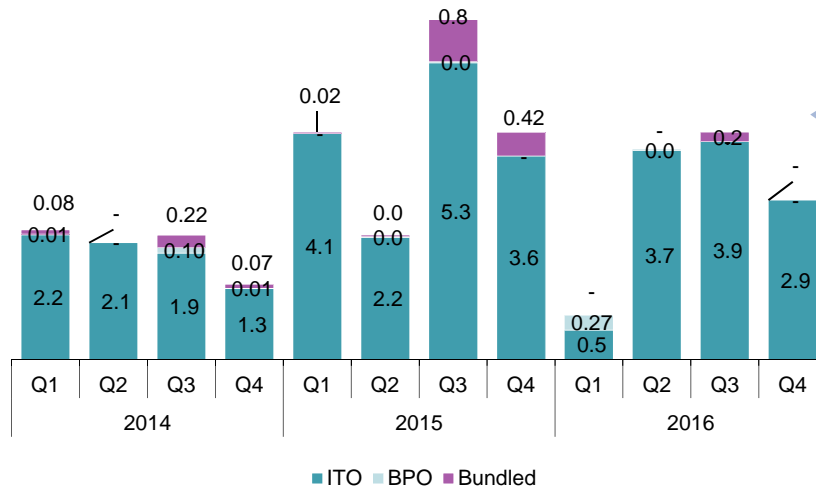


ASPAC

Geography analysis

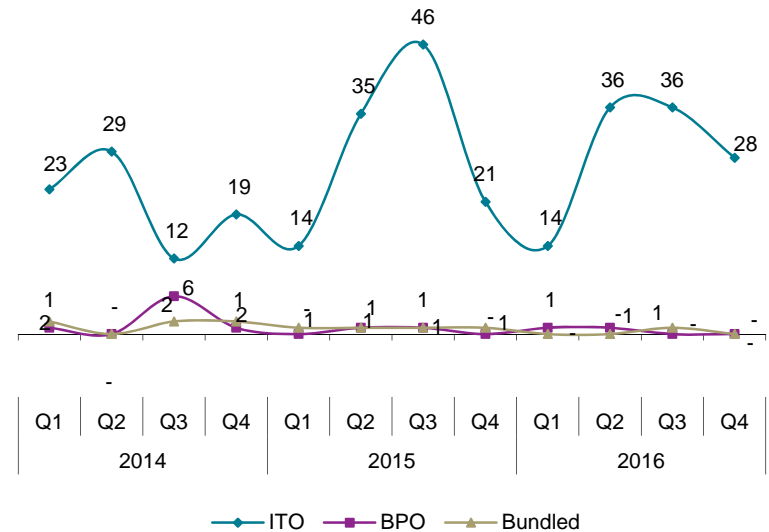
- IT-BPO deals in ASPAC: Value and number of deals

Geography-wise break-up of deals*



- Total deal value of ASPAC has decreased by 30 percent in 2016 as compared to 2015
- The outsourcing market in ASPAC has shown a positive trend by maintaining its contribution at 10 percent in 2016 after a strong 2015

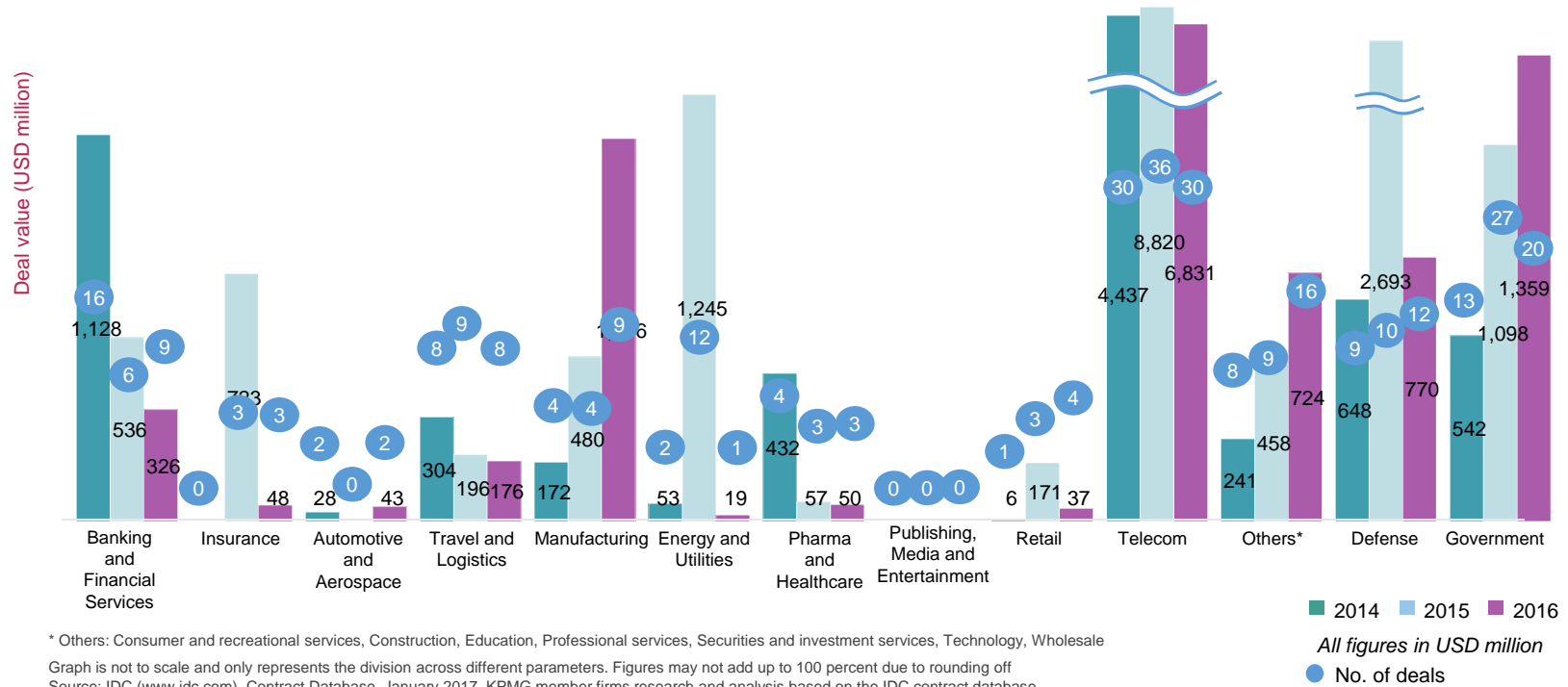
- 97 percent of the deals signed by volume in the ASPAC region in the year 2016 are ITO deals
- Both the BPO market and the bundled deals market have been stagnant in terms of number of deals signed in ASPAC



* Deals originating from the geography
 Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

Geography analysis - IT-BPO deals in ASPAC

Sector-wise break-up of deals*

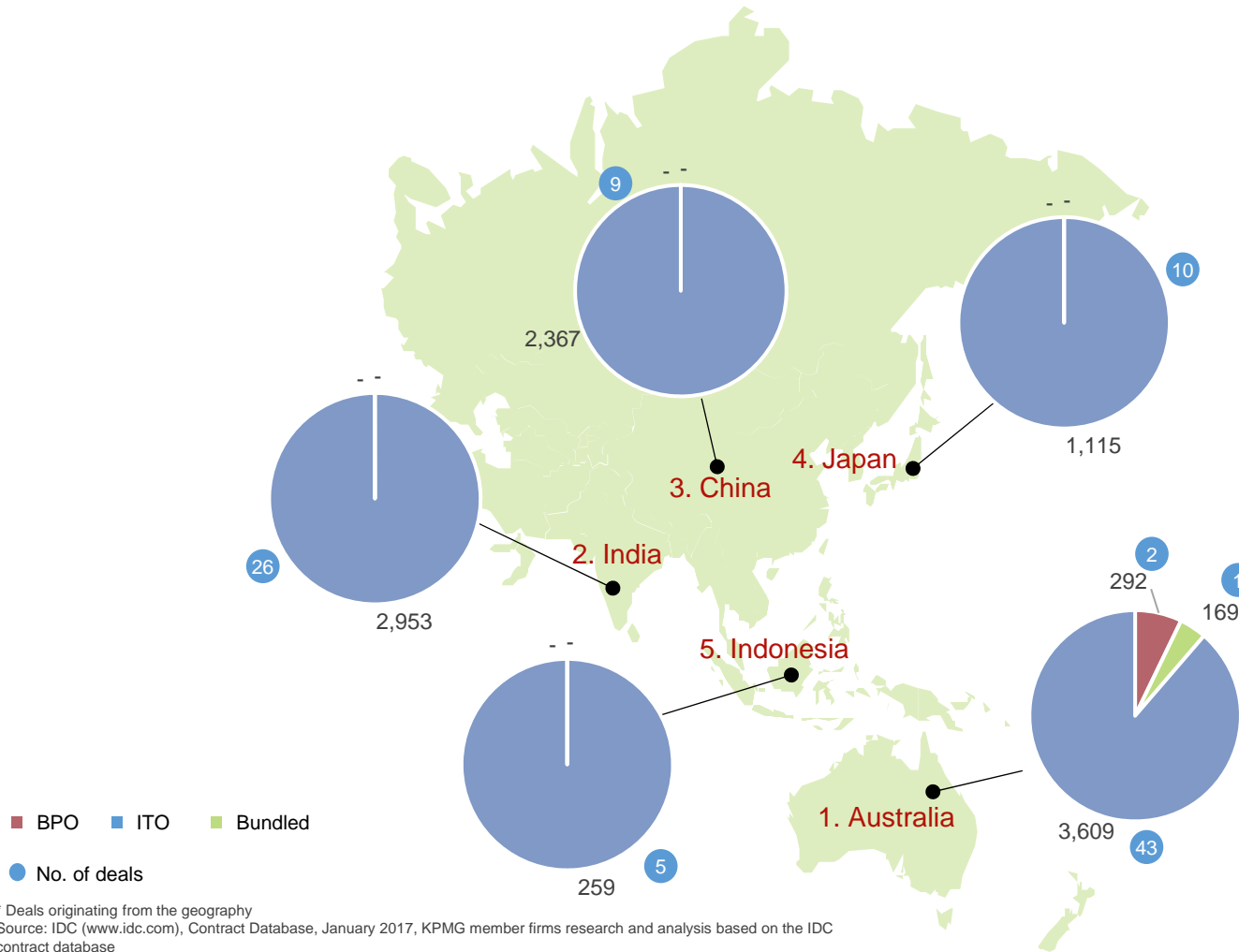


- Telecom was the top outsourcing sector in the ASPAC region for 2016, with contribution of 59 percent of the TCV. Government and Manufacturing sectors were other major outsourcing sectors contributing 12 percent and 10 percent of total deal value in 2016
- While the Manufacturing sector grew by 133 percent in terms of TCV in 2016, Energy and Utilities, and Defense sectors declined by 98 percent and 71 percent respectively

Geography analysis

- IT-BPO deals country comparison: ASPAC

Top five countries by TCV (USD million) in 2016



* Deals originating from the geography
 Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

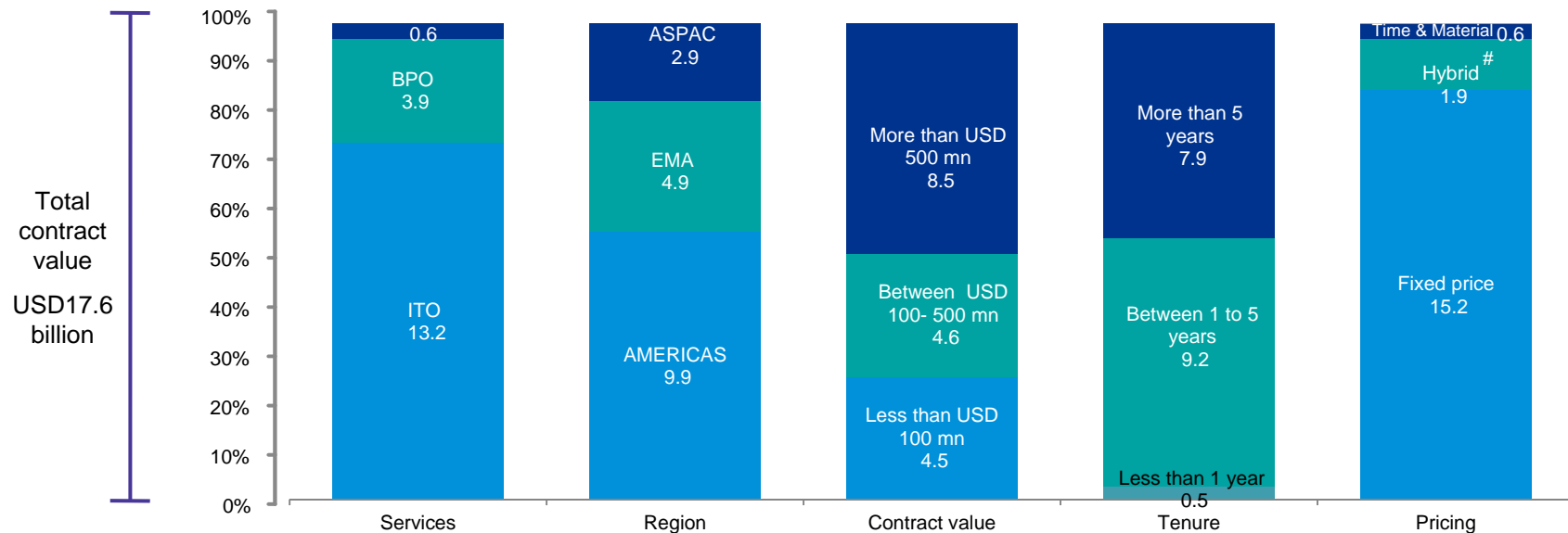


Section 4

4Q16 deal analysis

Deal value

IT-BPO deals* signed in 4Q16 (Total contract value: USD17.6 billion)



* Deals analyzed are USD5 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 percent due to rounding off

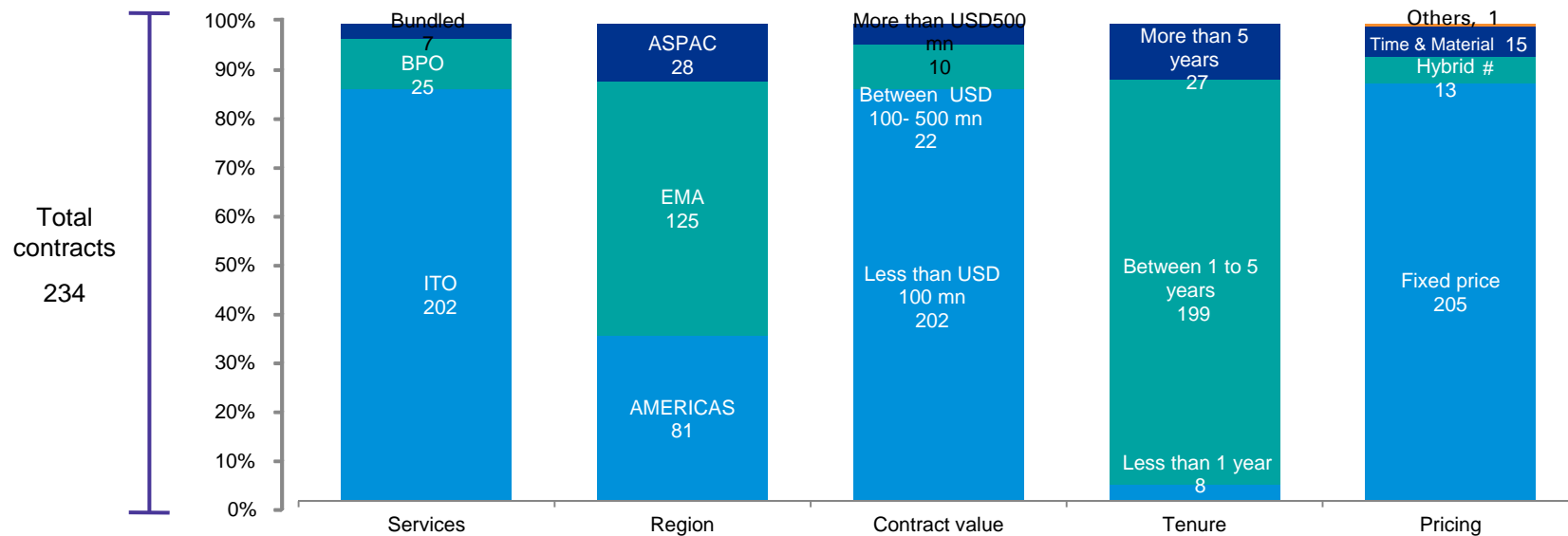
Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

- ITO deals continue to dominate the outsourcing space with a contribution of 75 percent to the total deal value signed in 4Q16
- AMERICAS continue to be the major outsourcing region contributing 56 percent of the total deal value signed in 4Q16. EMA and ASPAC contribute 28 percent and 16 percent respectively
- Mid tenure deals spanning across one to five years contributed to 52 percent of the total deal value, followed by long tenure deals of length more than five years, which contributed 45 percent to total deal value of deals signed in 4Q16

Number of deals

IT-BPO deals* signed in 4Q16 (Total number of contracts: 234)



* Deals analyzed are USD5 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 percent due to rounding off

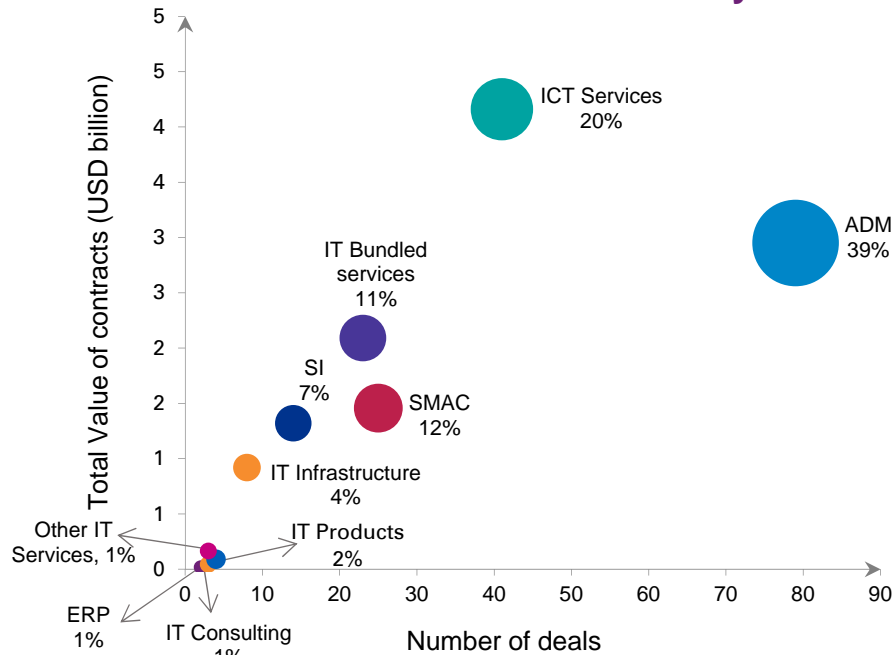
Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

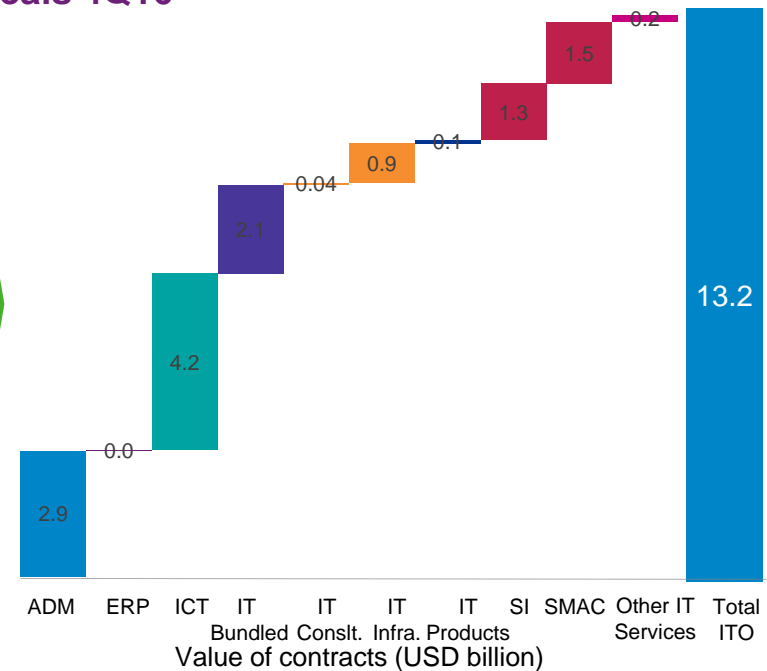
- ITO deals and BPO deals contribute to 86 percent and 11 percent respectively in terms of number of deals signed in 4Q16
- 86 percent of the deals, in terms of number of deals signed in 4Q16, were of value less than USD100 million. Four percent of the deals signed in 4Q16, were of value more than USD500 million
- Fixed price contracting model showed dominance, contributing over 88 percent of the total number of deals signed in 4Q16. Hybrid model and Time and material model, each made 6 percent of total number of deals signed in 4Q16

Services segmentation

Analysis of ITO deals 4Q16



Note: Size of bubble indicates percentage 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, January 2017, KPMG member firms research and analysis based on the IDC contract database



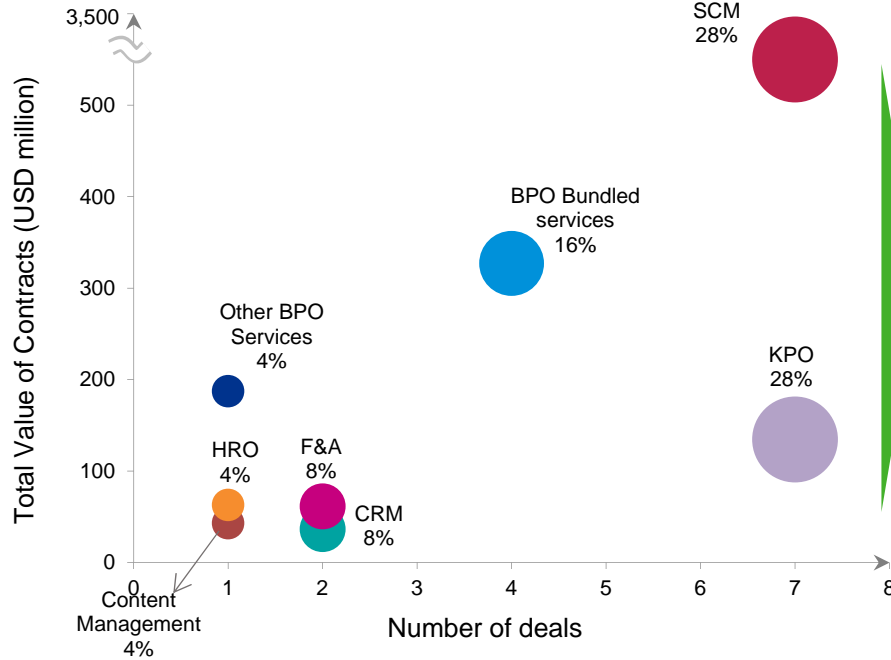
Note: All values in USD billion. Scale of graph is just representative to illustrate the division across different parameters. Figures may not add up to 100 percent due to rounding off. Refer L.H.S. figure for legend

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

- ICT Services contributed to 31 percent of all ITO deals in terms of value and 20 percent in terms of number of deals signed during 4Q16. ADM contributed to 22 percent of all ITO deals in terms of value and 39 percent in terms of number of deals signed in the quarter
- SMAC and IT Bundled services are other key contributors to the ITO deals in 4Q16

Services segmentation

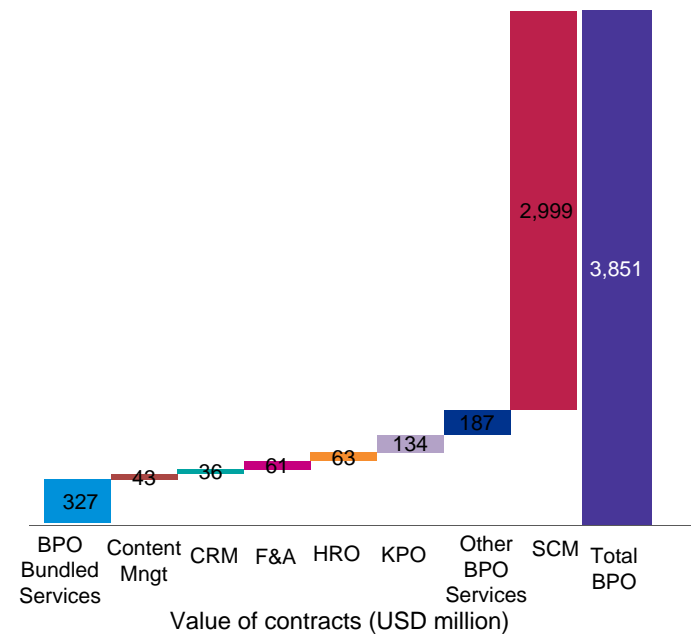
Analysis of BPO deals 4Q16



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

Other BPO services – Data management, etc.

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and 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 percent due to rounding off. Refer L.H.S. figure for legend

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

- SCM deals contributed to the most deal activity amongst BPO deals – 78 percent of all BPO deals in terms of value and 28 percent in terms of number of deals during 4Q16
- KPO and BPO Bundled services are other key contributors to BPO deals in 4Q16



Section 5

IT-BPO outsourcing outlook

Global outsourcing industry Outlook

- The continued development of process automation and technologies have presented further opportunities for GBS. This has driven the rise in data and analytical services being embedded in GBS organizations
- Buyers seem cautious about models that include outcome-based pricing while hybrid and fixed pricing models are preferred, contributing to more than 95 percent of the deal value over the last three years. The same trend is most likely to continue in 2017
- Organizations are moving from a traditional silo-based and transactional outsourcing services, to more of a holistic end-to-end approach through bundled deals
- With increasing importance being placed on customer experience, clients are opting for outsourcing not just for cost reduction, but also to avail the value-added services provided by the service providers
- The finance function is more actively engaged in process automation than is the HR function and organizations overall are more active with basic process automation, following by enhanced process automation and cognitive automation
- A reduction in dominance of AMERICAS is observed in the global buyer market for outsourcing services although it continues to be the major outsourcing region contributing 67 percent of the total deal value in 2016. EMA is gaining momentum gradually with ASPAC fast catching up
- Telecom sector is continuously featuring amongst the top contributors to the outsourcing industry for the last three quarters. It is mostly leveraging ICT and SMAC services from service providers and is expected to continue so.

Source: IDC (www.idc.com), Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

KPMG Global Insights Pulse, 3Q16, October 2016



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Glossary (1/2)

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

Glossary (2/2)

Terms	Definition
ITO Services	
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)
BPO Services	
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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