



Global IT-BPO outsourcing deals analysis

2Q17 analysis

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 2Q17, **182 ITO contracts** worth **USD17.2 billion** and **51 BPO contracts** worth **USD8.3 billion** were signed, worldwide

Globally **97 IT-BPO bundled contracts** were signed in 2Q17 with contract value worth **USD39.6 billion**

In terms of value, approximately **77.46 percent of deals** originated from the **United States**, followed by **Spain** at **7.57 percent**. United Kingdom and Denmark were two other key outsourcing markets

The **average deal tenure** decreased to **5 years 2 months** in 2Q17 from 5 years 5 months in 2Q16

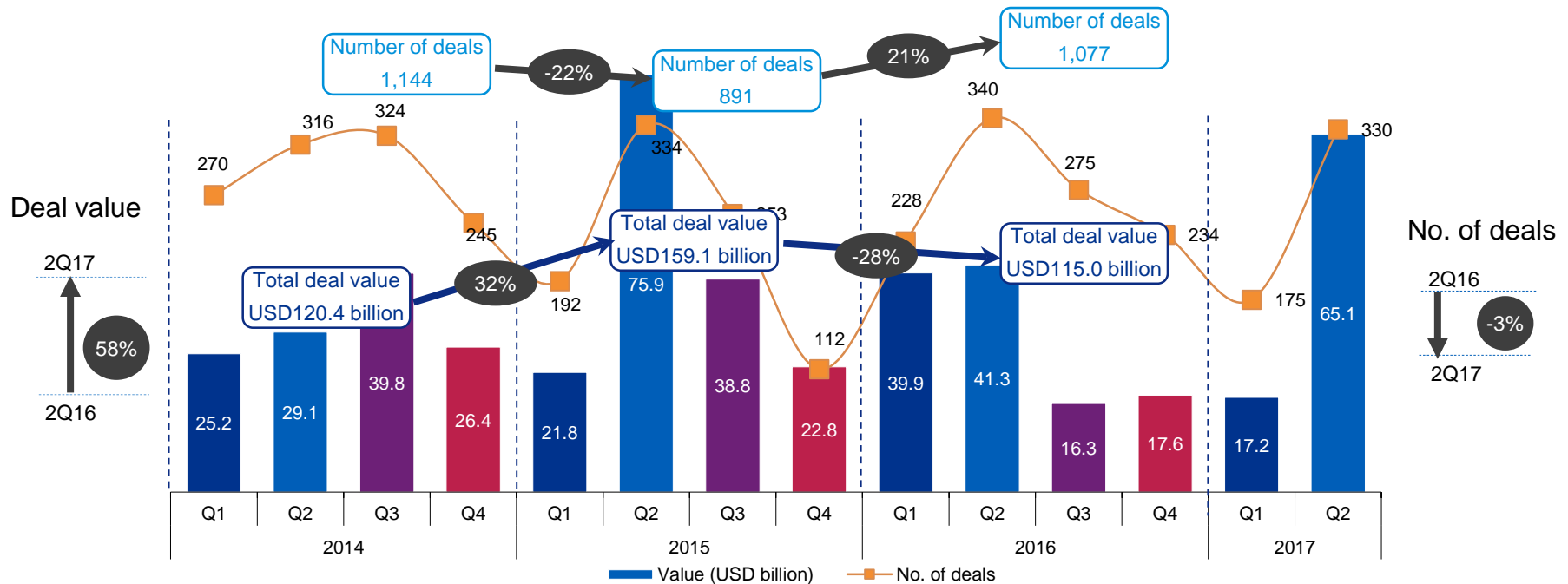
Defense and Government sectors were the top consumers of IT-BPO services contributing to **75 percent** and **9 percent** in terms of value of outsourcing deals signed in 2Q17. **Travel and logistics** sector was the next big contributor in terms of deal value

IT infrastructure and **SCM** contributed approximately **USD5.1 billion** and **USD6.1 billion** respectively and were the largest procured services globally within ITO and BPO services, respectively

Average annualized contract value in 2Q17 was **USD31.92 million** as compared to **USD22.98 million** in 2Q16 showing an increase of **39 percent**

Snapshot Quarterly deal movements

Quarterly movements of global IT-BPO deals*

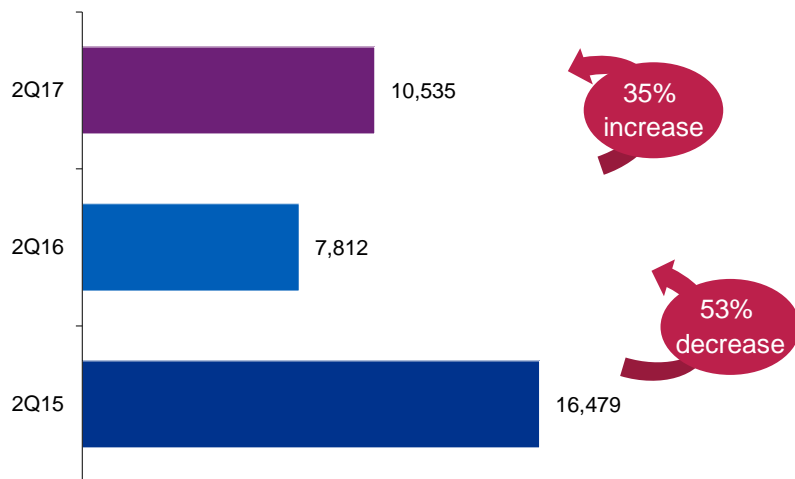


*The term deals is interchangeably used with contracts throughout the analysis unless otherwise specified. Deals analyzed are global sourcing contracts of size USD5.0 million and above only. Source: Contract Database, IDC (www.idc.com), June 2017, KPMG member firms research & analysis based on the IDC contract database

- 2Q17 witnessed a significant increase in deal activity as compared to 1Q17. There was an increase of 278 percent in total contract value and 89 increase in total number of deals in 2Q17 as compared to 1Q17
- The average contract value increased by 56 percent in 2Q17 as compared to 1Q17

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

Annualized* contract value comparison per quarter

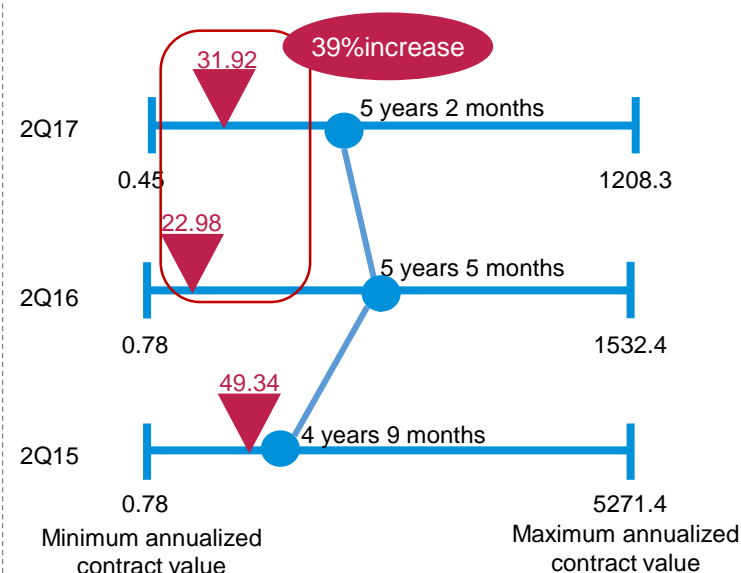


■ 2Q15 ■ 2Q16 ■ 2Q17

* 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: Contract Database, IDC (www.idc.com), June 2017, KPMG member firms research & 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 2Q17 increased by 35 percent as compared to 2Q16. The average annualized contract value increased by 39 percent during the same period
- The average contract tenure decreased by 3 months to 5 years and 2 months in 2Q17 as compared to 2Q16

Q-o-Q comparison Deals analysis by sector

Trends in deal movement from 2Q16 to 2Q17

Sector	Total contract value				Total number of contracts				Average contract value			
	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17
Automotive & Aerospace												
Banking & Financial Services												
Defense												
Energy & Utilities												
Government												
Insurance												
Manufacturing												
Pharma & Healthcare												
Publishing, Media & Entertainment												
Retail												
Telecom												
Travel & Logistics												
Others*												

*Others: Construction, Consumer and Recreational Services, Education, Professional services, Securities and investment services, Social services, Trade unions, Technology, Wholesale
Source: Contract Database, IDC (www.idc.com), June 2017, KPMG member firms research & analysis based on the IDC contract database

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

- In 2Q17, Banking & Financial services, Defense, Energy & Utilities, Government and Travel & Logistics sectors have shown an increase in total contract value of more than 25 percent as compared to 1Q17. Most other sectors have had a decrease in total contract value during the same period
- Most sectors have either shown an increase in total number of contracts or no change in number of contracts signed in the quarter as compared to 1Q17

Q-o-Q comparison Deals analysis by category

Trends in deal movement from 2Q16 to 2Q17

Deal type	Total contract value				Total number of contracts				Average contract value			
	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17
ITO	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease <25%
BPO	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease <25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%
Bundled	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease <25%	Increase <25%
Less than USD100 mn	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%	Decrease >=25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%
Between USD100-500 mn	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Increase <25%
More than USD500 mn	Decrease >=25%	Increase <25%	Decrease <25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease <25%	Increase <25%	Increase <25%	Increase <25%
Less than 1-year	Increase <25%	Decrease <25%	Decrease <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease <25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease >=25%
Between 1 to 5-years	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease >=25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%
More than 5-years	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%

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

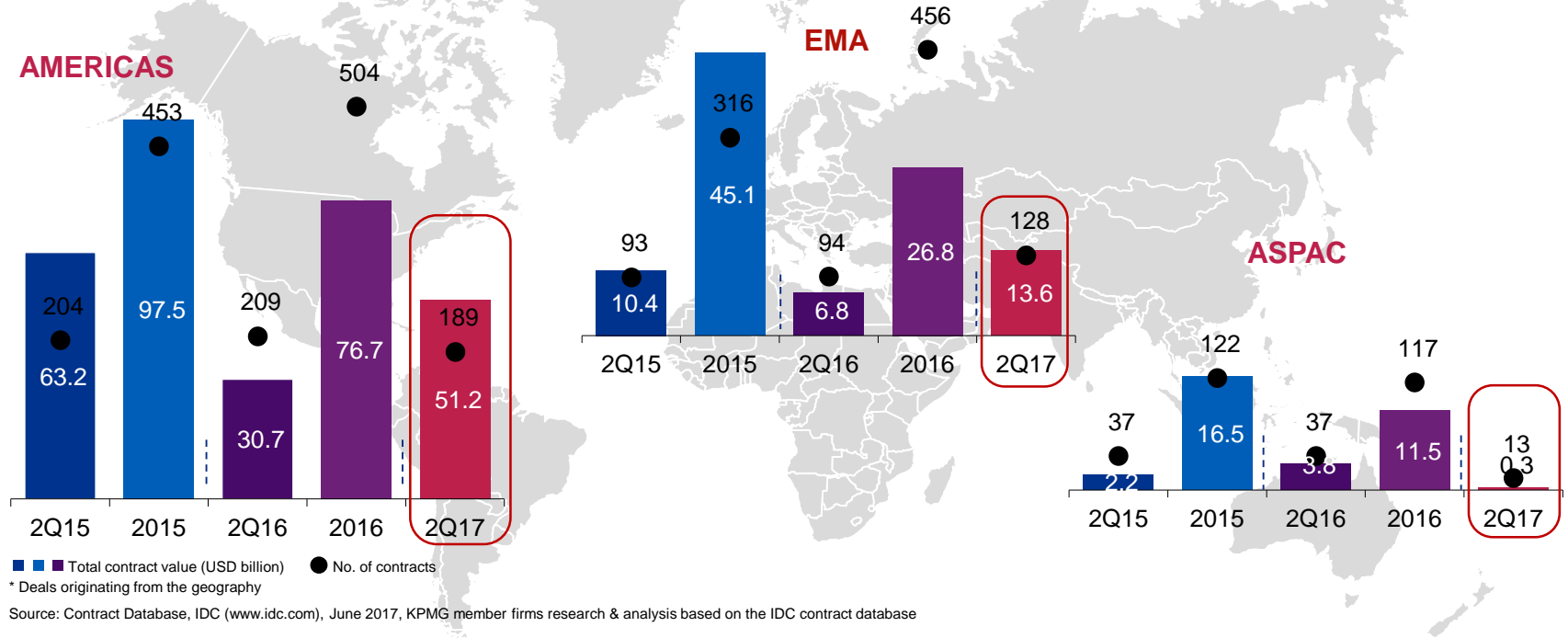
Decrease >=25% Decrease <25% No change Increase <25% Increase >=25%

- All type of deals have shown an increase in total contract value with BPO and bundled deals increasing by over 25 percent in 2Q17 over 1Q17
- There has been an overall increase in the number of deals across all type of deals
- The average contract value of short tenure (less than one year) deals has decreased consistently over the past two quarters

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

Geography analysis

Geography-wise break-up of deals*

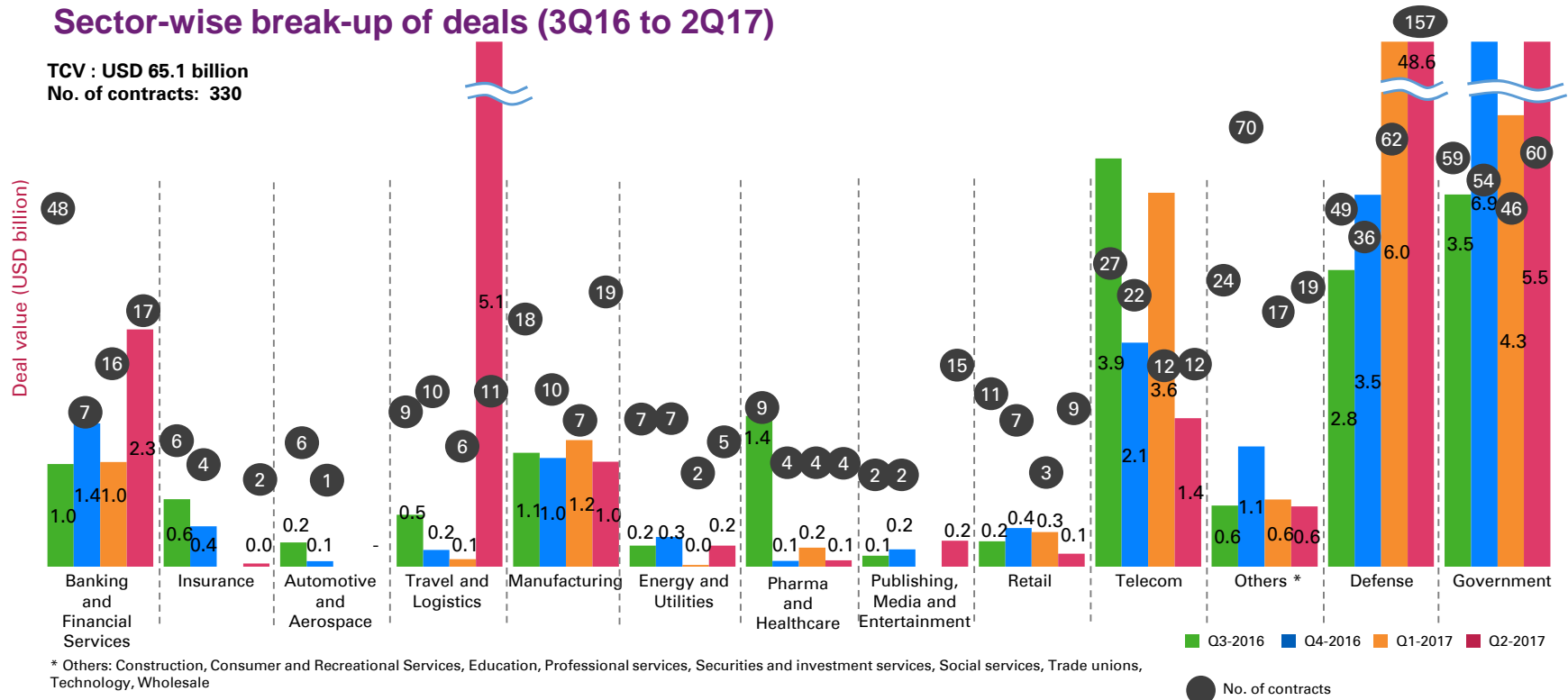


- AMERICAS continue to be the major outsourcing region contributing 79 percent of the total deal value in 2Q17
- ASPAC experienced a significant drop in total contract value as compared to 1Q17
- EMA experience a major increase in contract value as compared to same quarter in 2016

IT-BPO deals across sectors by value and numbers Sector analysis

Sector-wise break-up of deals (3Q16 to 2Q17)

TCV : USD 65.1 billion
No. of contracts: 330



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

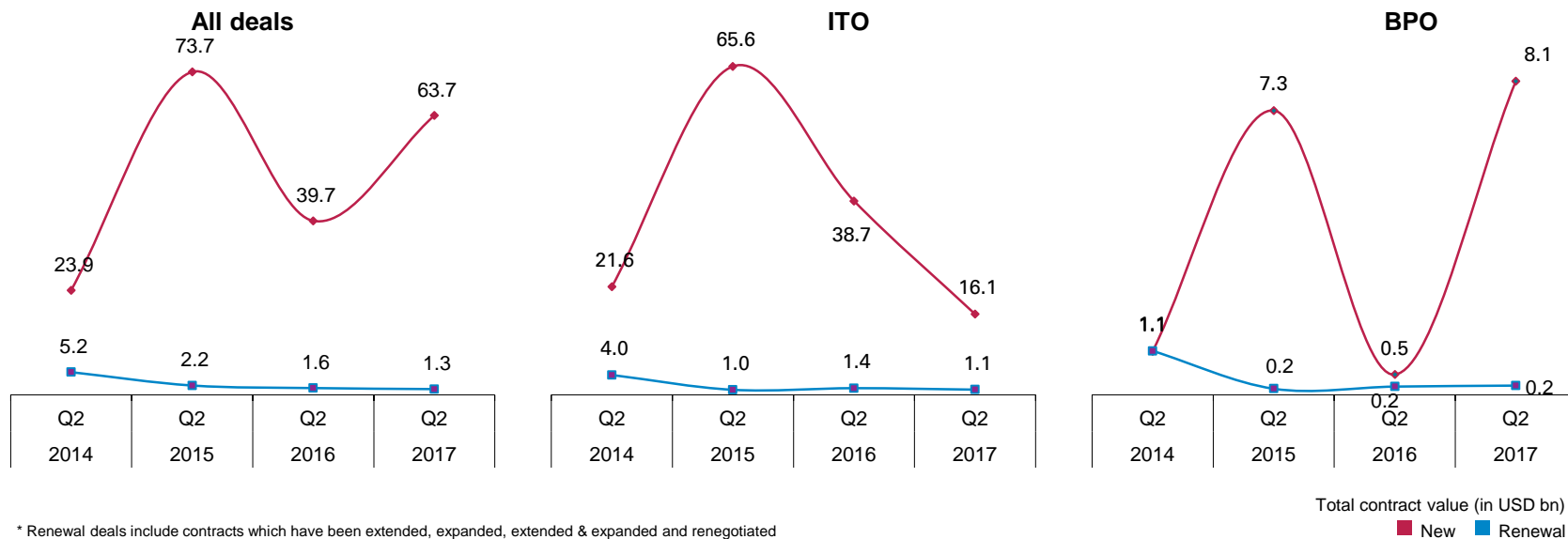
Graph is not to scale and only represents the division across different parameters. Figures may not add up to 100 percent due to rounding off

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

- The Defense sector leads deal activity, contributing to 75 percent in terms of value of outsourcing deals signed in 2Q17
- Government and Travel & Logistics sectors are next big contributor in terms of deal value, with total contribution of 16 percent to the total value of deals signed in 2Q17

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

- An analysis of new deals vs renewed deals show that increase in deal activity in 2Q17 is majorly due to new bundled deals
- Total contract value of all deals in 2Q17 has increase compared to the previous quarter
- New deals for ITO in 2Q17 has witnessed a steep drop of 58 percentage points

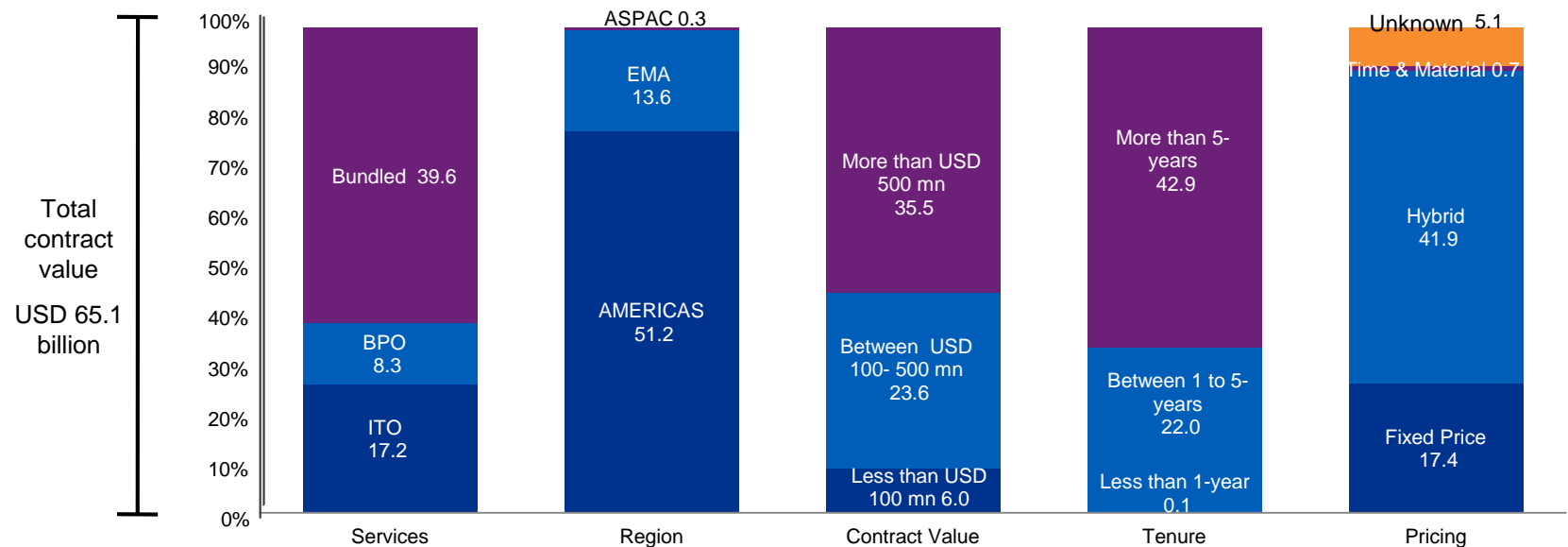
Section 2

2017 deal analysis



Deal value

IT-BPO deals* signed in 2Q17 (Total contract value: USD65.1 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 percent due to rounding off

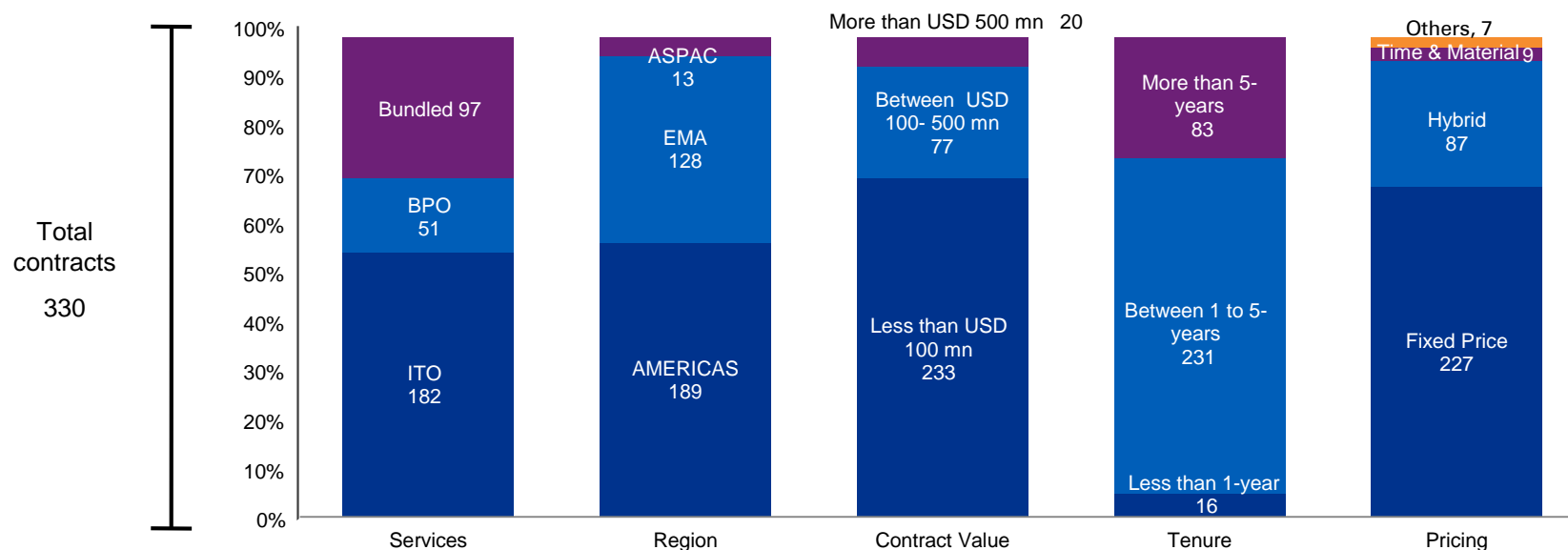
Hybrid pricing includes a combination of various pricing mechanisms

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

- Bundled deals dominated the outsourcing space this year with a contribution of 61 percent to the total deal value signed in 2Q17
- AMERICAS continue to be the major outsourcing region contributing 79 percent of the total deal value signed in 2Q17. EMA and ASPAC contribute 20 percent and 1 percent respectively
- Fixed price contracting model showed dominance, contributing over 27 percent of the deal value in 2Q17

Number of deals

IT-BPO deals* signed in 2Q17 (Total number of contracts: 330)



* 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 percent due to rounding off

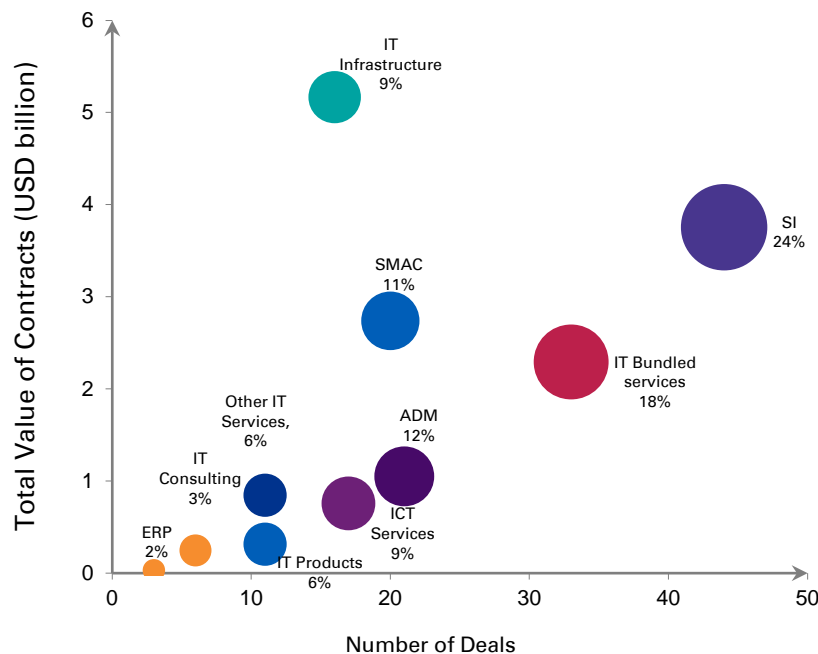
Hybrid pricing includes a combination of various pricing mechanisms

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

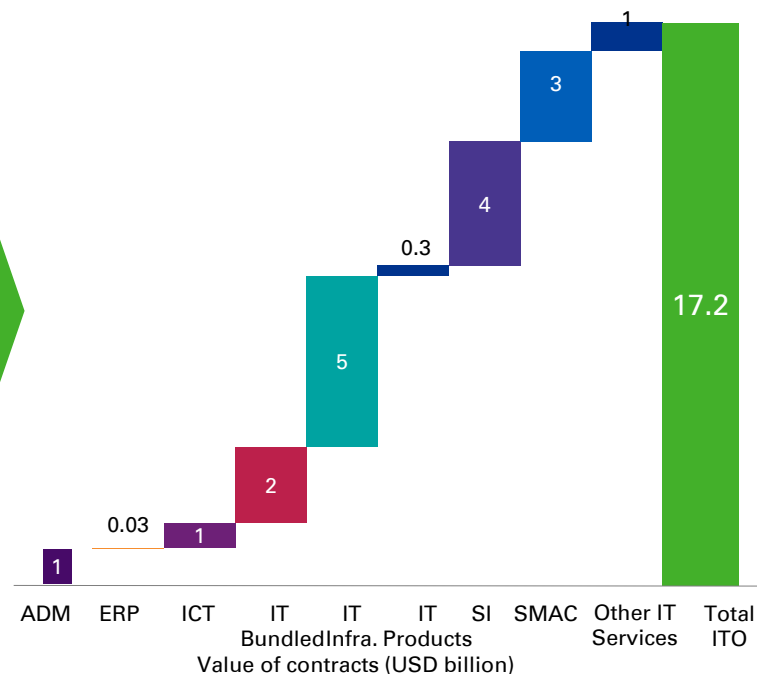
- ITO deals and BPO deals contribute to 55 percent and 15 percent respectively in terms of number of deals signed in 2Q17
- Clients preferred mid tenure deals of length between one to five years, which contributed to 70 percent of the total number of deals signed in 2Q17
- 70 percent of the deals, in terms of number of deals signed in 2Q17, were of value less than USD100 million. Only twenty of the deals signed in 2Q17, were of value more than USD500 million

Services segmentation

Analysis of ITO deals 2Q17



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

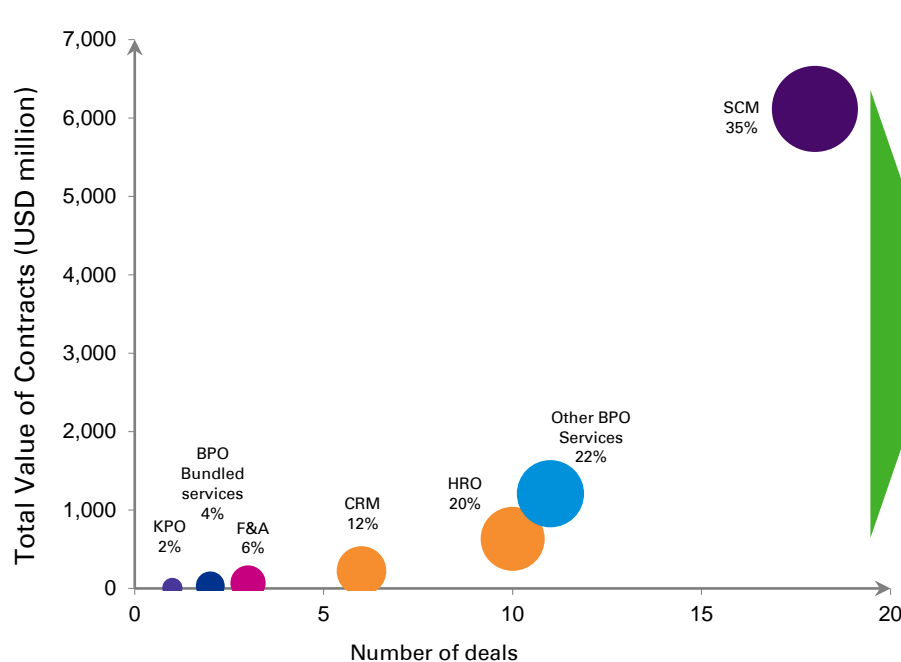


Note: All values in USD billion. Scale of graph is just representative to illustrate the division across different parameters. Figures may not add up to 100 percent due to rounding off. Refer L.H.S. figure for legend
 Source: Contract Database, IDC (www.idc.com), June 2017, KPMG member firms research & analysis based on the IDC contract database

- IT Infrastructure and System Integration together contributing 52 percent of all ITO deals in terms of value and 33 percent in terms of number of deals during 2Q17
- SMAC and IT Bundled services are other key contributors to the ITO deals in 2Q17

Services segmentation

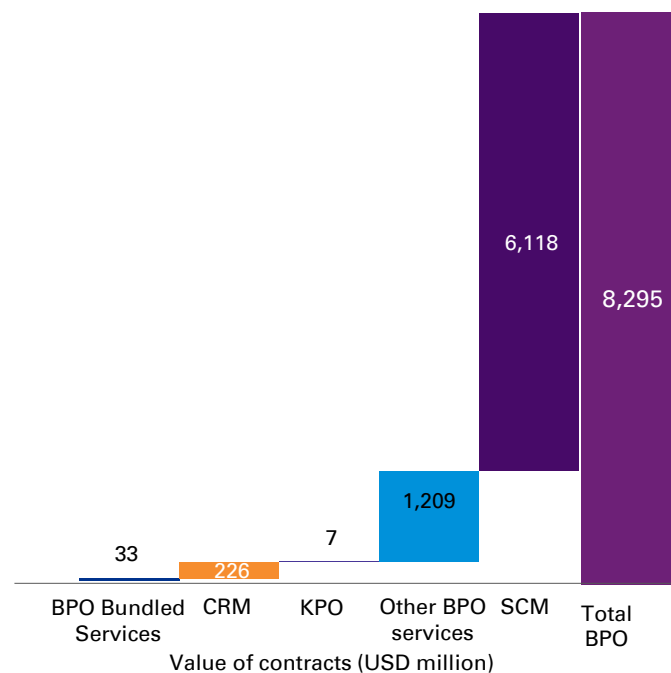
Analysis of BPO deals 2Q17



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

Other BPO services – Data management, etc.

Source: Contract Database, IDC (www.idc.com), June 2017, 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 percent due to rounding off. Refer L.H.S. figure for legend

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

- SCM deals contributing 74 percent of all BPO deals in terms of value and 35 percent in terms of number of deals during 2Q17. this is primarily due to a few large SCM deals in 2Q17
- HRO and Other BPO services contributing 42 percent in terms of number of deals signed in 2Q17

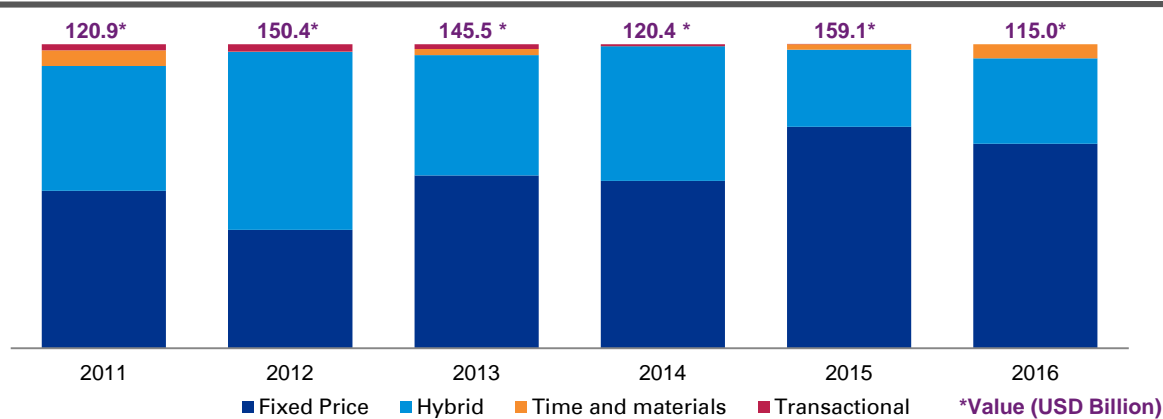
A blurred background image of two business professionals, a man and a woman, sitting at a desk. The man on the left is wearing a dark suit and a light blue shirt, and is writing on a document with a pen. The woman on the right is wearing a dark blazer and a white shirt, and is also holding a pen. There are papers, a calculator, and a keyboard on the desk. The text 'Section 3 Pricing analysis' is overlaid on the left side of the image.

Section 3

Pricing analysis

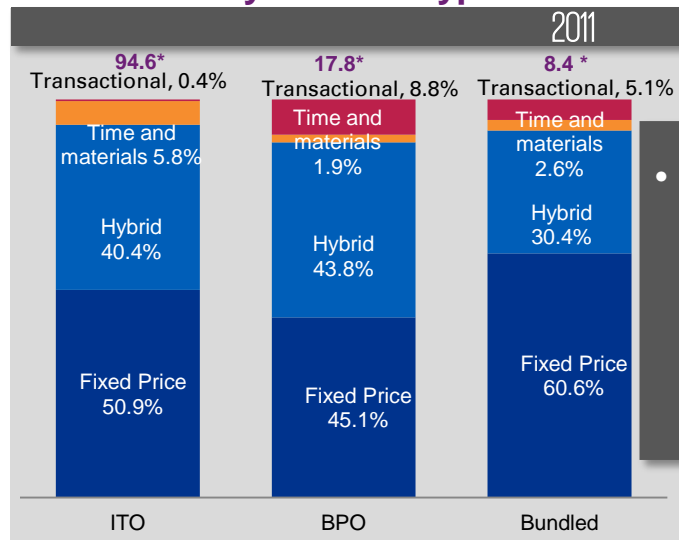
Pricing Model trend - By Deal Value

Y-o-Y trend

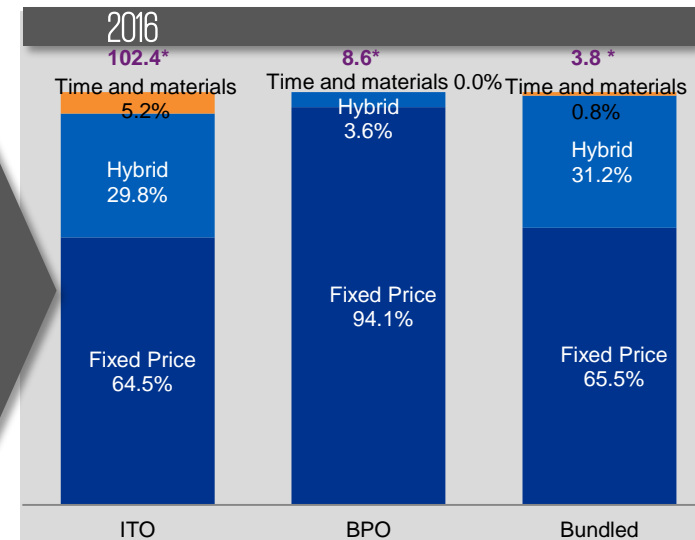


- Fixed pricing deals have increased from 2011 to 2016 at a CAGR of 5%
- All other models have decreased in varying proportions from 2011 to 2016 - Hybrid pricing (CAGR of -8%), Time and material pricing (CAGR of -2%) and Transactional pricing has decreased from 2011 to 2016 (CAGR of -100%)

Trend by Service Type



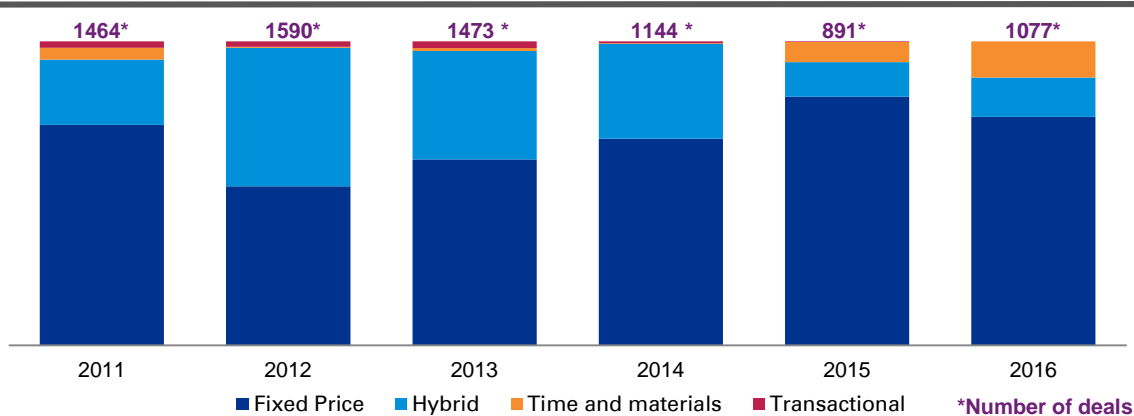
- Fixed pricing deals within BPO service deals doubled from 2011 to 2016 while transaction pricing deals have come down completely



*Value (USD Billion)

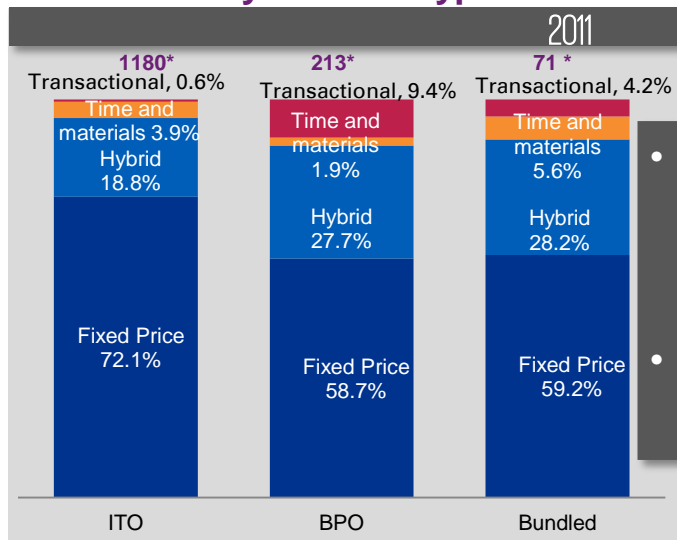
Pricing Model trend - By Number of deals

Y-o-Y trend

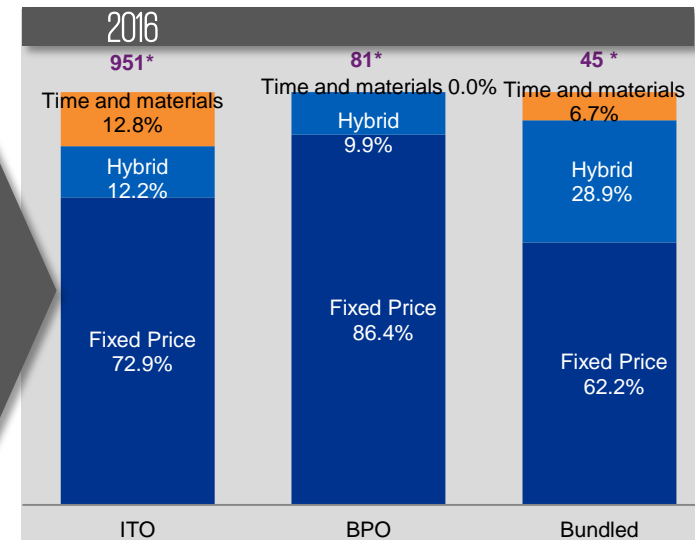


- Time and material pricing contracts have increased from 2011 to 2016 at a CAGR of 18%
- Between 2011 and 2016, while fixed pricing model continued to have a major share, overall there has been a decreasing trend with a CAGR of -5%. Other models also have the same decreasing trend - Hybrid pricing (CAGR of -15%) and Transactional pricing (CAGR of -100%)

Trend by Service Type



- Fixed pricing deals within BPO service deals show a similar trend as deal value (increased from 59% in 2011 to 86% in 2016)
- In 2016, no deals were structured using the transaction pricing model



Section 4

IT-BPO outsourcing outlook



Global outsourcing industry Outlook

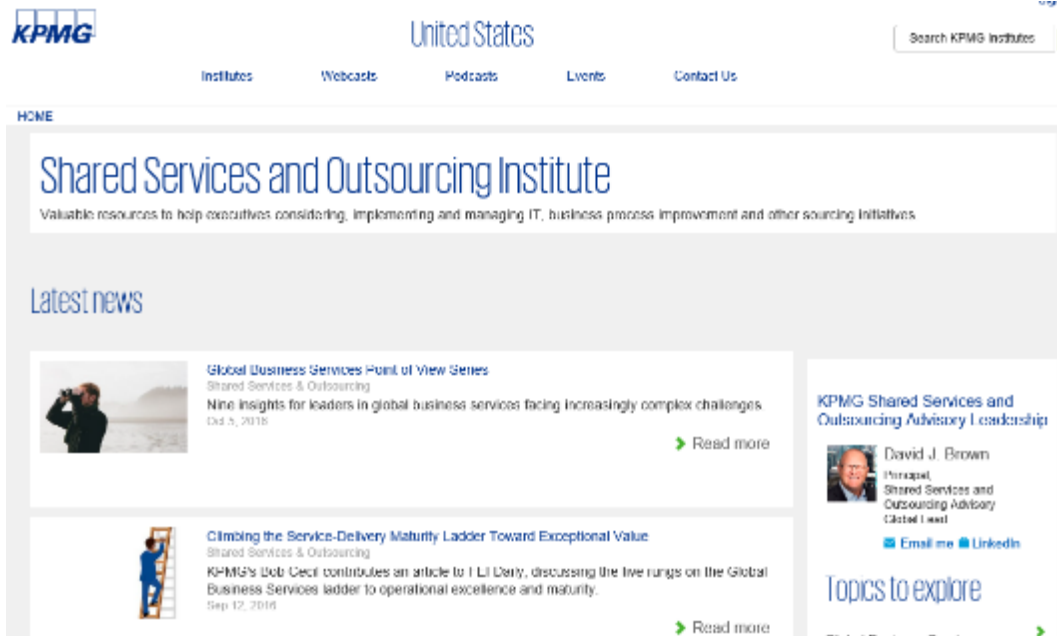
- 2Q17 witnessed a major increase in deal activity as compared to 1Q17. There was an increase of 278 percent in total contract value and a 88 percent increase in total number of deals
- Organizations are moving from a traditional silo-based and transactional outsourcing services, to more of a holistic 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 77 percent of the total deal value in 2Q17. ASPAC is gaining momentum gradually while EMA is fast catching up with AMERICAS
- Deals are being dominated by the public sector, driven by government spending on digital processes leveraging cloud, analytics, and IoT implementations. Initiatives of reforming government through technology are being undertaken by enabling customer services, providing electronic delivery of services through e-education and e-healthcare
- Aerospace and defense are growing areas of interest for governments which include cyber security/cyber defense and secure communications
- Telecom sector has been continuously featuring amongst the top contributors to the outsourcing industry for the last four quarters. It is increasingly leveraging ICT and SMAC services from service providers and is expected to continue so
- Organizations are continuing to outsource with the objective to leapfrog to cognitive solutions to realize the benefits of automation - reduce costs, improve customer service and address talent shortages. But rapid adoption needs to be complemented by a comprehensive strategic road map to guide technology adoption¹

1. KPMG Global Pulse Survey 1Q17

KPMG Shared Services and Outsourcing Advisory (SSOA) research

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- Global Business Services point of view series
- Climbing the service–delivery maturity ladder toward exceptional value
- 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
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, Cybersecurity)
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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