



Global IT-BPO outsourcing deals analysis

3Q17 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.

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

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Section 1

Global deals: An overview



A summary

In 3Q17, **201 ITO contracts** worth **USD74.7 billion** and **63 BPO contracts** worth **USD12.8 billion** were signed, worldwide

Globally **43 IT-BPO bundled contracts** were signed in 3Q17 with contract value worth **USD1.4 billion**

In terms of value, approximately **90.2 percent of deals** originated from the **United States**, followed by **United Kingdom** at **4 percent**. France and India were two other key outsourcing markets

The **average deal tenure** increased to **4 years 10 months** in 3Q17 from 4 years 1 month in 3Q16

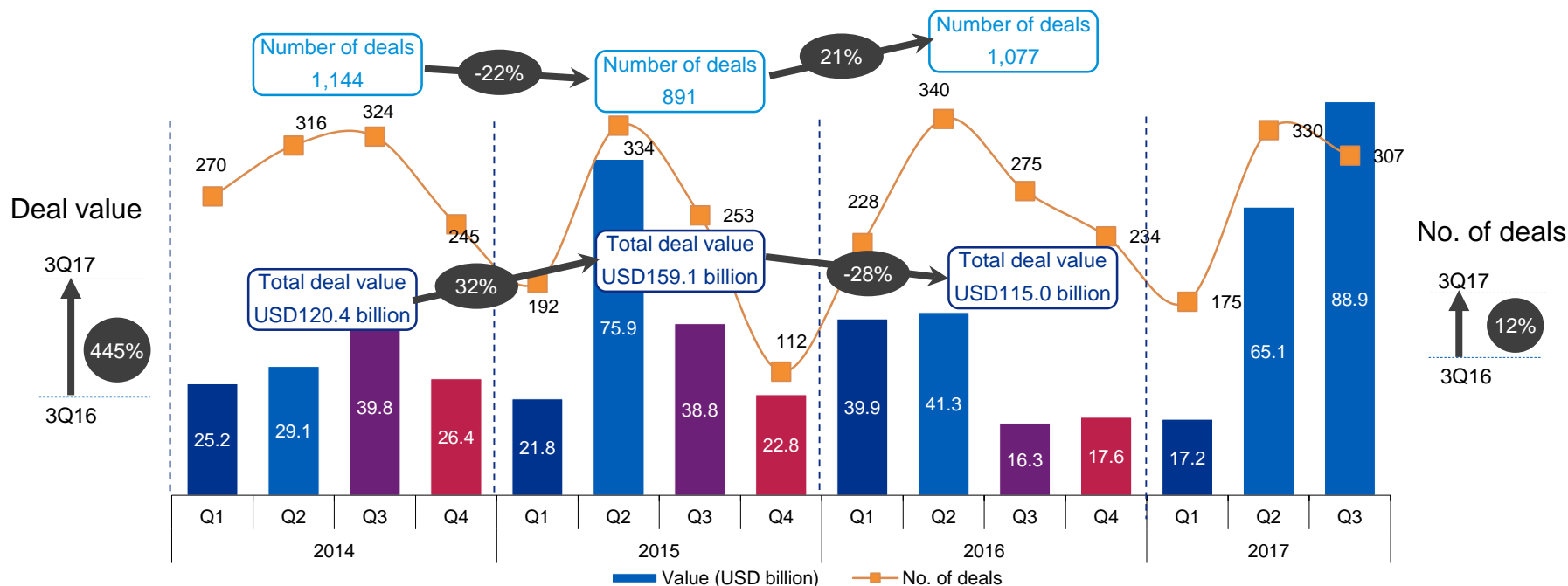
Insurance and Defense sectors were the top consumers of IT-BPO services contributing to **59 percent** and **24 percent** in terms of value of outsourcing deals signed in 3Q17. **Government** sector was the next big contributor in terms of deal value

IT bundled and **SCM** contributed approximately **USD61 billion** and **USD9.2 billion** respectively and were the largest procured services globally within ITO and BPO services, respectively

Average annualized contract value in 3Q17 was **USD34.24 million** as compared to **USD16.42 million** in 3Q16 showing an increase of **109 percent**

Snapshot Quarterly deal movements

Quarterly movements of global IT-BPO deals*

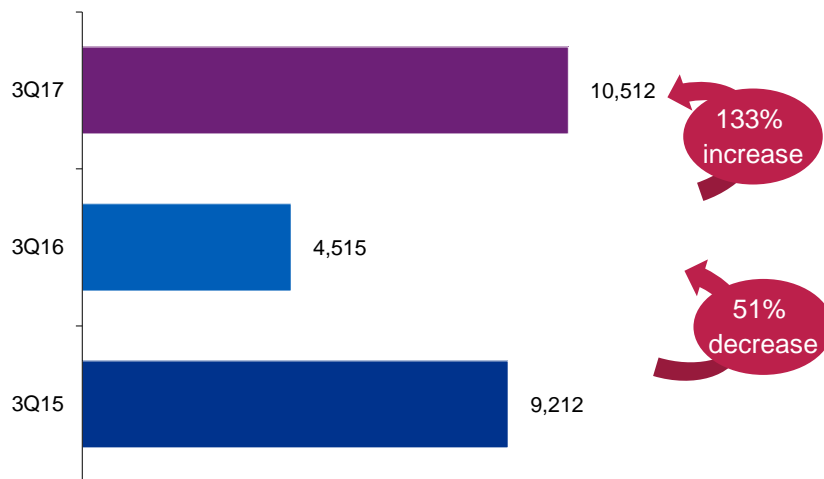


*The term deals is interchangeably used with contracts throughout the analysis unless otherwise specified. Deals analyzed are global sourcing contracts of size USD5.0 million and above only. Source: Contract Database, IDC (www.idc.com), September 2017, KPMG member firms research & analysis based on the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

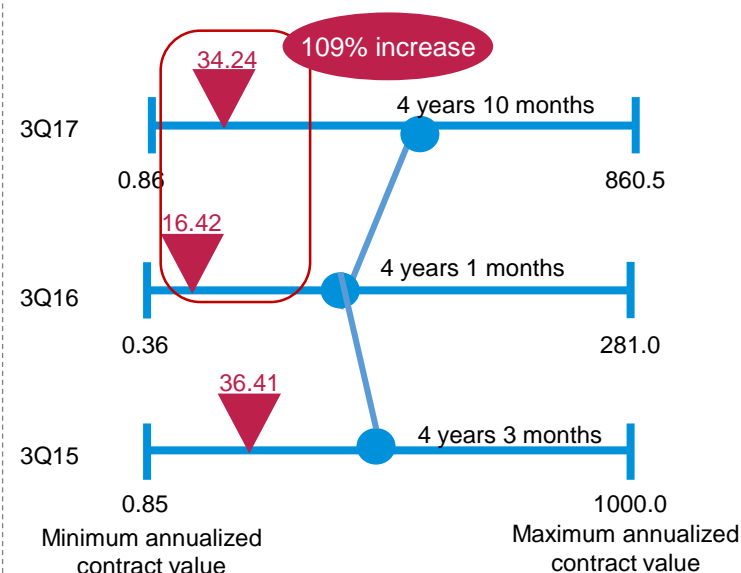
- 3Q17 witnessed an increase in deal activity in terms of value as compared to 2Q17. There was an increase of 37 percent in total contract value but a 7 percent decrease in total number of deals in 3Q17 as compared to 2Q17
- The average contract value increased by 6 percent in 3Q17 as compared to 2Q17

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

Annualized* contract value comparison per quarter



■ 3Q15 ■ 3Q16 ■ 3Q17
 * 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), September 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 3Q17 increased by 133 percent as compared to 3Q16. The average annualized contract value increased by 109 percent during the same period
- The average contract tenure increased by 9 months to 4 years and 10 months in 3Q17 as compared to 3Q16

Q-o-Q comparison Deals analysis by sector

Trends in deal movement from 3Q16 to 3Q17

Sector	Total contract value				Total number of contracts				Average contract value			
	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17	2Q17 -> 3Q17	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17	2Q17 -> 3Q17	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q17 -> 2Q17	2Q17 -> 3Q17
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), September 2017, KPMG member firms research & analysis based on the IDC contract database

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

- In 3Q17, Government, Insurance, Energy & Utilities and Retail have shown an increase in total contract value of more than 25 percent as compared to 2Q17. Most other sectors have had a decrease in total contract value during the same period
- Most sectors have shown a decrease in total number of contracts signed in the quarter as compared to 2Q17

Q-o-Q comparison Deals analysis by category

Trends in deal movement from 3Q16 to 3Q17

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

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

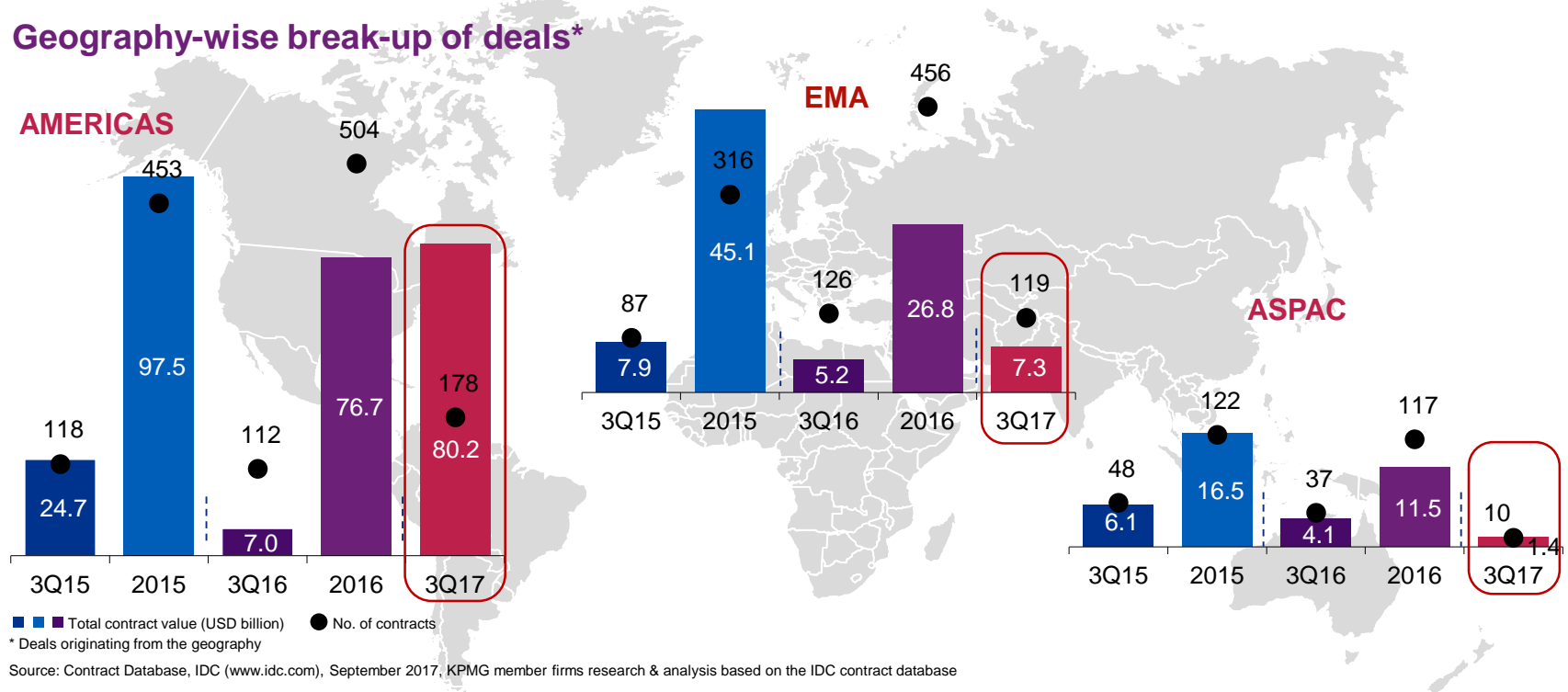
Decrease >=25% Decrease <25% No change Increase <25% Increase >=25%

- ITO and BPO deals have shown an increase in total contract value while Bundled deals have decreased by over 25 percent in 3Q17 over 2Q17
- There has been a decrease in number of deals for Bundled deals
- The average contract value of mid tenure deals (between 1 to 5 years) has decreased by over 25 percent

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

Geography analysis

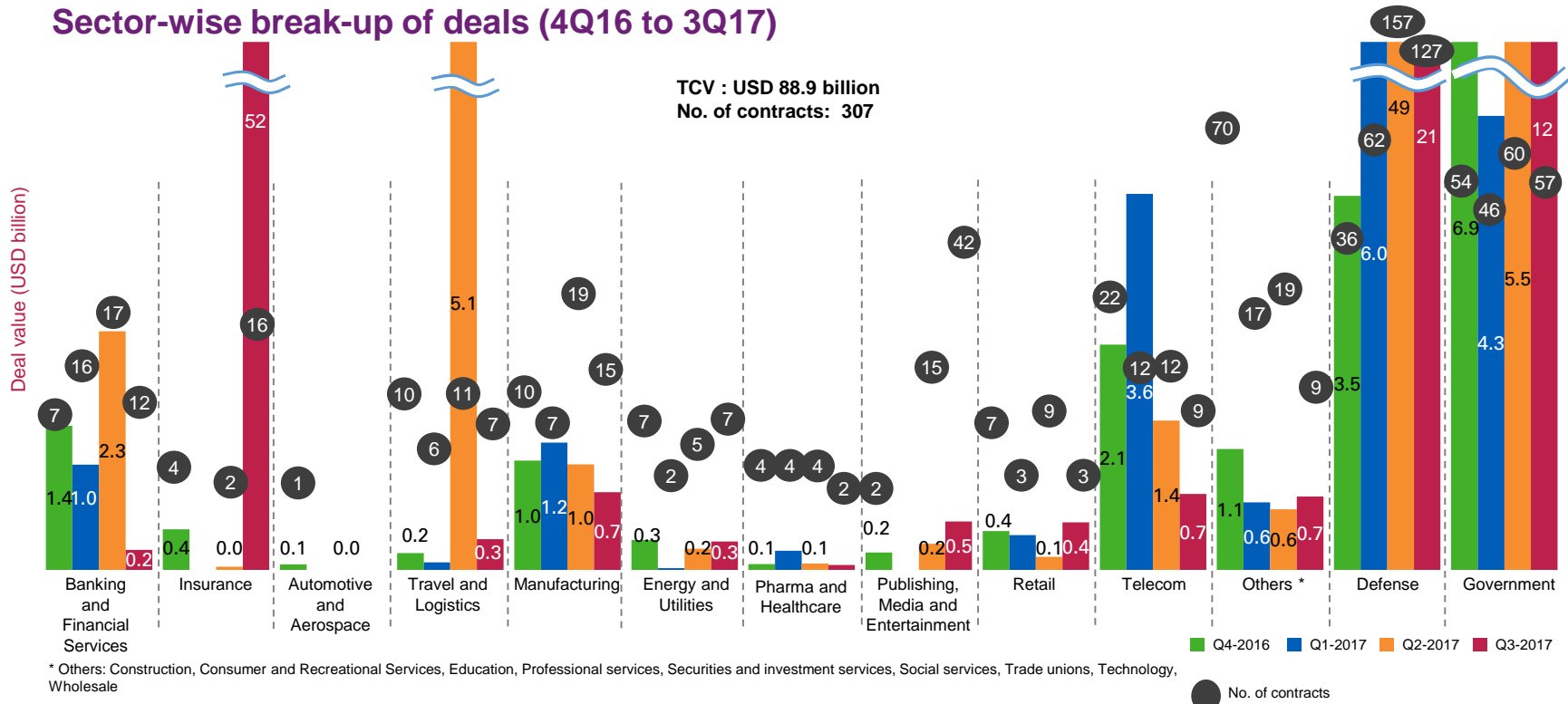
Geography-wise break-up of deals*



- AMERICAS continues to be the major outsourcing region contributing 90 percent of the total deal value in 3Q17. The region has already surpassed the total deal value of 2016, though in terms of number of deal, year on year increase is yet to be seen.
- ASPAC deal activity since 2015, has seen a continuous decline in third quarter. This is in line with the yearly deal activity in each of the respective years as well. If this is reflective of the whole of 2017 is yet to be seen

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

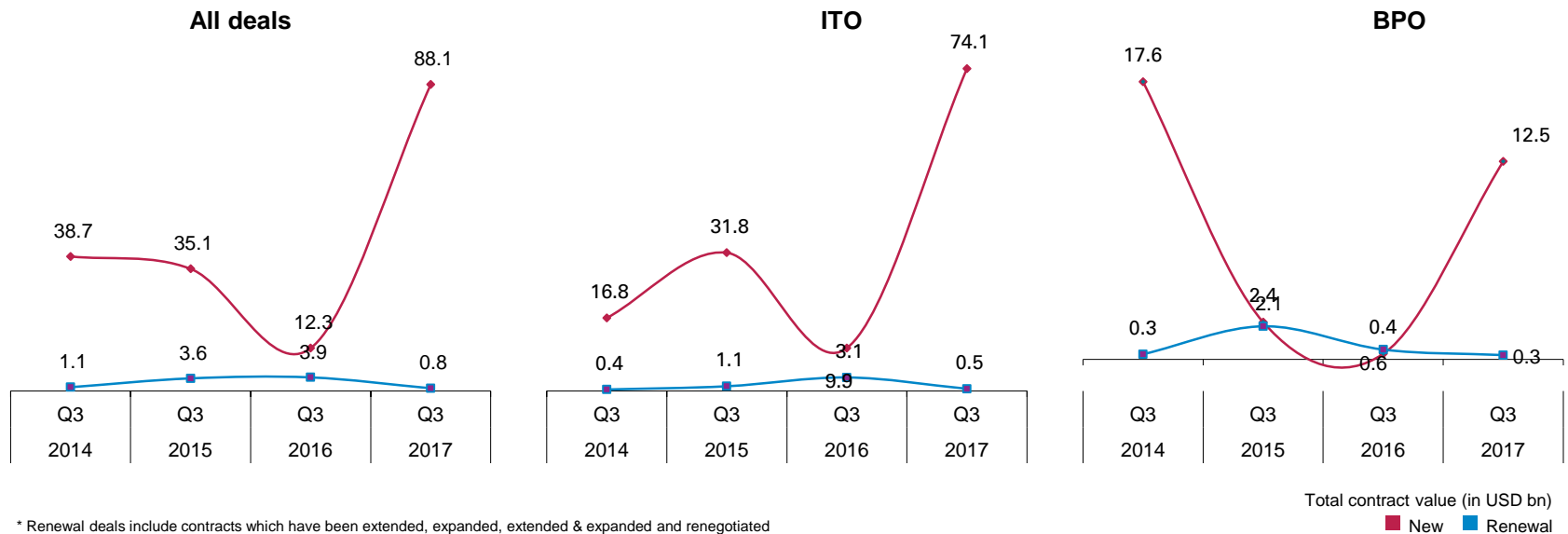
Sector-wise break-up of deals (4Q16 to 3Q17)



- Deal activity in Insurance sector has seen a significant growth in 3Q17 compare to last 3 quarters. The sector is largest contributor i.e. 59 percent of total deals in terms of value signed in 3Q17. It's overall performance in 2017 is yet to be seen.
- Defense and Government deals remains major contributors of overall deal activity in 3Q17. Similar trends have been observed since 4Q16. Defense sector alone contributed to 24 percent of total deals in terms of value in 3Q17.

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), September 2017, KPMG member firms research & analysis based on the IDC contract database

- Total value of new deals in 3Q17 has observed a significant increase when compared to third quarter total value of new deals since 2014. This increase is significantly driven by new ITO deals which witnessed a steep 96 percentage increase from 3Q16
- Third quarter total value of renewed deals since 2014 have observed a opposite trend to total value of new deals. Similar trend on the yearly data is yet to be seen.

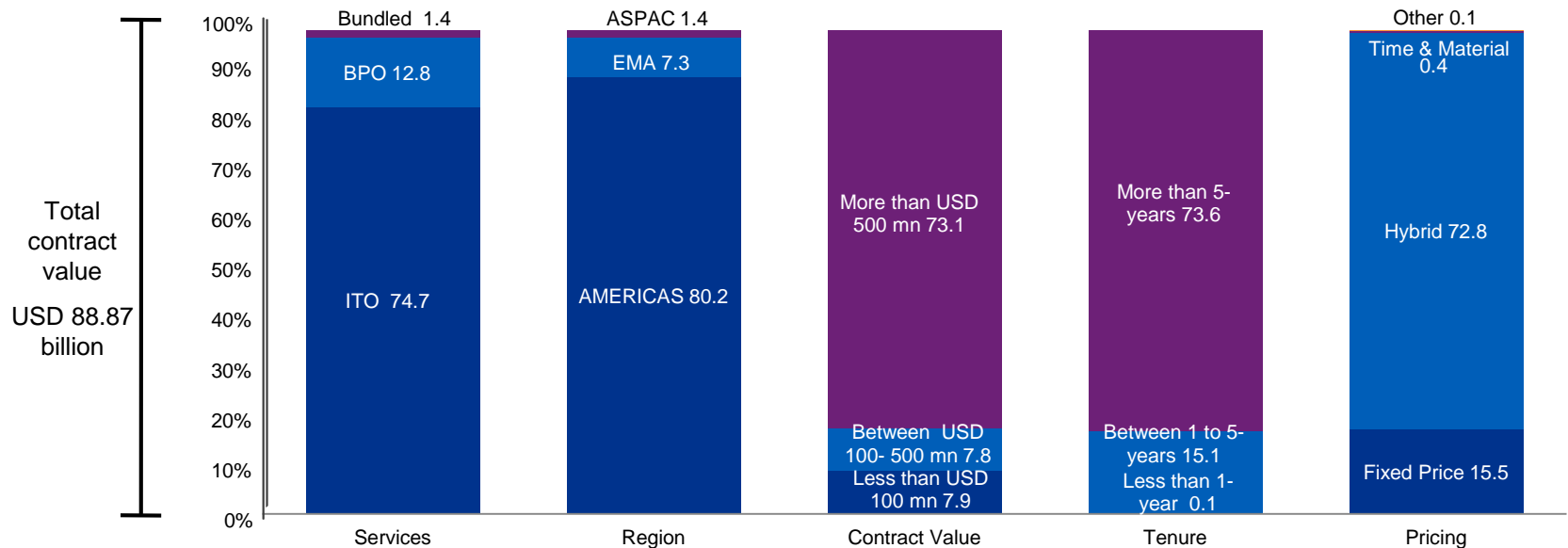
Section 2

3Q17 deal analysis



Deal value

IT-BPO deals* signed in 3Q17 (Total contract value: USD88.87 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

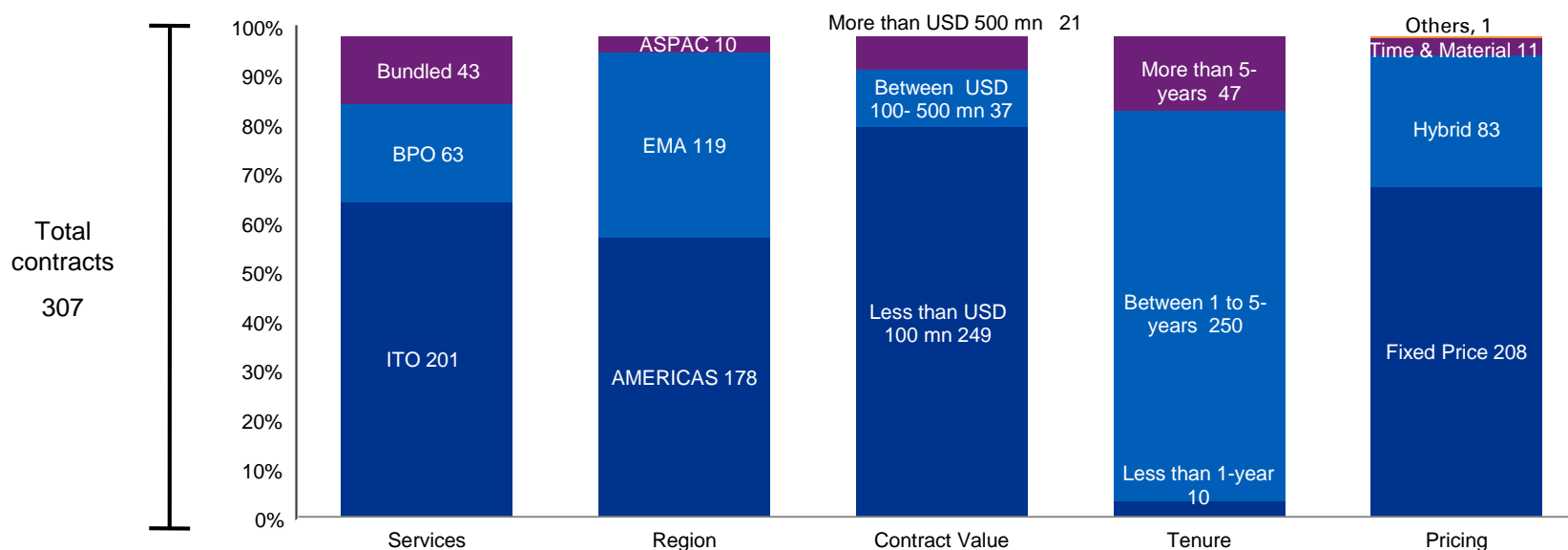
Hybrid pricing includes a combination of various pricing mechanisms

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

- ITO deals dominated the outsourcing space this year with a contribution of 84 percent to the total deal value signed in 3Q17
- AMERICAS continue to be the major outsourcing region contributing 90 percent of the total deal value signed in 3Q17. EMA and ASPAC contribute 8 percent and 2 percent respectively
- Hybrid price contracting model showed dominance, contributing over 80 percent of the deal value in 3Q17

Number of deals

IT-BPO deals* signed in 3Q17 (Total number of contracts: 307)



* 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

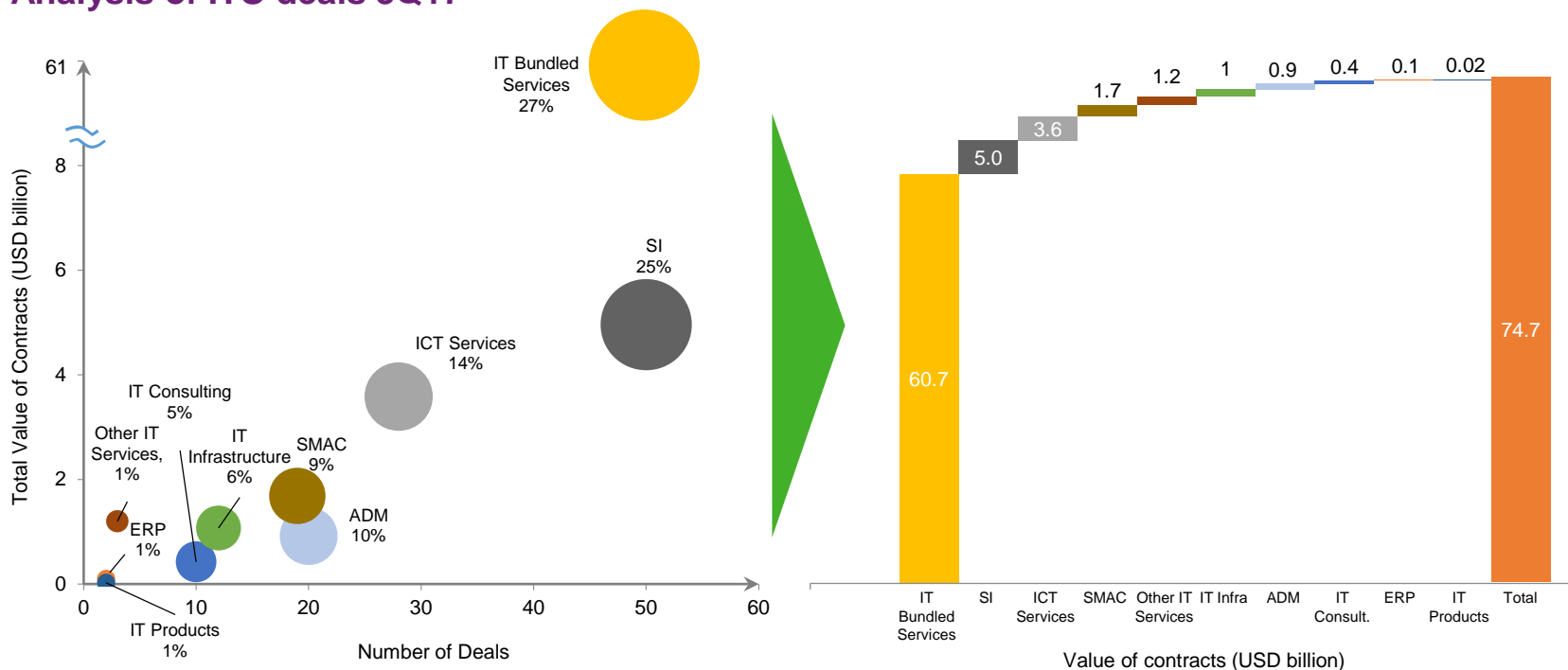
Hybrid pricing includes a combination of various pricing mechanisms

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

- ITO deals and BPO deals contribute to 65 percent and 21 percent respectively in terms of number of deals signed in 3Q17
- 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 3Q17
- 81 percent of the deals, in terms of number of deals signed in 3Q17, were of value less than USD100 million. Only 7 per cent of the deals signed in 3Q17, were of value more than USD500 million

Services segmentation

Analysis of ITO deals 3Q17



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), September 2017, KPMG member firms research & analysis based on the IDC contract database

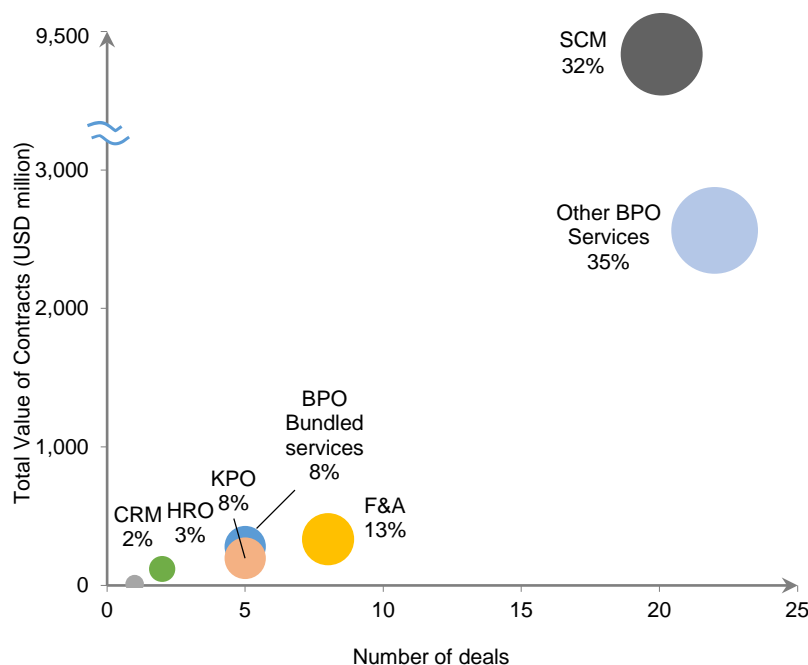
Note: All values in USD billion. Scale of graph is just representative to illustrate the division across different parameters. Figures may not add up to 100 percent due to rounding off. Refer L.H.S. figure for legend

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

- Deals in IT bundled services area in 3Q17 remained major contributor to total deal size of ITO deals; 81 percent in terms of value and 27 percent in terms of number of deals
- Deals in System Integration (SI) and ICT services areas together contributed to 11 percent in terms of value and 39 percent in terms of number of total ITO deals in 3Q17

Services segmentation

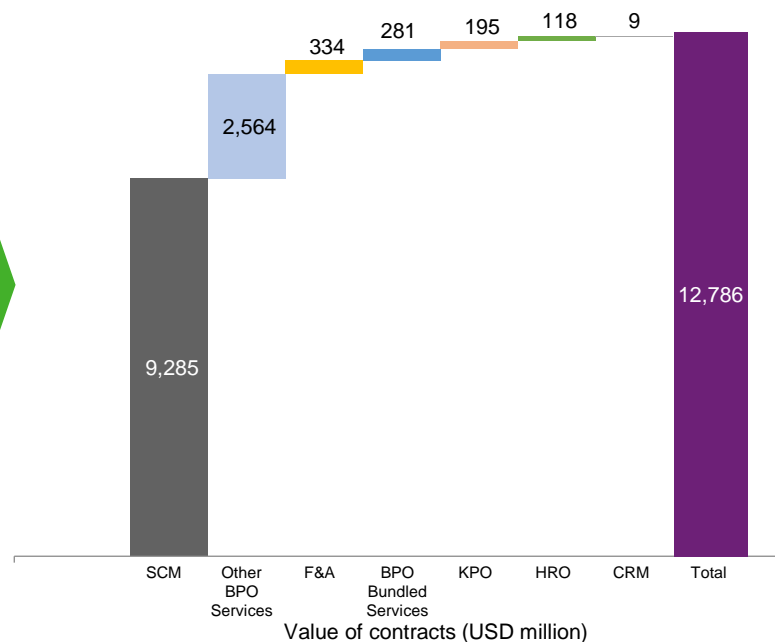
Analysis of BPO deals 3Q17



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), September 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), September 2017, KPMG member firms research & analysis based on the IDC contract database

- Deals in SCM area in 3Q17 remained major contributor to total deal size of BPO deals; 73 percent in terms of value and 32 percent in terms of number of deals
- Deals in other BPO services areas contributed to 20 percent in terms of value and 35 percent in terms of number of total BPO deals in 3Q17

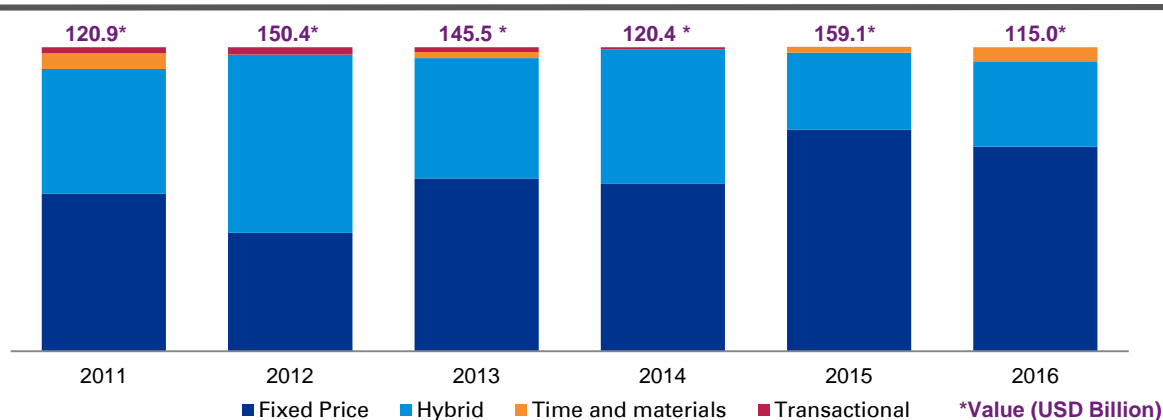
A blurred background image of two business professionals, a man and a woman, sitting at a desk. The man on the left is wearing a dark suit and a light blue shirt, and is writing on a document with a pen. The woman on the right is wearing a dark blazer and a white shirt, and is also holding a pen. There 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

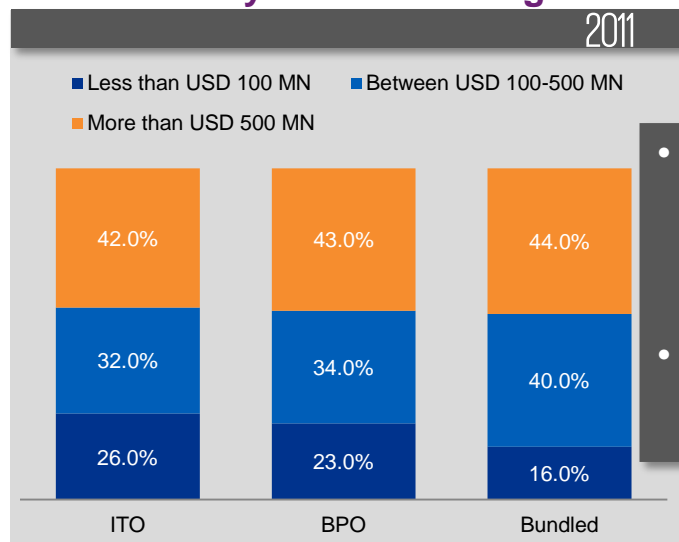
Pricing Model trend - By Deal Value

Y-o-Y trend

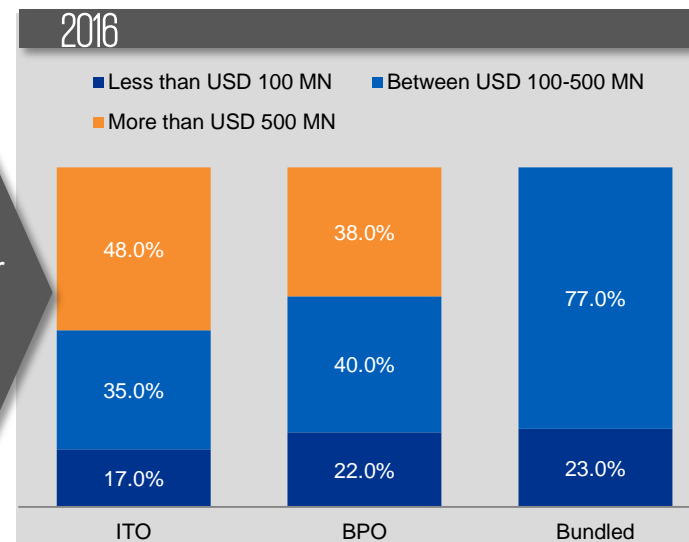


- Fixed pricing deals have increased from 2011 to 2016 at a CAGR of 5 percent
- All other models have decreased in varying proportions from 2011 to 2016 - Hybrid pricing (CAGR of -8 percent), Time and material pricing (CAGR of -2 percent) and Transactional pricing has decreased from 2011 to 2016 (CAGR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

Trend by deal value range

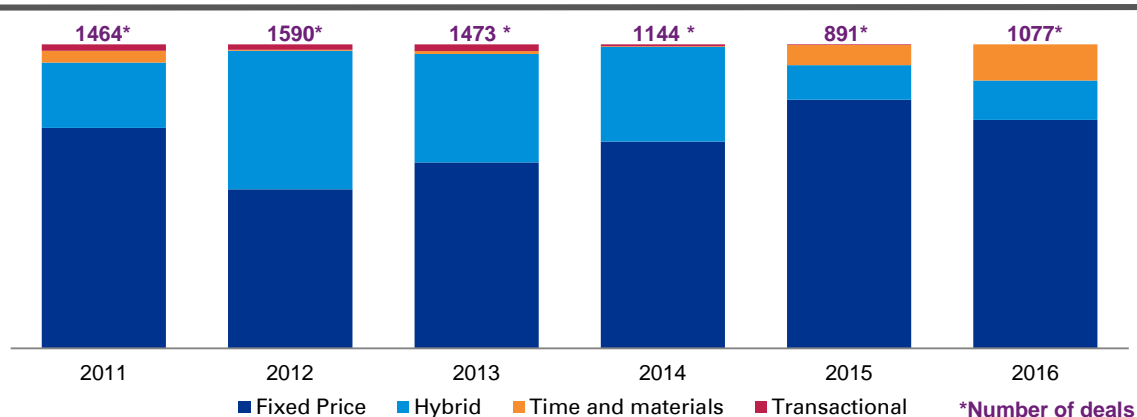


- By value, deals in range of USD 100-500 million in Bundled segment have seen a significant growth in terms of deal value over last 5 years
- Proportion of deals across three ranges in both ITO and BPO segments remained almost same



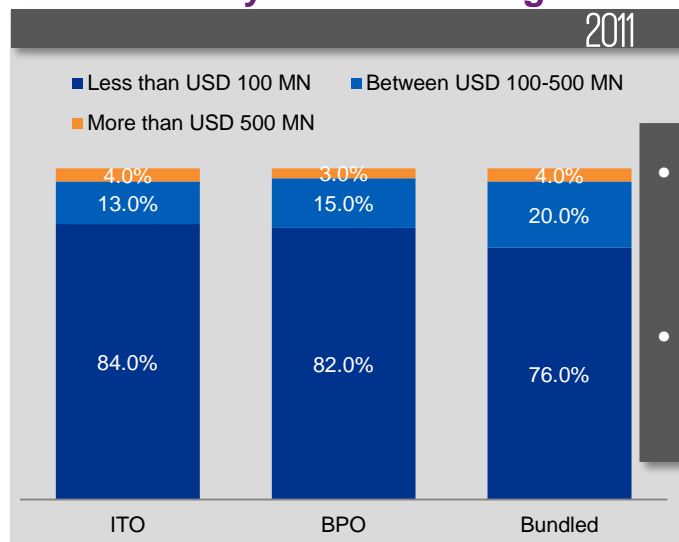
Pricing Model trend - By Number of deals

Y-o-Y trend

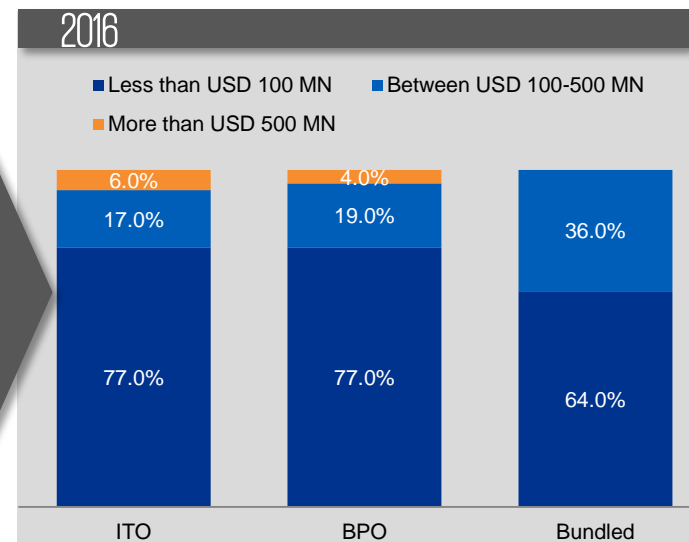


- Time and material pricing contracts have increased from 2011 to 2016 at a CAGR of 18 percent
- Between 2011 and 2016, while Fixed pricing model continued to have a major share, overall observed a decreasing trend (CAGR of -5 percent). Other models also have the same decreasing trend - Hybrid pricing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

Trend by deal value range



- In 2016, by number, deals less than USD 100 million showed a similar trend as in 2011 in both ITO and BPO segments
- In 2016, by numbers, deals more than USD 500 million in Bundled deals segment were not recorded



Section 4

IT-BPO outsourcing outlook



Global outsourcing industry Outlook

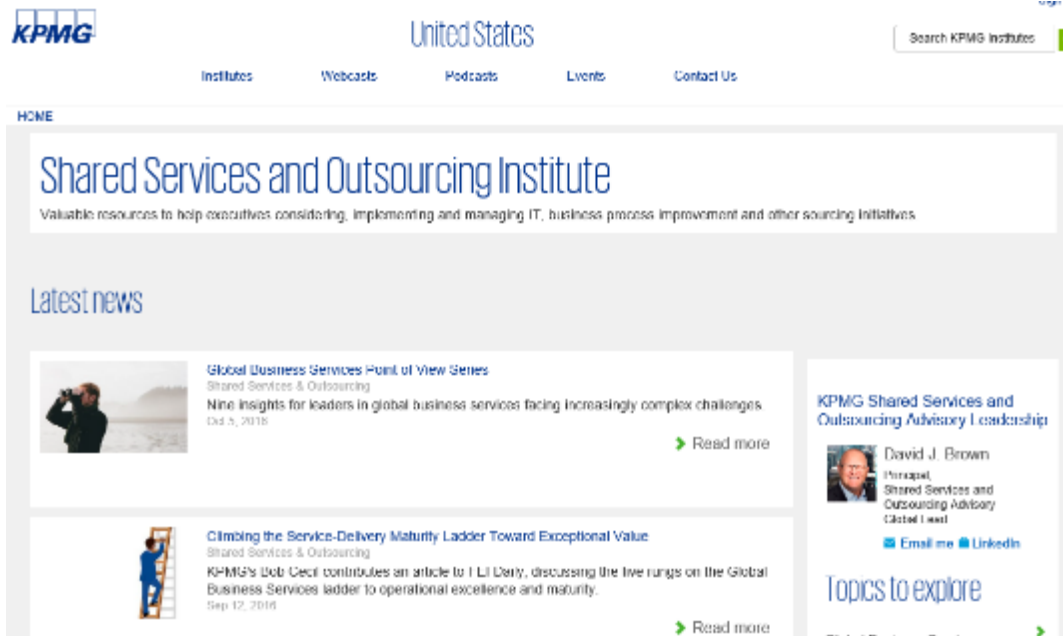
- 3Q17 witnessed an increase in deal activity as compared to 2Q17. There was an increase of 37 percent in total contract value but a 7 percent decrease in total number of deals in 3Q17 as compared to 2Q17
- Organizations are moving towards Hybrid pricing model as both in terms of number and value, deal with Hybrid pricing model has been increasing in recent years
- AMERICAS continues to be the major outsourcing region contributing 90 percent of the total deal value in 3Q17. ASPAC and EMA experience continuous decline in the third quarter of the year
- 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
- UK specific government outsourcing deals, however, which were due to expire are being automatically extended because public sector authorities are busy with Brexit and unable to focus on new and better value tenders
- 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 adoption
- Intelligent automation will in the years to come have a major impact on staffing models, operating models, and location of captive and third-party delivery centers. It will disrupt legacy models and relationships with service providers¹

1. KPMG Global Pulse Survey 2Q17

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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