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Global IT-BPO Outsourcing Deals Analysis

3Q15 Analysis: July to September

October 2015



About global IT-BPO outsourcing deals analysis

KPMG's Shared Services and Outsourcing Advisory (SSOA) practice publishes a quarterly analysis on IT-BPO outsourcing 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 Shailesh Narwaiye
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Section 1

Global deals: An overview



A summary

In 3Q15 (July to September), **222 ITO contracts** worth **USD32.9 billion** and **23 BPO contracts** worth **USD4.5 billion** were signed, worldwide.

Globally **eight IT-BPO bundled deals** were signed in 3Q15 with contract value worth **USD1.4 billion**.

In terms of value, approximately **59 per cent of deals** originated from the **United States**, followed by the **United Kingdom** at **9.8 per cent**. India and Australia were two other key outsourcing markets.

The **average deal tenure** decreased to **4 years 3 months** in 3Q15 from 4 years 9 months in 2Q15.

Defense sector continued to be the top consumer of IT-BPO services contributing to **54 per cent** in terms of value of outsourcing deals signed in 3Q15. **Telecom** sector exhibited continuous growth over past two quarters **doubling** in total contract value in 3Q15 over 2Q15

ADM and **SCM** contributed approximately **USD9.6 billion** and **USD1.7 billion** respectively and were the largest procured services globally within ITO and BPO outsourced services, respectively.

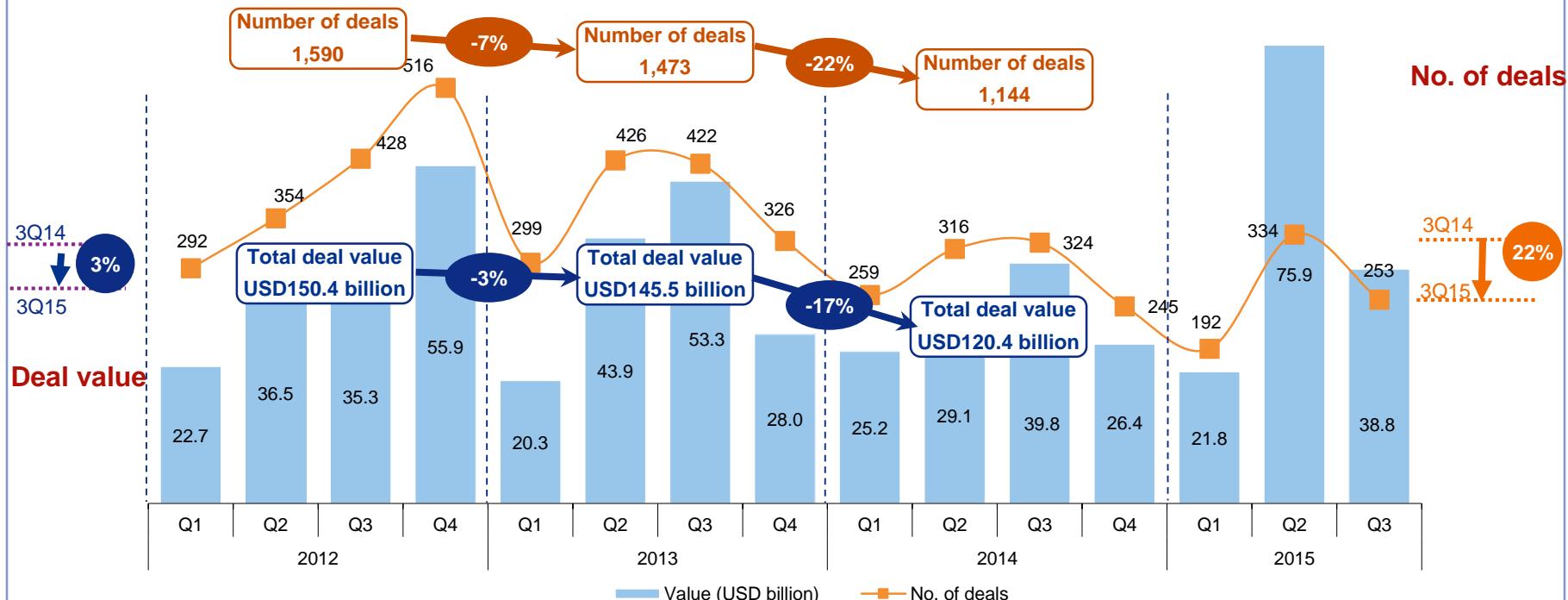
Average annualized contract value in 3Q15 was **USD36.4 million** as compared to **USD24.9 million** in 3Q14 showing an increase of **46 per cent** between the two quarters.

Source: IDC (www.idc.com), Contract Database, Oct 2015, KPMG member firms research & analysis based on the IDC contract database

Quarterly deal movements

Snapshot

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.

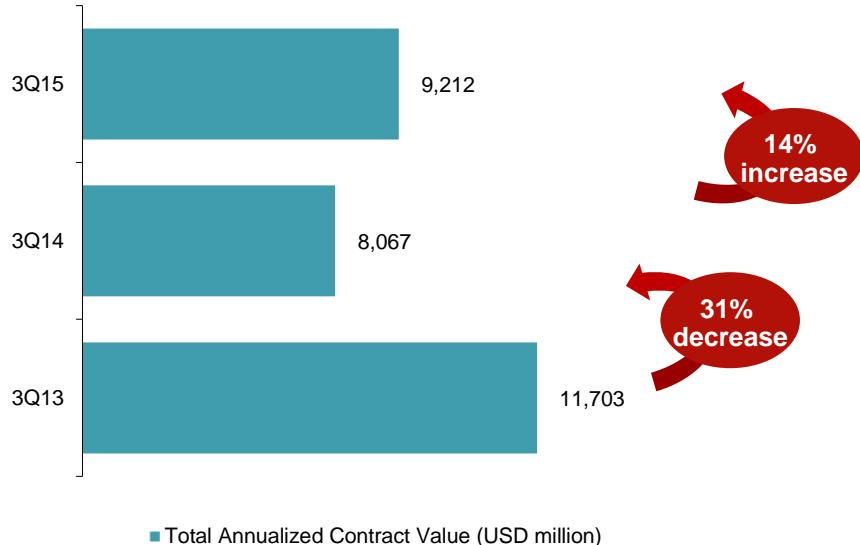
Source: IDC (www.idc.com), Contract Database, Oct 2015, KPMG member firms research & analysis based on the IDC contract database

- 3Q15 witnessed a sharp drop in deal activity as compared to 2Q15. There was a decrease of 49 per cent in total contract value and 24 per cent decrease in total number of deals in 3Q15 as compared to 2Q15
- The average contract value also decreased by 33 per cent in 3Q15 as compared to 2Q15

Annualized contract value (ACV)

Q-o-Q comparison

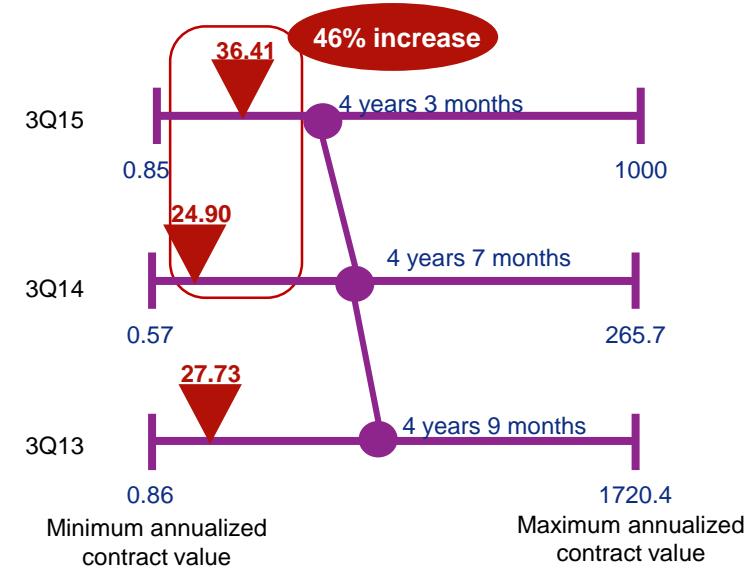
Annualized* contract value comparison per quarter



* Annualized contract value = (total value of a contract / tenure in months) $\times 12$

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, Oct 2015, 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 3Q15 increased by 14 per cent as compared to 3Q14. The average annualized contract value also increased by 46 per cent in 3Q15 as against 3Q14 indicating a strong preference for larger value deals
- The average contract tenure decreased to 4 years 3 months in 3Q15 from 4 years 7 months in 3Q14

Trends in deal movement from 3Q14 to 3Q15

Sector	Total Contract Value				Total Number of Contracts				Average Contract Value			
	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q15 -> 3Q15	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q15 -> 3Q15	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q15 -> 3Q15
Automotive & Aerospace	Decrease	Decrease	Decrease	Decrease	No change	Decrease	Decrease	No change	Decrease	Decrease	Decrease	Decrease
Banking & Financial Services	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Defence	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Energy & Utilities	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Government	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Insurance	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Manufacturing	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Pharma & Healthcare	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Publishing, Media & Entertainment	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Retail	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Telecom	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Travel & Logistics	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Others*	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

*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, Oct 2015, KPMG member firms research & analysis based on the IDC contract database

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

- In 3Q15, while there has been an increase in Total Contract Value by more than 25 per cent in few sectors, there has been a decrease of more than 25 per cent in sectors like Defense and Government which are the major contributors to total contract value**
- Continuous growth over two last quarters was observed in Telecom in terms of all three parameters - total contract value, total number of contracts and average contract value**
- Multi-fold growth in terms of total contract value was observed in Banking and Financial Services, Insurance, Travel and Logistics and Telecom sectors in 3Q15 as compared to 2Q15**

Trends in deal movement from 3Q14 to 3Q15

Deal Type	Total Contract Value				Total Number of Contracts				Average Contract Value			
	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q15 -> 3Q15	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q15 -> 3Q15	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q15 -> 3Q15
ITO												
BPO												
Bundled												
Less than USD 100 MN												
Between USD 100- 500 MN												
More than USD 500 MN												
Less than 1-year												
Between 1 to 5-years												
More than 5-years												

Source: IDC (www.idc.com), Contract Database, Oct 2015, KPMG member firms research & analysis based on the IDC contract database

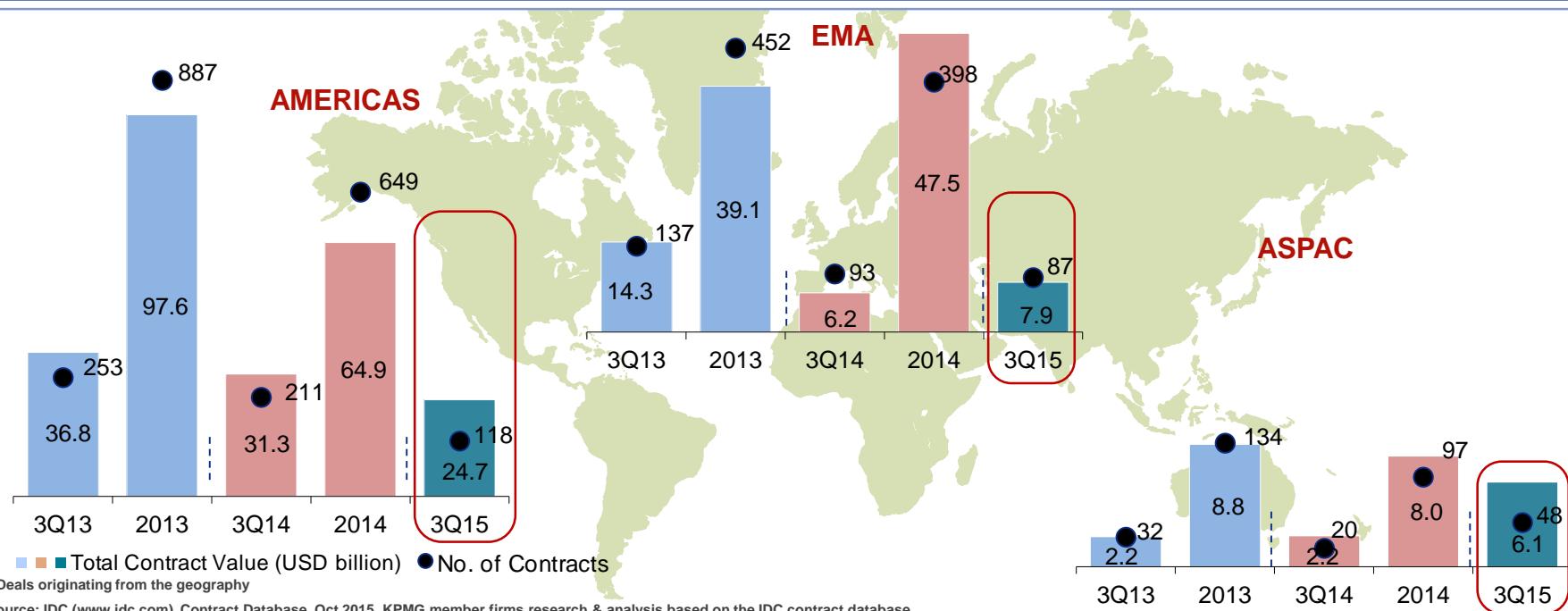
Decrease >=25% Decrease <25% No change Increase <25% Increase >=25%

- Owing to weak deal activity in 3Q15 added to the fact that 2Q15 was a strong quarter, all the deal categories witnessed a decrease in total contract value in 3Q15 as compared to 2Q15
- The total number of contracts signed in 3Q15 with tenure between 1 to 5 years increased, both short tenure (less than 1 year) deals and long tenure (more than 5 years) deals decreased by more than 25 per cent
- While the total contract value of BPO deals decreased by more than 25 per cent in 3Q15 as compared to 2Q15, the average contract value increased by more than 25 per cent in the same period

Geography analysis

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

Geography-wise break-up of deals*



- **AMERICAS** continues to be the major outsourcing region contributing 64 per cent of the total deal value in 3Q15. **EMA** and **ASPAC** contribute 21 per cent and 16 per cent respectively
- The outsourcing market in **EMA** and **ASPAC** continue to grow with an increase in total deal value by 174 per cent and 27 per cent respectively in 3Q15 as compared to 3Q14
- In terms of number of deals, **AMERICAS** contributed to 47 per cent of the total number of deals signed in 3Q15, whereas **EMA** and **ASPAC** contributed 34 per cent and 19 per cent respectively.

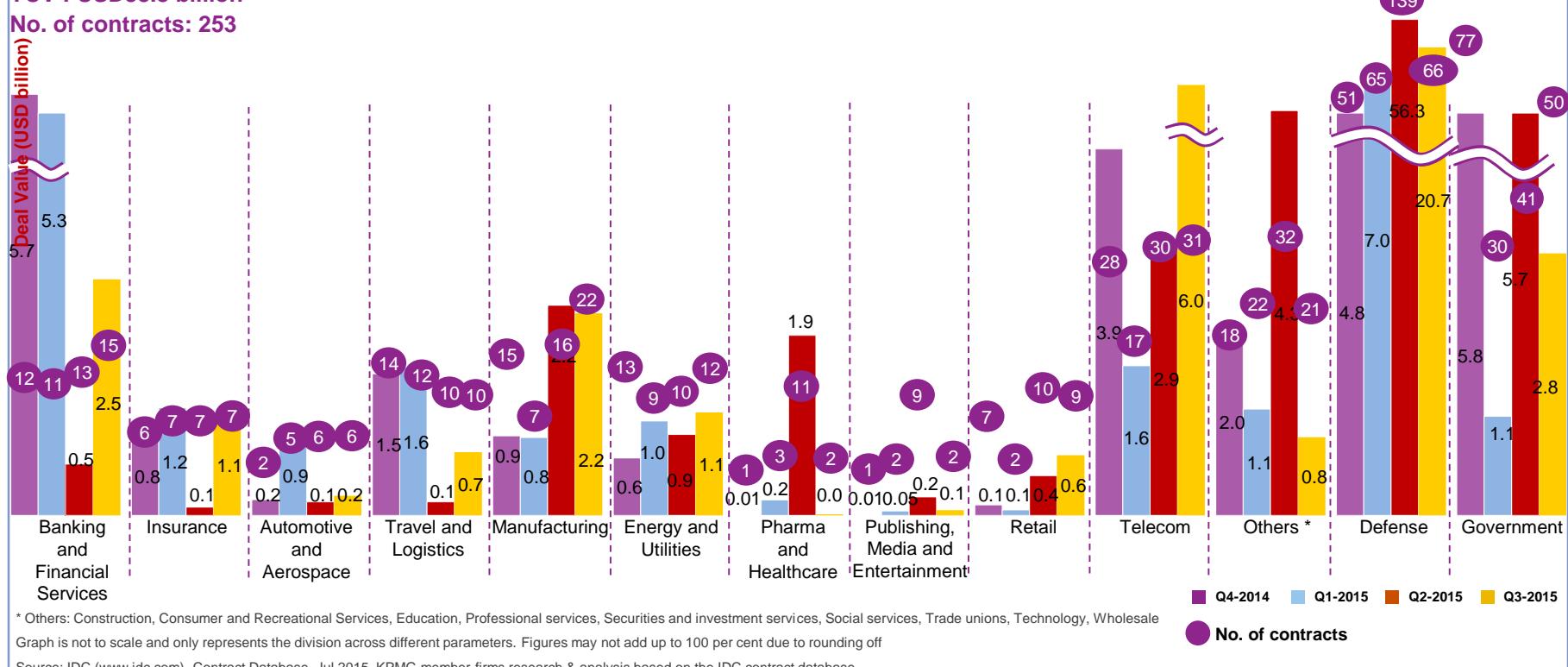
Sector analysis

IT-BPO deals across sectors by value and numbers

Sector-wise break-up of deals (4Q14 to 3Q15)

TCV : USD38.8 billion

No. of contracts: 253



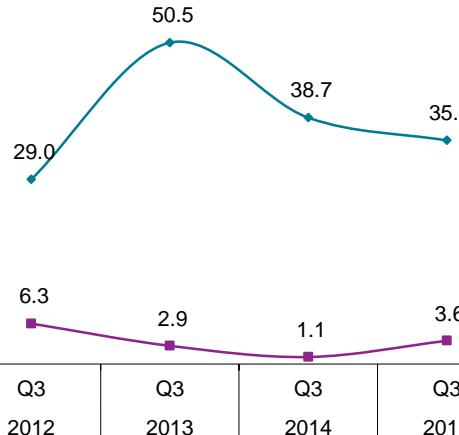
- While the Defence sector continue to lead deal activity, contributing 54 per cent of the total deal value in 3Q15, the contribution of Government sector has dropped to 8 per cent. Both the sectors witnessed a decrease of over 50 per cent in total contract value in 3Q15 as compared to 2Q15
- Telecom sector is continuously growing since past two quarters. The total contract value doubled in 3Q15 as compared to 2Q15

New and renewal* deal analysis

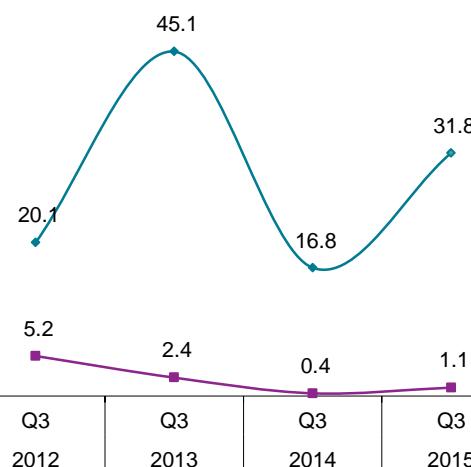
Q-o-Q comparison

Analysis of new and renewal* deals

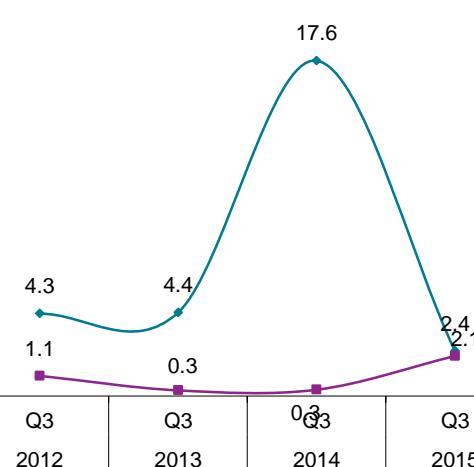
All deals



ITO



BPO



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

Source: IDC (www.idc.com), Contract Database, Oct 2015, KPMG member firms research & analysis based on the IDC contract database

Total contract value (in USD Bn)

New Renewal

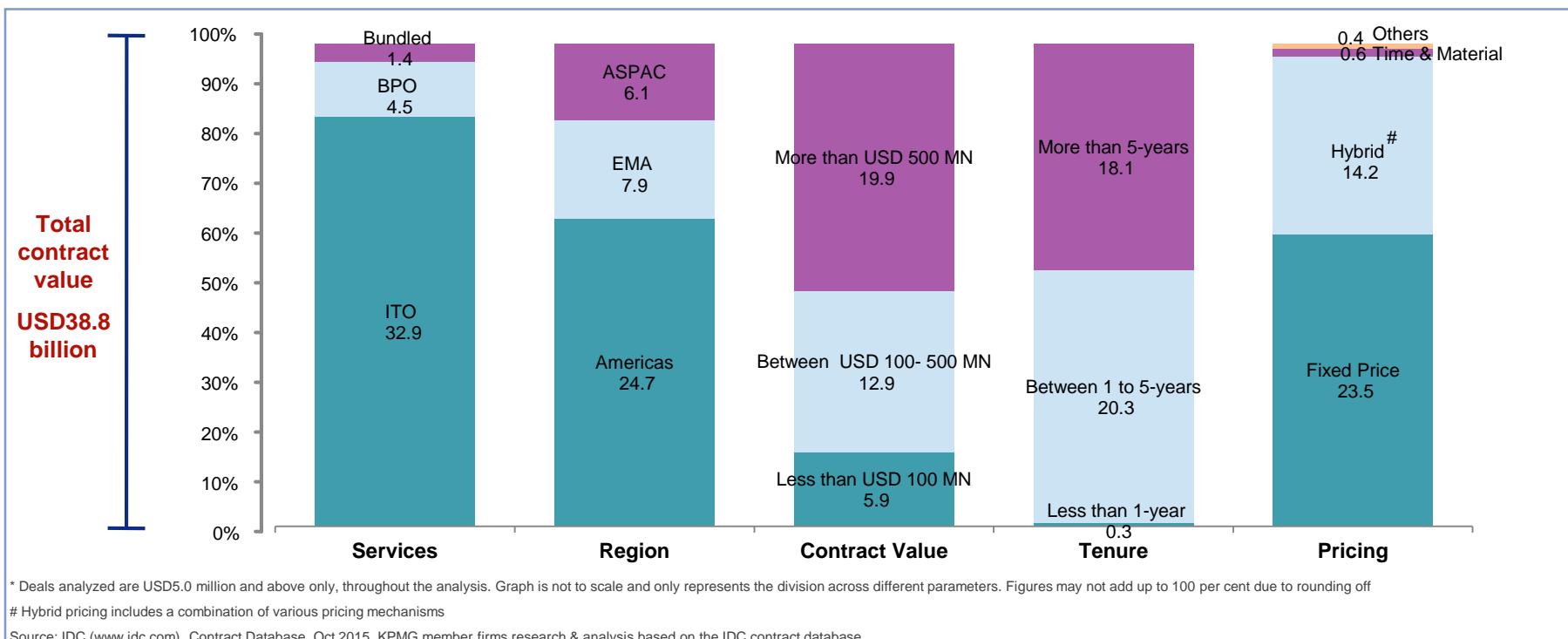
- After a decreasing trends over the third quarters of the previous years, there has been an increase in total contract value of renewed deals in 3Q15 as compared to 3Q14
- Whilst the overall ratio of new deals to renewal deals in terms of total contract value was 10: 1, it was 29:1 for ITO and 8:7 for BPO in 2Q15.

Section 2

3Q15 deal analysis



IT-BPO deals* signed in 3Q15 (Total contract value: USD38.8 billion)

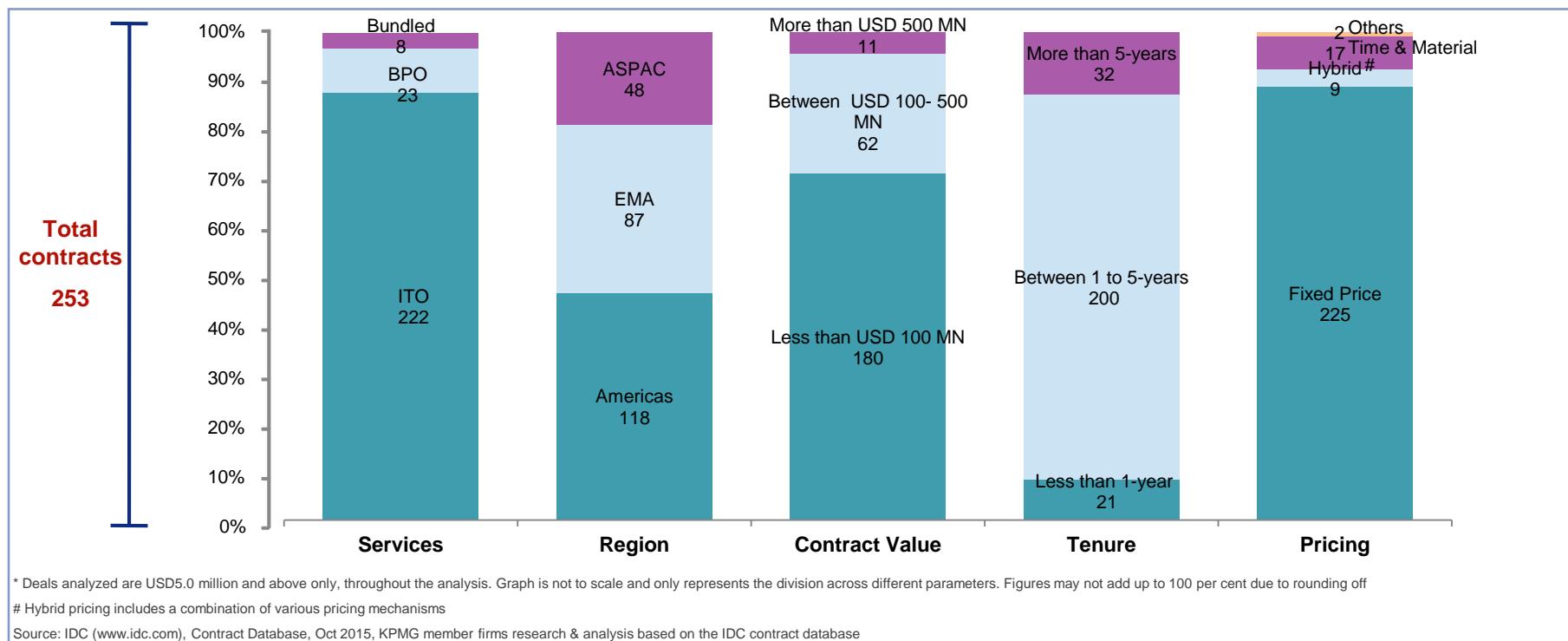


- **ITO deals continue to dominate the outsourcing space with a contribution of 85 per cent to total deal value signed in 3Q15**
- **AMERICAS continues to be the major outsourcing region contributing 64 per cent of the total deal value in 3Q15. EMA and ASPAC contribute 21 per cent and 16 per cent respectively**
- **3Q15 saw the continued dominance of Fixed Price contracting model, contributing 61 per cent of the deal value, followed by Hybrid model, contributing 37 per cent.**

Number of deals

Global sourcing snapshot: July to September 2015

IT-BPO deals* signed in 3Q15 (Total number of contracts: 253)

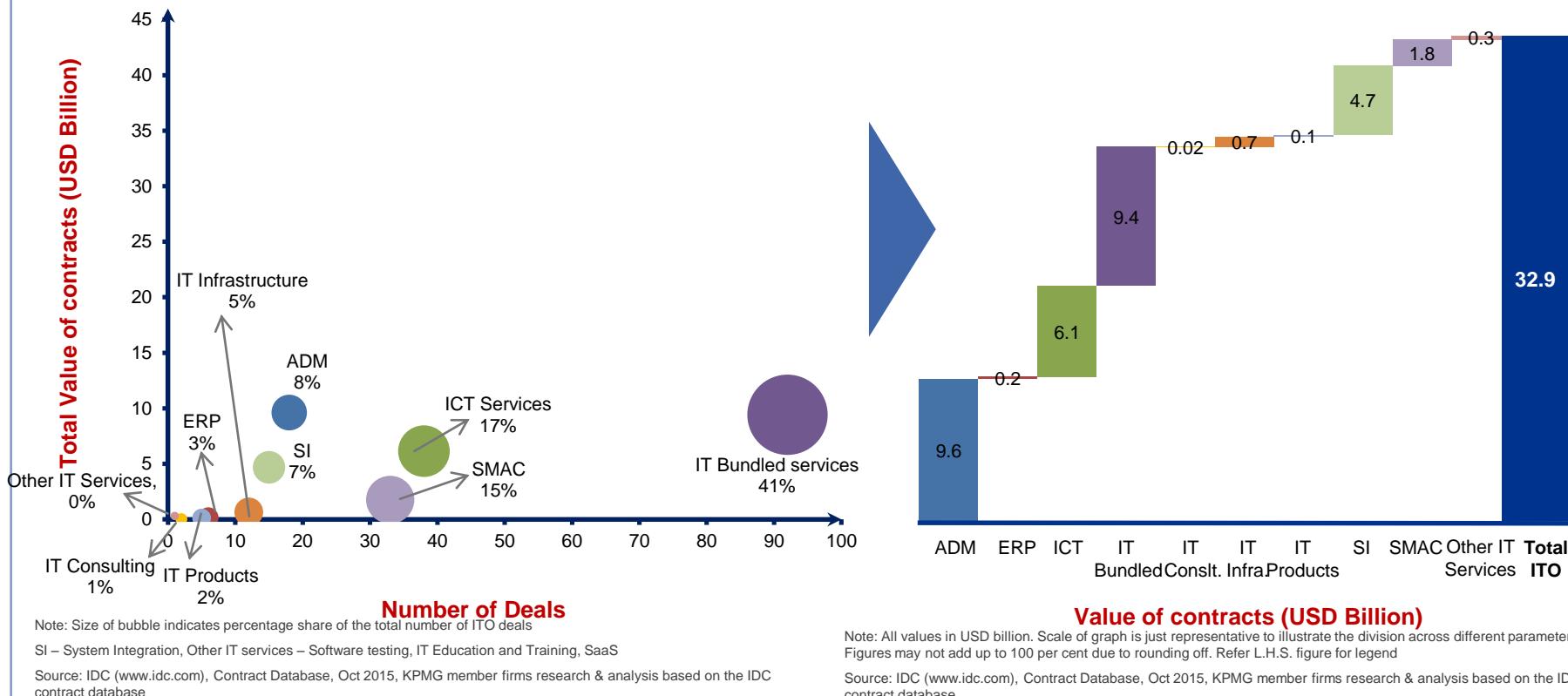


- While ITO deals and BPO deals decreased by 13 per cent and 68 per cent respectively in terms of number of deals signed in 3Q15 as compared to 2Q15, bundled deals remained constant in the same period
- 71 per cent of the deals, in terms of number of deals signed in 3Q15, were of value less than USD100 million
- Deals with tenure between 1 to 5 years were largest in number, comprising 79 per cent to the deals signed in 3Q15. Long tenure deals with tenure more than 5 years made 13 per cent of the total number of deals

Services segmentation

ITO services

Analysis of ITO deals 3Q15

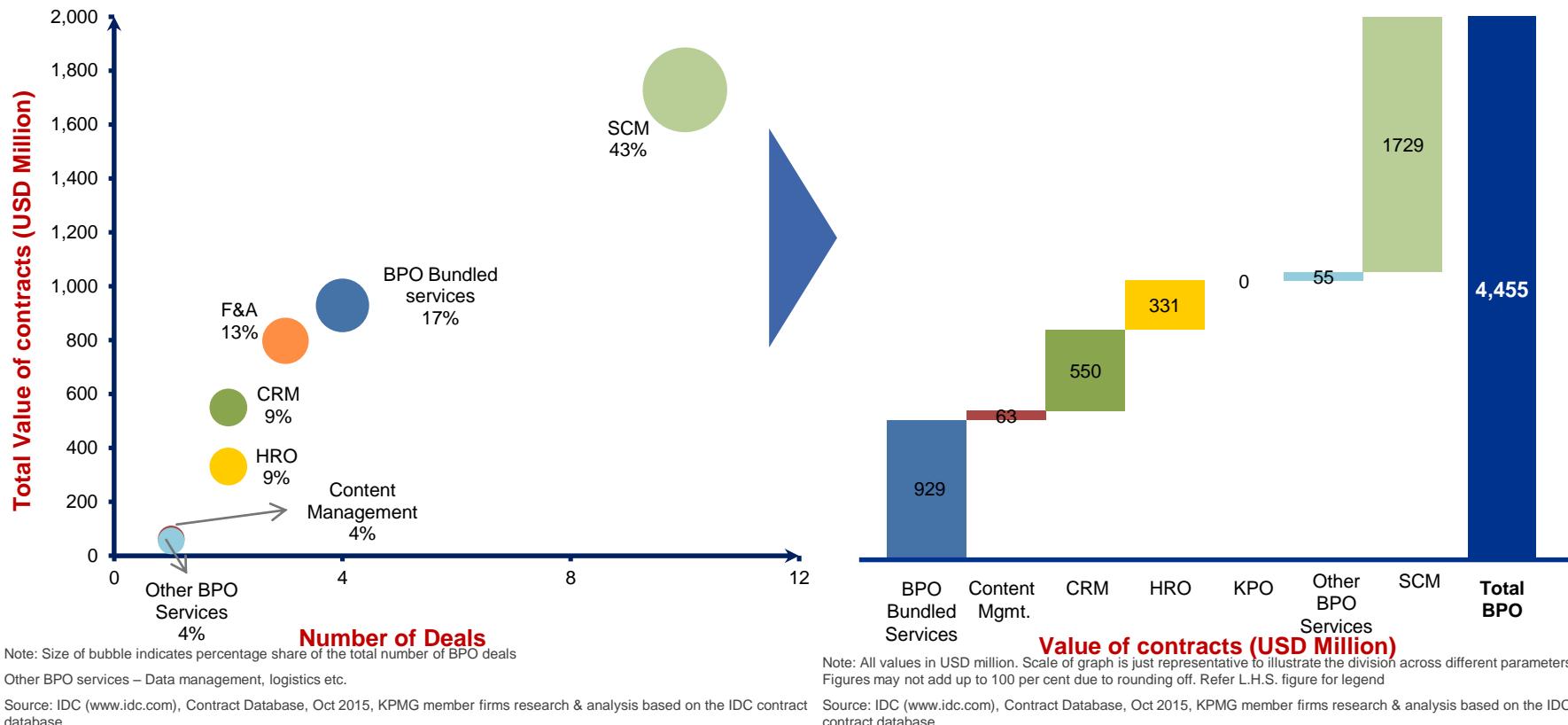


- ADM, ICT Services and IT Bundled together contributed to 77 per cent of all ITO deals in terms of value and 67 per cent in terms of number of deals during 3Q15
- ADM gained activity with multi-fold growth in total contract value in 3Q15 over 2Q15 after a long period of weak activity. SMAC services are gaining momentum with 43 per cent increase in total contract value over the same period

Services segmentation

BPO services

Analysis of BPO deals 3Q15



- **SCM and BPO Bundled together contributed to 60 per cent of all BPO deals in terms of value and 61 per cent in terms of number of deals during 3Q15**
- **F&A and CRM services have also exhibited multifold growth in 3Q15 in terms of deal value as compared to 2Q15**

Section 3

IT-BPO outsourcing outlook



- 3Q15 shows a outsourcing deal activity in lines with the weak economic activity in most major industrialized markets – though there is a sharp dip as compared to 2Q15, it is comparable to the third quarters of the last couple of years.
- Renewal deals value is minuscule as compared to new deals values with many organizations actively exploring outsourcing as a part of their business transformation efforts from a more wide-ranging process standpoint.
- Government and Defense sectors are the main consumers of IT&BPO services – while 2Q15 saw an upturn in the deal activity both the sectors witnessed a significant downturn in 3Q15
- Many organizations chose traditional pricing models as compared to a hybrid model continuing the decreasing trend in the share of hybrid pricing deals over the quarters. This may indicate a reduction in the risk appetite of the vendors
- While EMA is continuing to gain outsourcing momentum, 3Q15 deal activity has been driven by the AMERICAS which continues to be the major outsourcer
- SMAC services and automation are major drivers for the commoditization of the outsourcing services and this is especially true for IT services. There are still only a few stand-alone SMAC deals but are now becoming a common part of bundled deals.
- Buyers are seeking more commoditized solutions tailor made to specific industry, geographic and regulatory needs that can drive benefits more than cost savings*

¹ KPMG SSOA Pulse survey 2Q15

Source: IDC (www.idc.com), Contract Database, Oct 2015, KPMG member firms research & analysis based on the IDC contract database

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Glossary (1/2)

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

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 centre 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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