



*cutting through complexity*

# 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 ([snarwaiye@kpmg.com](mailto:snarwaiye@kpmg.com)).

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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.

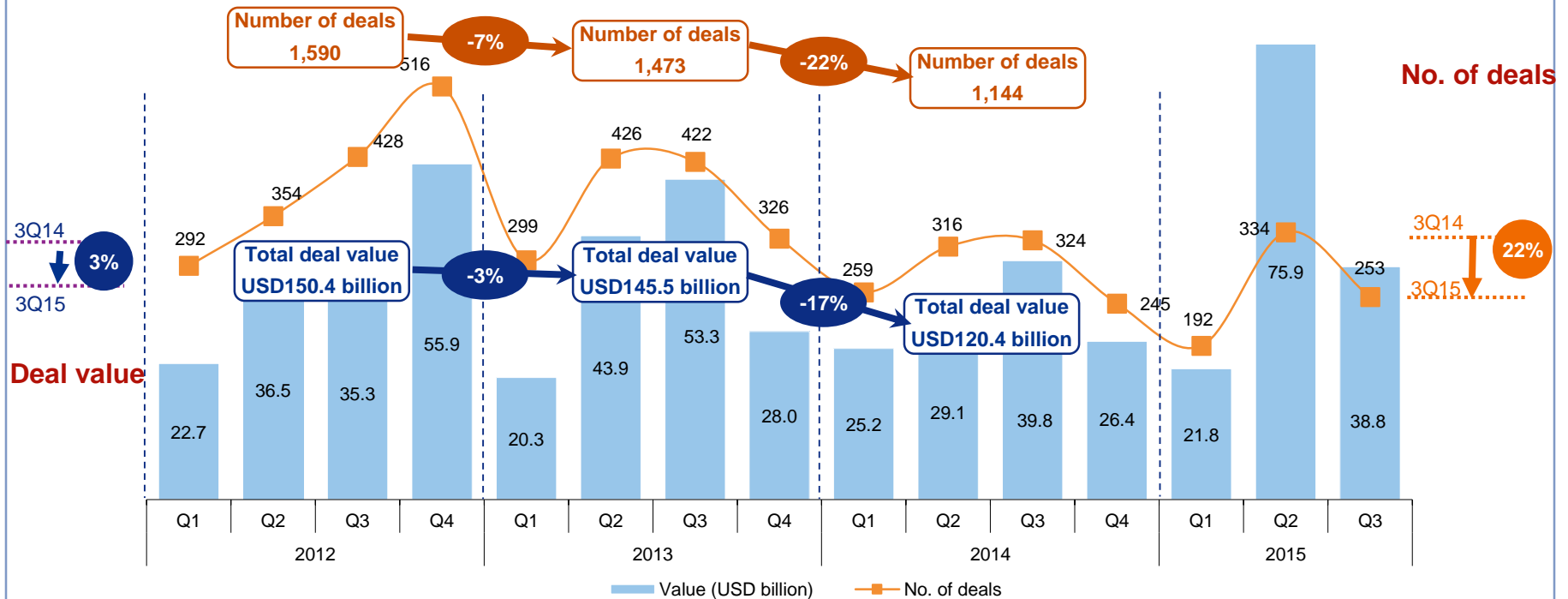
**Average annualized contract value** in 3Q15 was **USD36.4 million** as compared to **USD24.9 million** in 3Q14 showing an increase of **46 per cent** between the two quarters.

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.

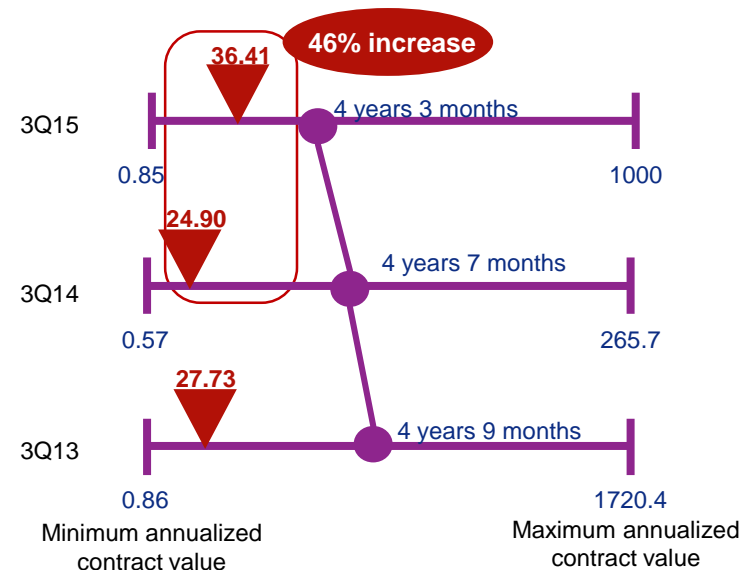
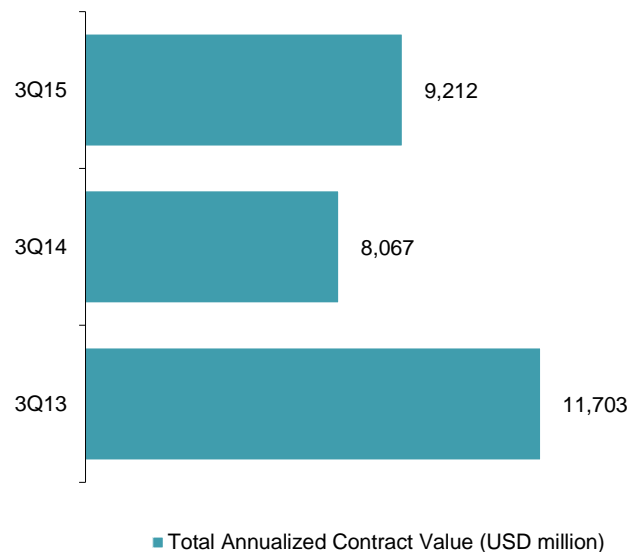
Source: IDC (www.idc.com), Contract Database, Oct 2015, KPMG member firms research & analysis based on the IDC contract database

- 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 ) 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, 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 >=25%	Increase <25%	Decrease >=25%	Increase <25%	No change	Increase <25%	Increase <25%	No change	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%
Banking & Financial Services	Increase <25%	Decrease <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%
Defence	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease <25%
Energy & Utilities	Decrease >=25%	Increase <25%	Decrease <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease <25%	Increase <25%
Government	Decrease >=25%	Decrease <25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease <25%	Increase <25%	Decrease >=25%
Insurance	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	No change	No change	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%
Manufacturing	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%
Pharma & Healthcare	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%
Publishing, Media & Entertainment	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Decrease <25%	Increase <25%
Retail	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%
Telecom	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%
Travel & Logistics	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease <25%	Decrease <25%	No change	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%
Others*	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%

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

Source: IDC (www.idc.com), Contract Database, 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	Green	Orange	Green	Red	Yellow	Orange	Green	Orange	Green	Light Green	Green	Red
BPO	Red	Light Green	Green	Red	Red	Red	Green	Red	Red	Green	Red	Green
Bundled	Red	Orange	Orange	Orange	Orange	Green	Red	Yellow	Red	Red	Green	Orange
Less than USD 100 MN	Red	Orange	Green	Orange	Orange	Orange	Green	Orange	Orange	Light Green	Light Green	Light Green
Between USD 100- 500 MN	Red	Orange	Green	Red	Red	Red	Green	Red	Red	Green	Light Green	Red
More than USD 500 MN	Orange	Orange	Green	Red	Red	Orange	Green	Orange	Green	Light Green	Green	Red
Less than 1-year	Red	Green	Light Green	Red	Red	Orange	Green	Red	Red	Green	Orange	Red
Between 1 to 5-years	Red	Light Green	Green	Orange	Orange	Orange	Green	Light Green	Red	Green	Green	Orange
More than 5-years	Orange	Red	Green	Red	Red	Red	Green	Red	Green	Green	Orange	Light Green

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

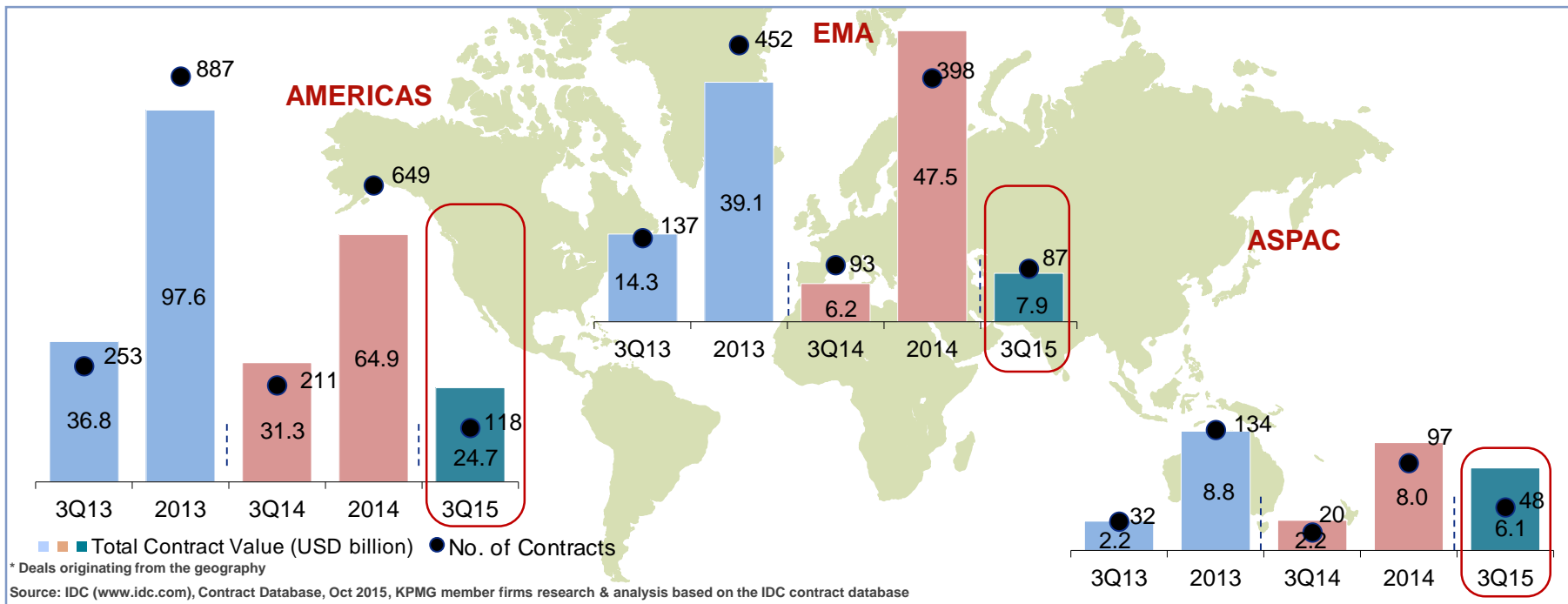
■ Decrease >=25% 
 ■ Decrease <25% 
 ■ No change 
 ■ Increase <25% 
 ■ Increase >=25%

- **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\*

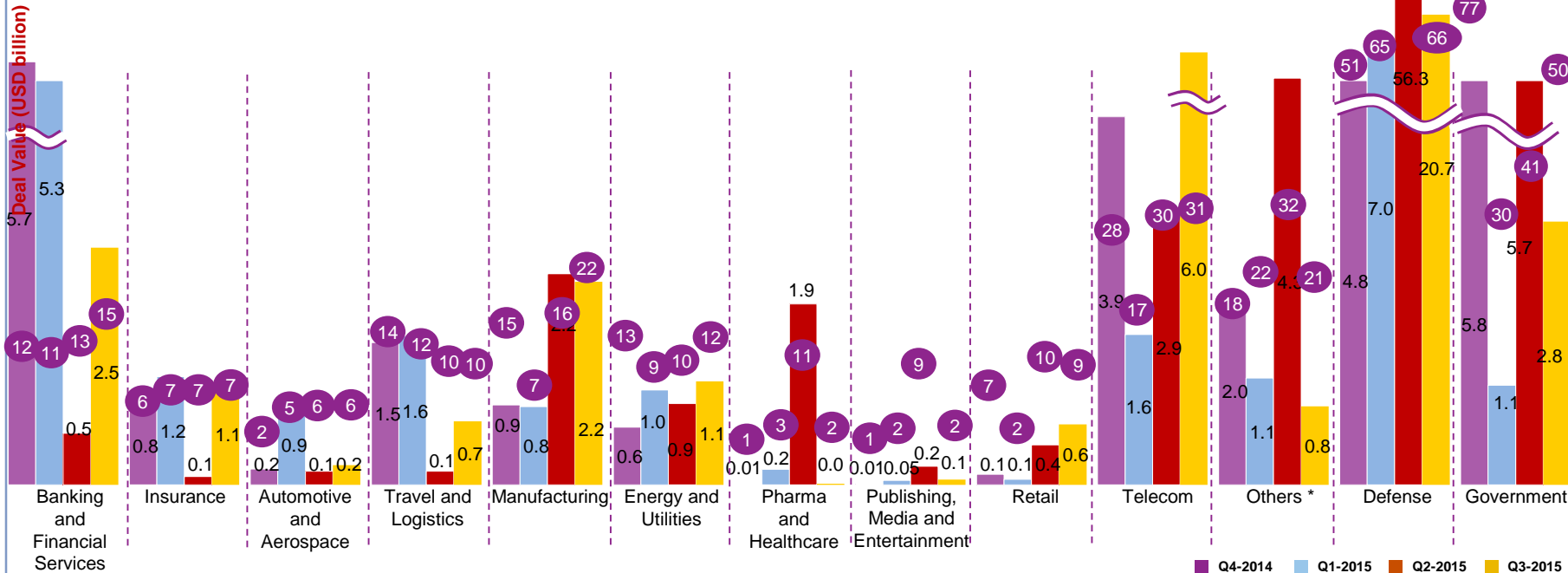


- **AMERICAS continues to be the major outsourcing region contributing 64 per cent of the total deal value in 3Q15. EMA and ASPAC contribute 21 per cent and 16 per cent respectively**
- **The outsourcing market in EMA and ASPAC continue to grow with an increase in total deal value by 174 per cent and 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-wise break-up of deals (4Q14 to 3Q15)

TCV : USD38.8 billion

No. of contracts: 253



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

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

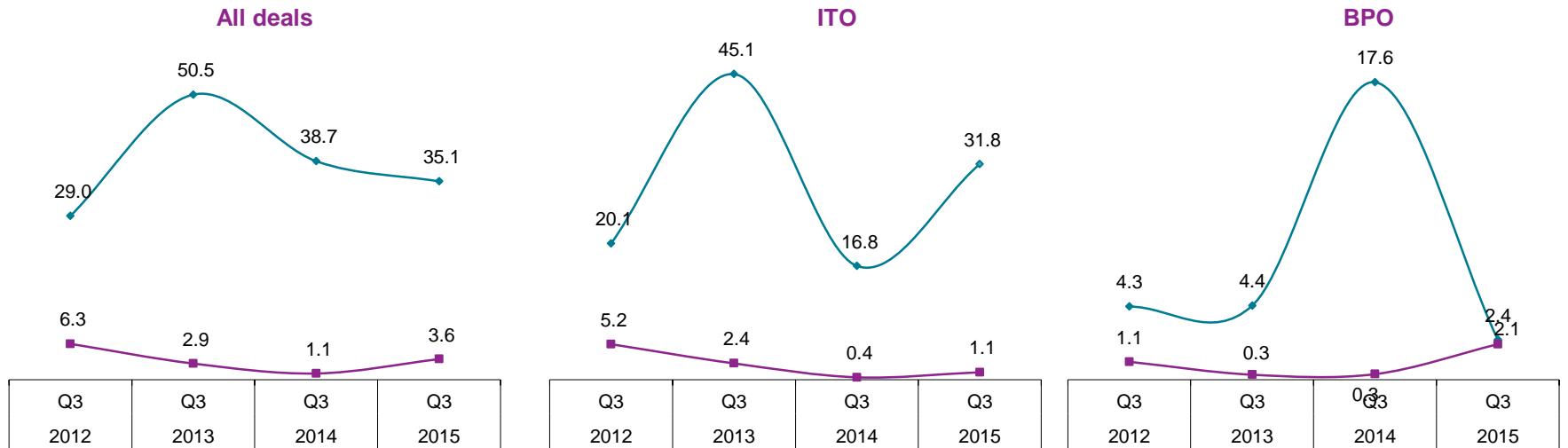
Source: IDC. (www.idc.com). Contract Database. Jul 2015. KPMG member firms research & analysis based on the IDC contract database

- 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



\* 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

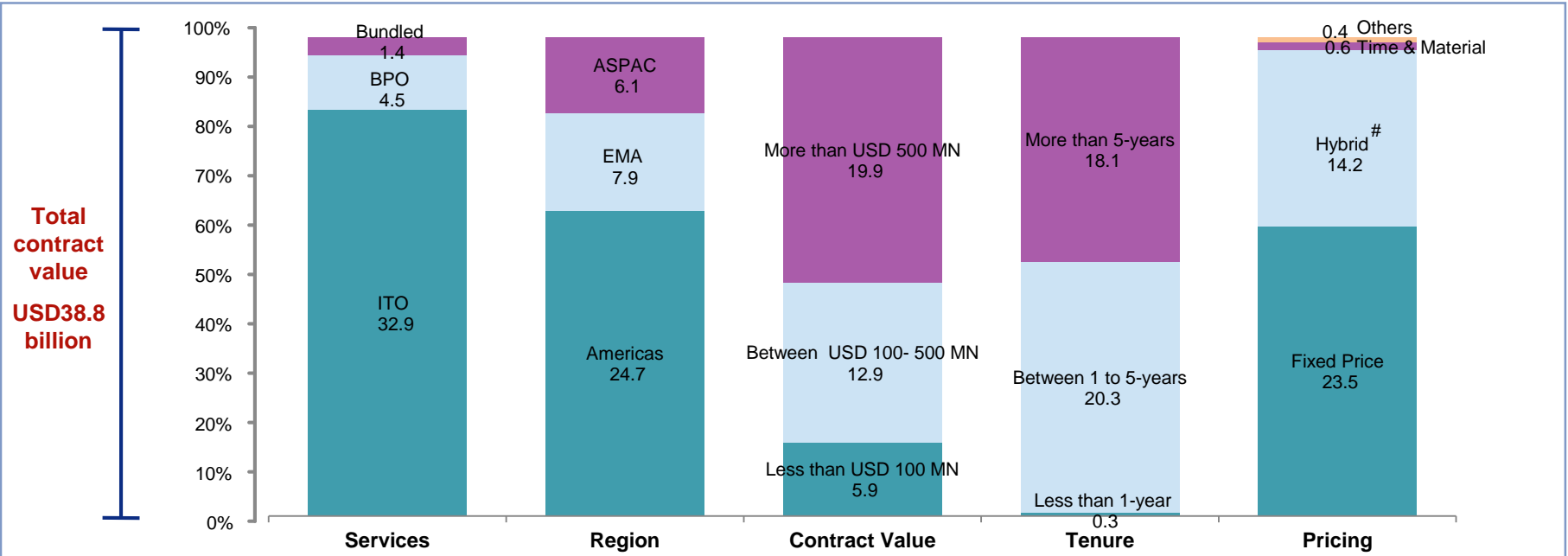
- **After a decreasing trends over the third quarters of the previous years, there has been an increase in total contract value of renewed deals in 3Q15 as compared to 3Q14**
- **Whilst the overall ratio of new deals to renewal deals in terms of total contract value was 10: 1, it was 29:1 for ITO and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

Section 2

# 3Q15 deal analysis



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



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

# Hybrid pricing includes a combination of various pricing mechanisms

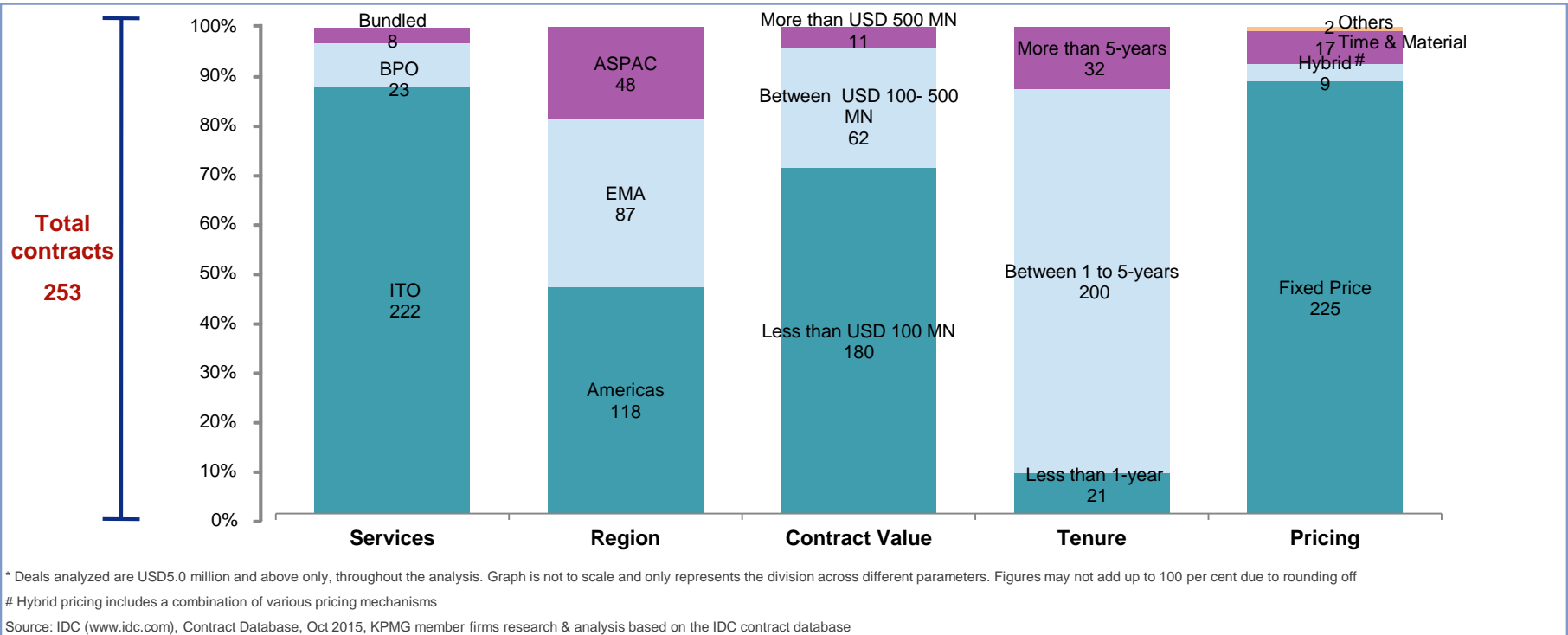
Source: IDC (www.idc.com), Contract Database, Oct 2015, KPMG member firms research & analysis based on the IDC contract database

- **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

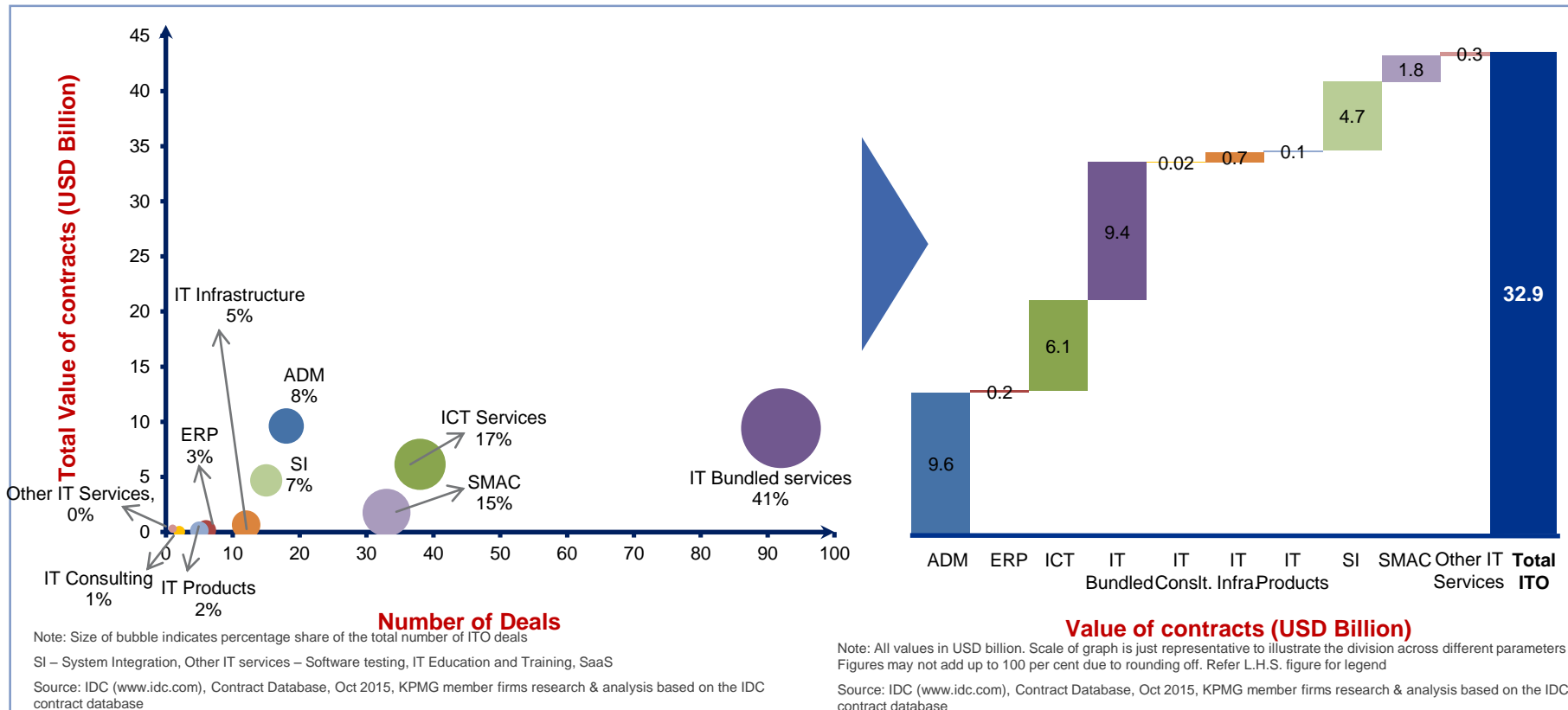
## Global sourcing snapshot: July to September 2015

### 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

### Analysis of ITO deals 3Q15



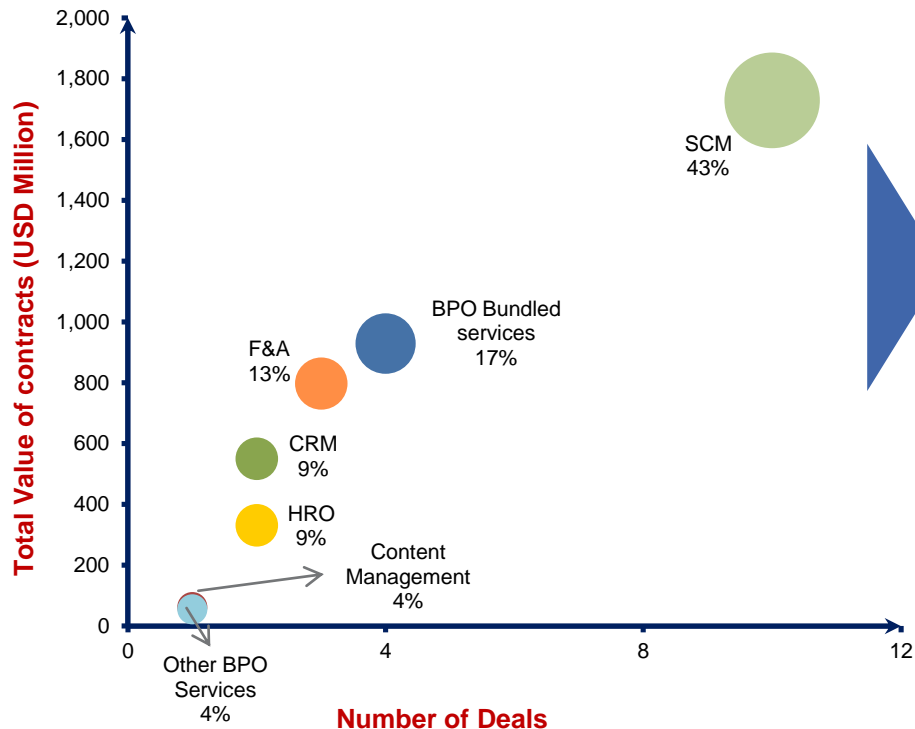
- **ADM, ICT Services and IT Bundled together contributed to 77 per cent of all ITO deals in terms of value and 67 per cent in terms of number of deals during 3Q15**
- **ADM gained activity with multi-fold growth in total contract value in 3Q15 over 2Q15 after a long period of weak activity. SMAC services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



# Services segmentation

## BPO services

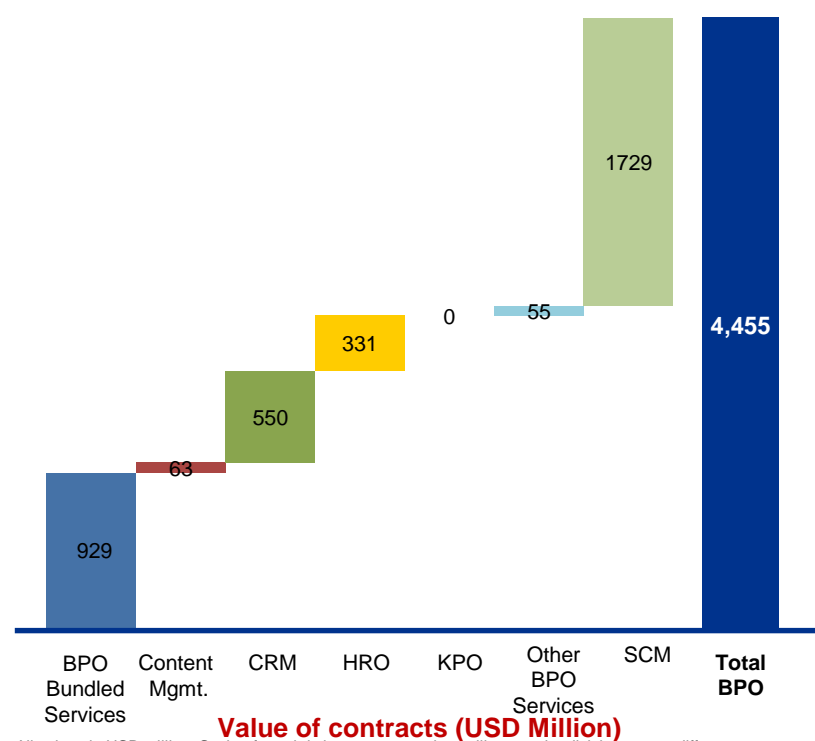
### Analysis of BPO deals 3Q15



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

Other BPO services – Data management, logistics etc.

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

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

- **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 miniscule 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\**

<sup>1</sup> 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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Discover the keys to a successful journey toward GBS maturity.

**Robotic Revolution – Separating Hype from Reality**  
Shared Services and Outsourcing Institute • Oct 14, 2015 5:19 PM • Shared Services & Outsourcing  
The use of robotics process automation (RPA) services is gaining momentum in the market,

**KPMG Shared Services and Outsourcing Advisory Leadership**

**Cliff Justice**  
Practice Leader (U.S.) Shared Services and Outsourcing Advisory  
Email View Bio

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

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