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Global IT-BPO Outsourcing Deals Analysis

**1Q15 Analysis:
January to March**

April 2015



About global IT-BPO outsourcing deals analysis

KPMG in India'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:

Our 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).

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Section 1

Global deals: An overview



A summary

In 1Q15 (January to March), **148 ITO contracts** worth **USD17.7 billion** and **nine BPO contracts** worth **USD1.8 billion** were signed, worldwide

Globally **35 IT-BPO bundled** deals were signed in 1Q15 with contract value worth **USD2.2 billion**

In terms of value, approximately **26 per cent of deals** by value originated from the **United States**, followed by **Germany** at **23 per cent**. India and The Netherlands were two other key outsourcing markets

The **average deal tenure** has consistently been decreasing since 3Q14, with a sharp decrease of twelve months as compared to 4Q14, to **3 years 2 months** in 1Q15

Defence continues to be the top consumer of IT-BPO services contributing to **32 per cent** in terms of value of outsourcing deals signed in 1Q15. **Government** sector witnessed a sharp drop of **82 per cent** in terms of total contract value in 1Q15 against 4Q14

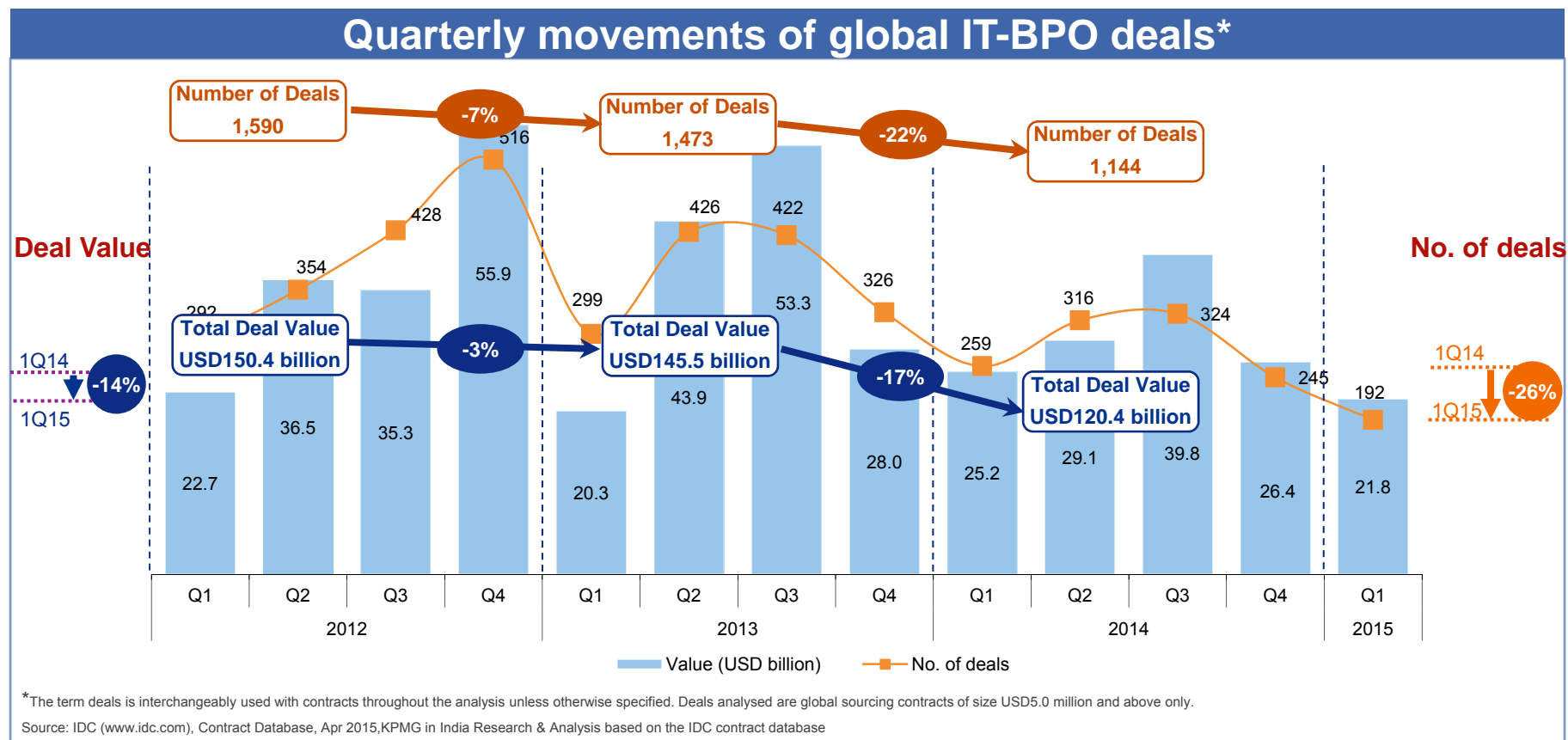
IT Infrastructure and **Transactional Services** contributed **USD6.5 billion** and **USD770 million** respectively and were the largest procured services globally within ITO and BPO outsourced services, respectively

Average annualised contract value in 1Q15 was **USD38.5 million** as compared to **USD27 million** in 1Q14 showing an increase of **43 per cent** between the two quarters

Source: IDC (www.idc.com), Contract Database, Apr 2015, KPMG in India Research & Analysis based on the IDC contract database

Quarterly deal movements

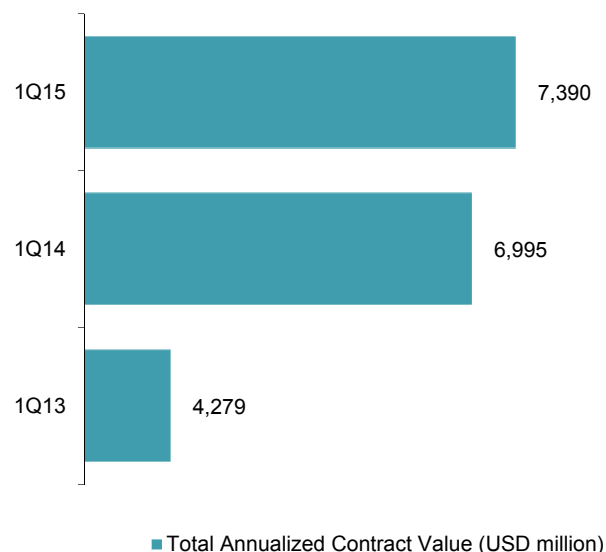
Snapshot



- 1Q15 witnessed a decrease of 14 per cent in total contract value and total number of deals reduced by 26 per cent as compared to 1Q14, indicating growth in the average deal value.
- The average contract value continued to increase in 1Q15 with an increase of 5 per cent as compared to 4Q14 and 17 per cent as compared to 1Q14 showing a trend of larger size deals being signed in this quarter.

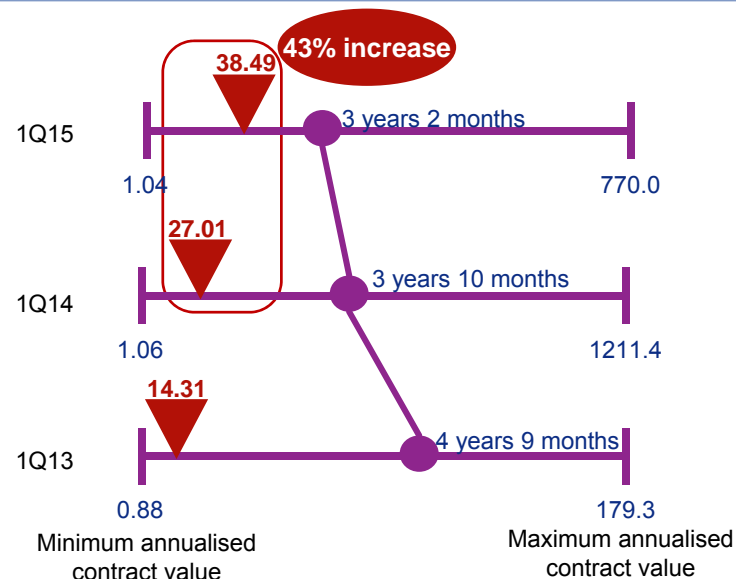
Annualised contract value (ACV) Q-o-Q comparison

Annualised* contract value comparison per quarter



6% increase

63% increase



Note: All values in USD million unless otherwise specified

▼ Average annualised contract value (USD million)

● Average tenure per contract

- There was an increase of 6 per cent in total annualised contract value in 1Q15 as compared to 1Q14.
- The average annualised contract value increased by 43 per cent in 1Q15 as against 1Q14, while the average contract tenure decreased to 3 years 2 months from 3 years 10 months.

Sector analysis

Q-o-Q comparison

Trends in deal movement from 1Q14 to 1Q15

| Sector | Total Contract Value | | | | Total Number of Contracts | | | | Average Contract Value | | | |
|-----------------------------------|----------------------|------------|------------|------------|---------------------------|------------|------------|------------|------------------------|------------|------------|------------|
| | 1Q14->2Q14 | 2Q14->3Q14 | 3Q14->4Q14 | 4Q14->1Q15 | 1Q14->2Q14 | 2Q14->3Q14 | 3Q14->4Q14 | 4Q14->1Q15 | 1Q14->2Q14 | 2Q14->3Q14 | 3Q14->4Q14 | 4Q14->1Q15 |
| Automotive & Aerospace | | | | | | | | | | | | |
| Banking & Financial Services | | | | | | | | | | | | |
| Defence | | | | | | | | | | | | |
| 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: IDC (www.idc.com), Contract Database, Apr 2015, KPMG in India Research & Analysis based on the IDC contract database

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

- **Automotive and Aerospace, Defence, Energy and Utilities, Insurance, Pharma and Healthcare and Publishing, Media and Entertainment sectors have exhibited growth greater than 25 per cent in terms of value over 4Q14, while Government, Retail, Telecom, and Others sectors had a decline greater than 25 per cent in total contract value (TCV).**
- **Continuous growth in average contract value was observed in Banking and Financial Services since 1Q14**
- **Energy and Utilities, Government, Manufacturing, Retail, and telecom sectors have shown a decrease greater than 25 per cent in number of contracts signed in 1Q15 over 4Q14.**

Deal analysis

Q-o-Q comparison

Trends in deal movement from 1Q14 to 1Q15

| Deal Type | Total Contract Value | | | | Total Number of Contracts | | | | Average Contract Value | | | |
|-------------------------|----------------------|--------------|------------|--------------|---------------------------|--------------|------------|--------------|------------------------|--------------|------------|--------------|
| | 1Q14->2Q14 | 2Q14 -> 3Q14 | 3Q14->4Q14 | 4Q14 -> 1Q15 | 1Q14->2Q14 | 2Q14 -> 3Q14 | 3Q14->4Q14 | 4Q14 -> 1Q15 | 1Q14->2Q14 | 2Q14 -> 3Q14 | 3Q14->4Q14 | 4Q14 -> 1Q15 |
| 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 | | | | | | | | | | | | |

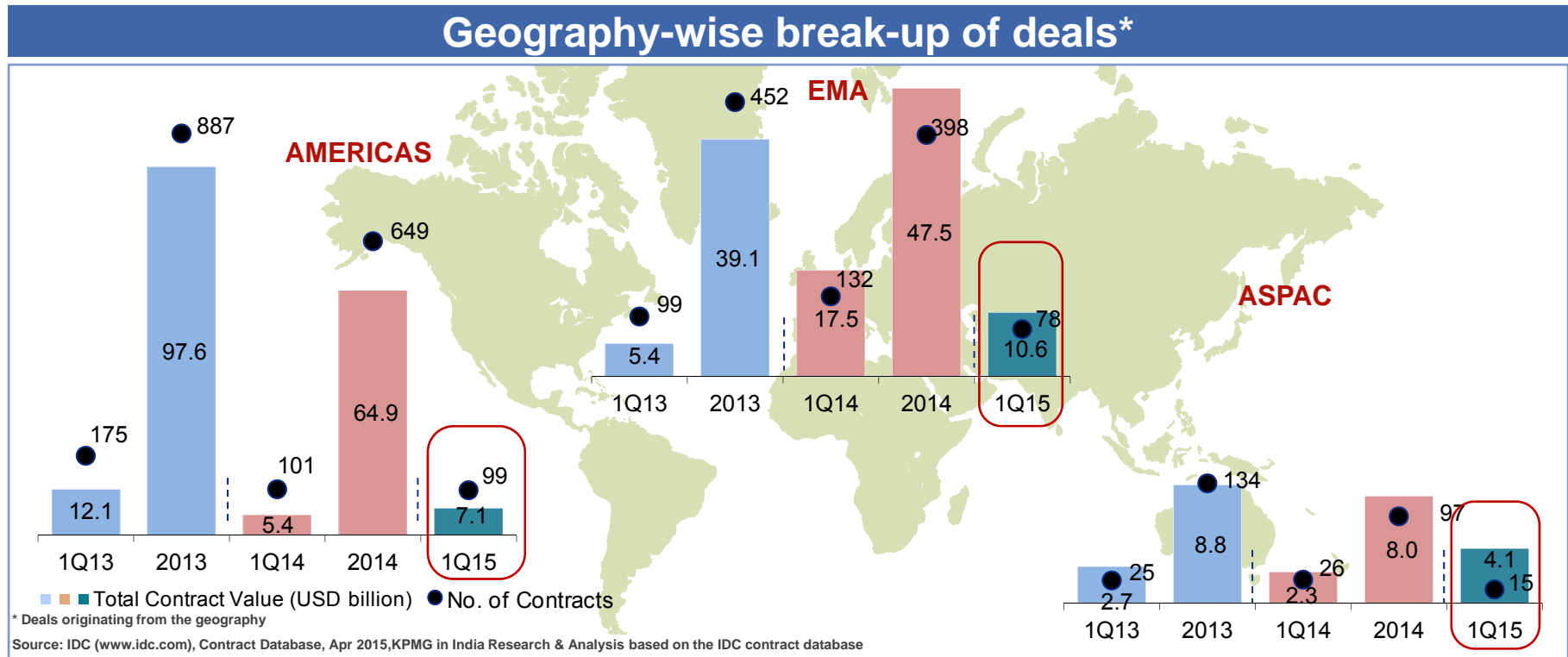
Source: IDC (www.idc.com), Contract Database, Apr 2015, KPMG in India Research & Analysis based on the IDC contract database

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

- **Total contract value for long tenure deals (more than 5 years) decreased by more than 25 per cent while short tenure deals (less than 1 year) grew by more than 25 per cent in 1Q15 over 4Q14.**
- **While the other deal categories witnessed a decrease in number of contracts, Bundled deals increased by more than 25 per cent in 1Q15 as compared to 4Q14.**
- **Continuous growth in average contract value was observed for long tenure deals (more than 5 years) since 2Q14.**
- **Almost all of the deal value categories have displayed a decrease in both TCV and number of contracts for the past two quarters.**

Geography analysis

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



- **Unlike past quarters, EMA has emerged as the major outsourcing region replacing AMERICAS. The sudden increase in deals, contributing 48 per cent of the total contract value in 1Q15, is attributed to strong demand from the Banking and Financial Services in the region.**
- **AMERICAS displayed weak market activity in 1Q15, with 33 per cent contribution to total contract value, a trend similar to 1Q14.**
- **With an increase of 76 per cent in total contract value as compared to 1Q14, ASPAC contributed 19 per cent of the total contract value in 1Q15.**

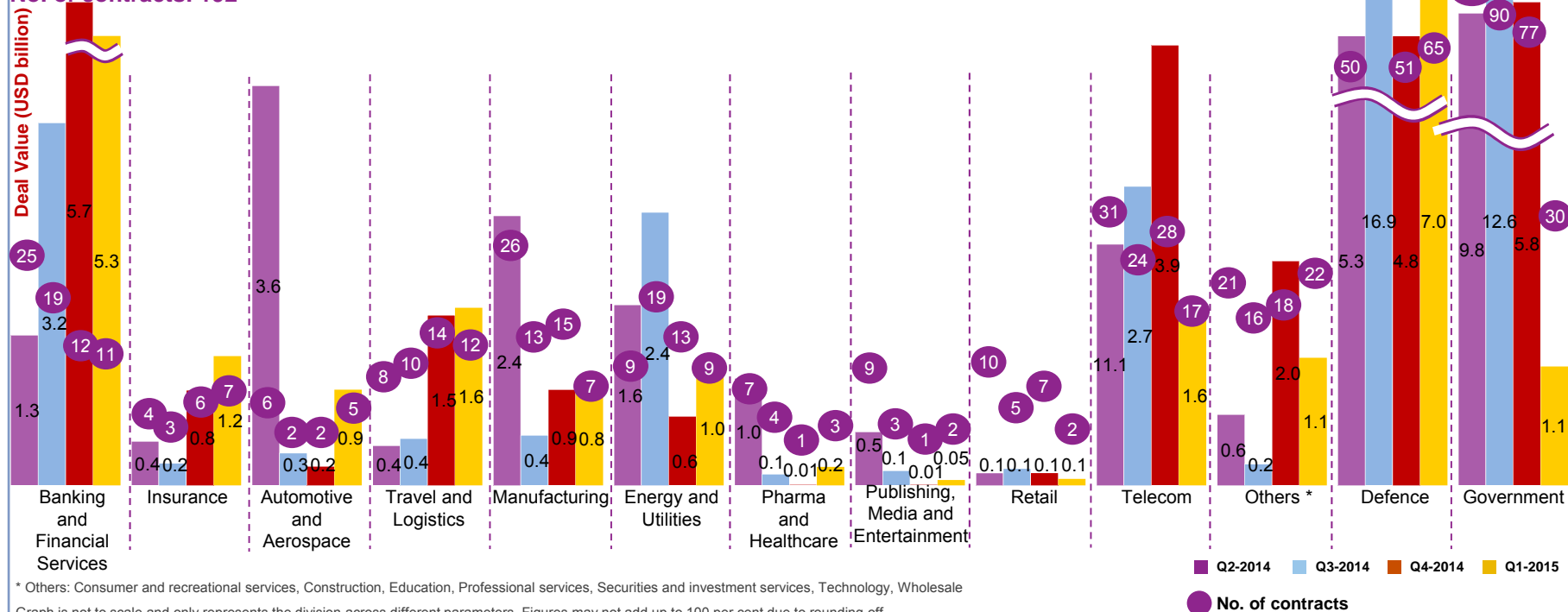
Sector analysis

IT-BPO deals across sectors by value and numbers

Sector-wise break-up of deals (2Q14 to 1Q15)

TCV : USD21.8 billion

No. of contracts: 192

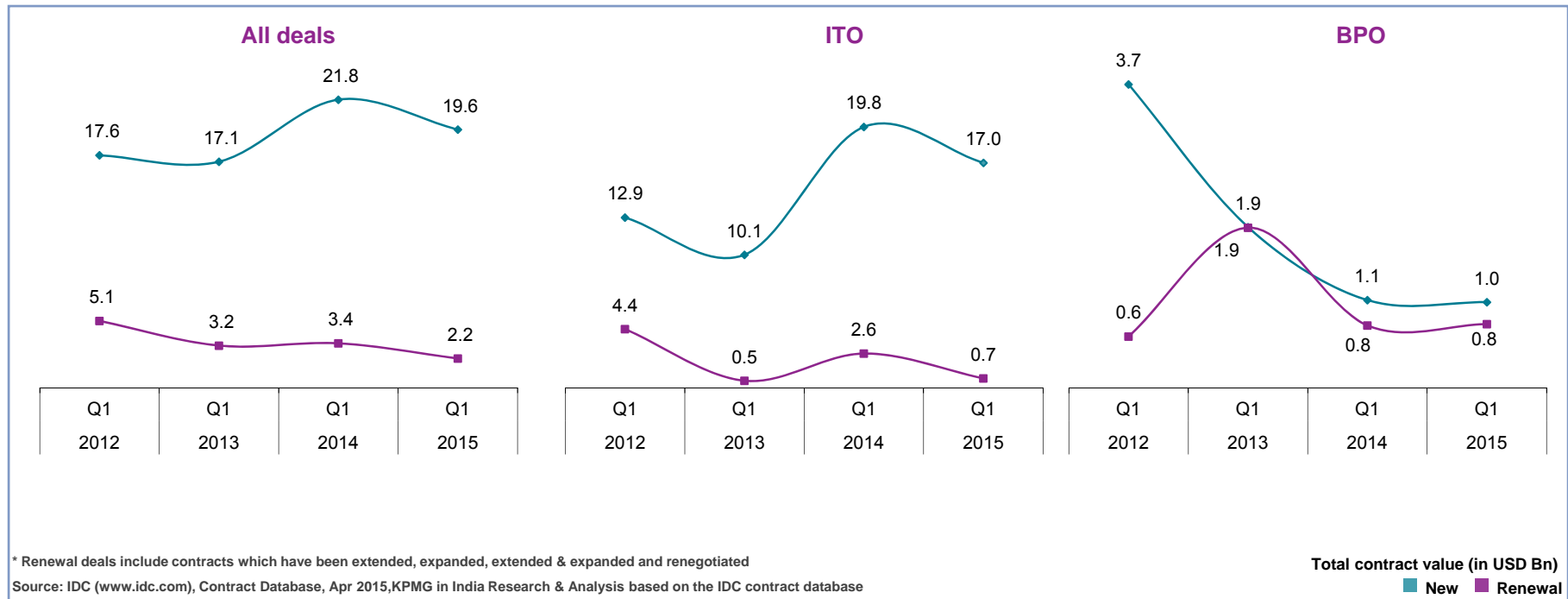


- **Defence and Banking and Financial Services lead the deal activity, together contributing to 56 per cent of the total contract value signed in 1Q15.**
- **Unlike past quarters, the Government sector witnessed a weak market activity with a sharp drop of 82 per cent in terms of total contract value in 1Q15 against 4Q14.**
- **Total contract value for Telecom witnessed a decrease of 59 per cent in 1Q15 as compared to 4Q14.**

New and renewal* deal analysis

Q-o-Q comparison

Analysis of new and renewal* deals



- Overall since 2012, there has been a consistent increase in percentage of contribution of new deals in the first quarter of each year.
- In BPO, there has been a significant decrease in contract renewals, it contributed to 14 per cent of total deals in 1Q12 and increased to more than 40 per cent over the following years.

Section 2

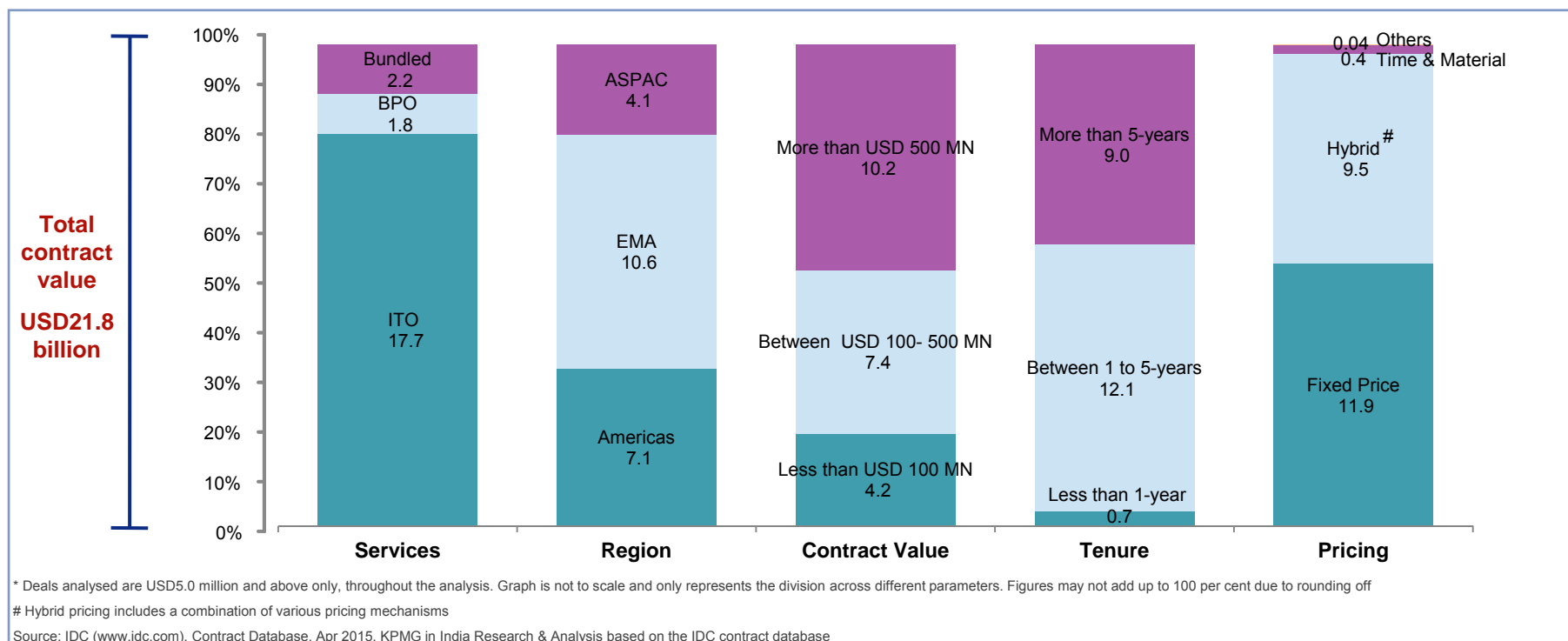
1Q15 deal analysis



Deal value

Global sourcing snapshot: January to March 2015

IT-BPO deals* signed in 1Q15 (Total contract value: USD21.8 billion)

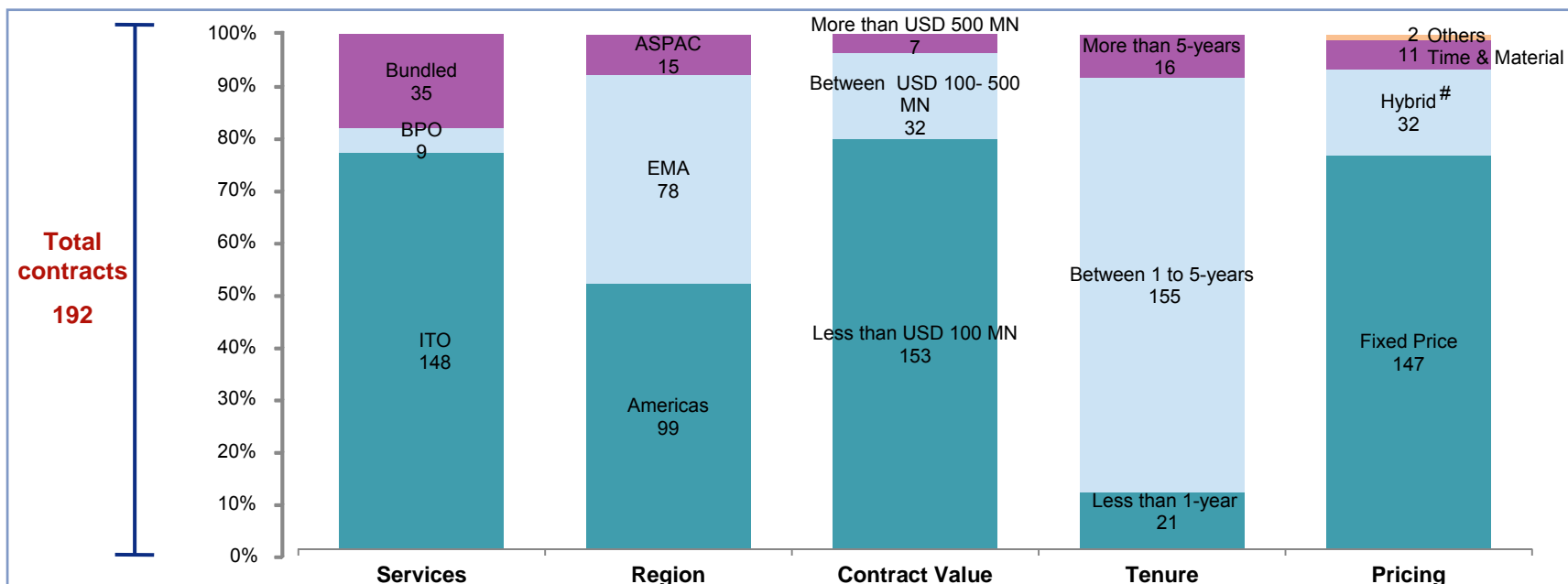


- **ITO deals continue to dominate the outsourcing space, though the total ITO deal value decreased by 18 per cent in 1Q15 over 4Q14, ITO deals form more than 80 per cent of the total deal value.**
- **Over the last two quarters, EMA has emerged as the largest outsourcing region, contributing 48 per cent of the total deal value in 1Q15. The AMERICAS have seen a further decrease in outsourcing while ASPAC has experienced multi-fold growth over 4Q14.**
- **1Q15 saw the continued dominance of Fixed Price contracting model, contributing 54 per cent of the deal value, followed by Hybrid model, contributing 44 per cent.**

Number of deals

Global sourcing snapshot: January to March 2015

IT-BPO deals* signed in 1Q15 (Total number of contracts: 192)



* Deals analysed 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

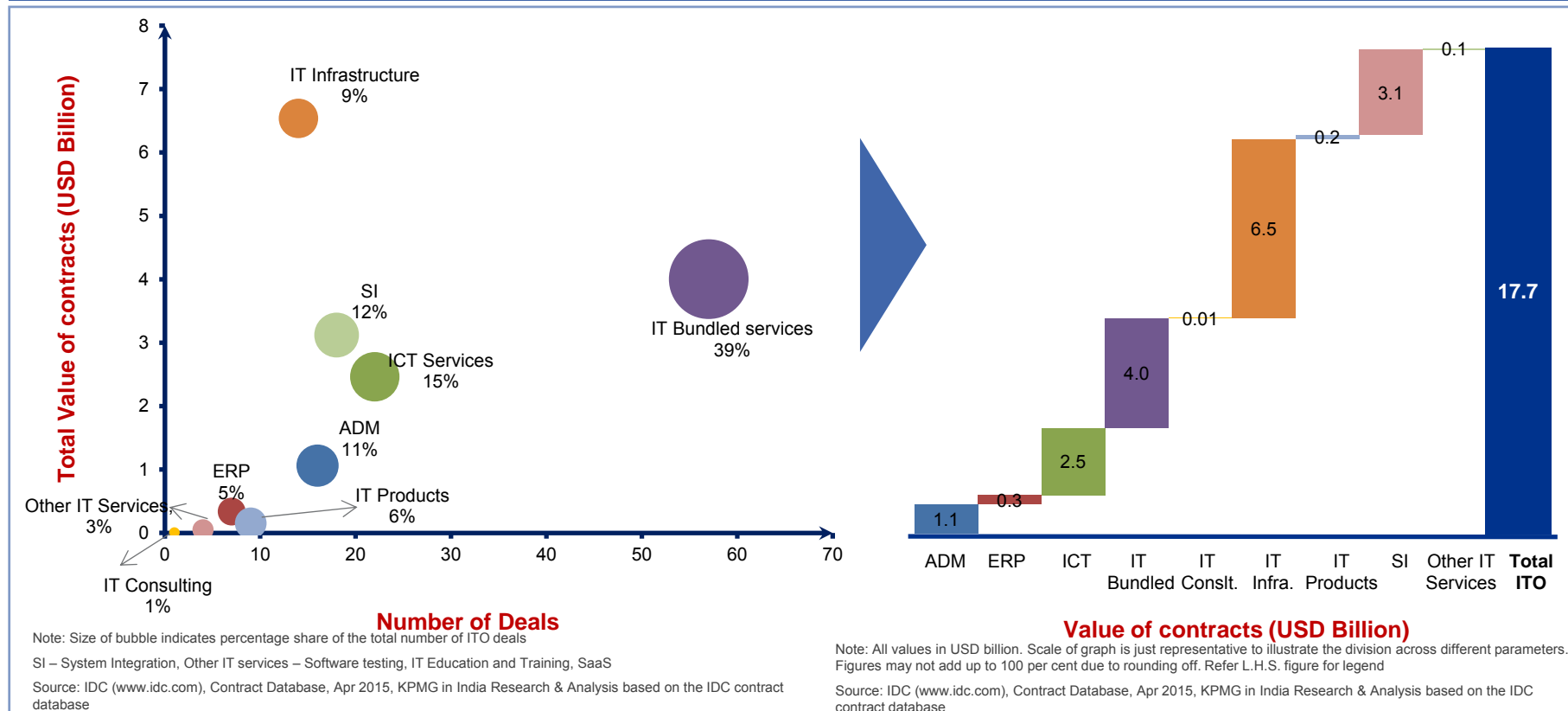
Source: IDC (www.idc.com), Contract Database, Apr 2015, KPMG in India Research & Analysis based on the IDC contract database

- **The overall number of contracts has decreased by 22 per cent in 1Q15 over 4Q14, with a similar trend being seen across regions as well as service type. Bundled deals have shown a 75 per cent growth in terms of numbers in 1Q15 as compared in 4Q14.**
- **There has been a significant (~ 68 per cent) reduction in the number of BPO deals in 1Q15 over 4Q14 and overall BPO deals contribute to only 5 per cent of the total number of deals. This is very similar to 1Q14 when BPO deals contributed to 7 per cent of total deals by numbers.**

Services segmentation

ITO services

Analysis of ITO deals 1Q15

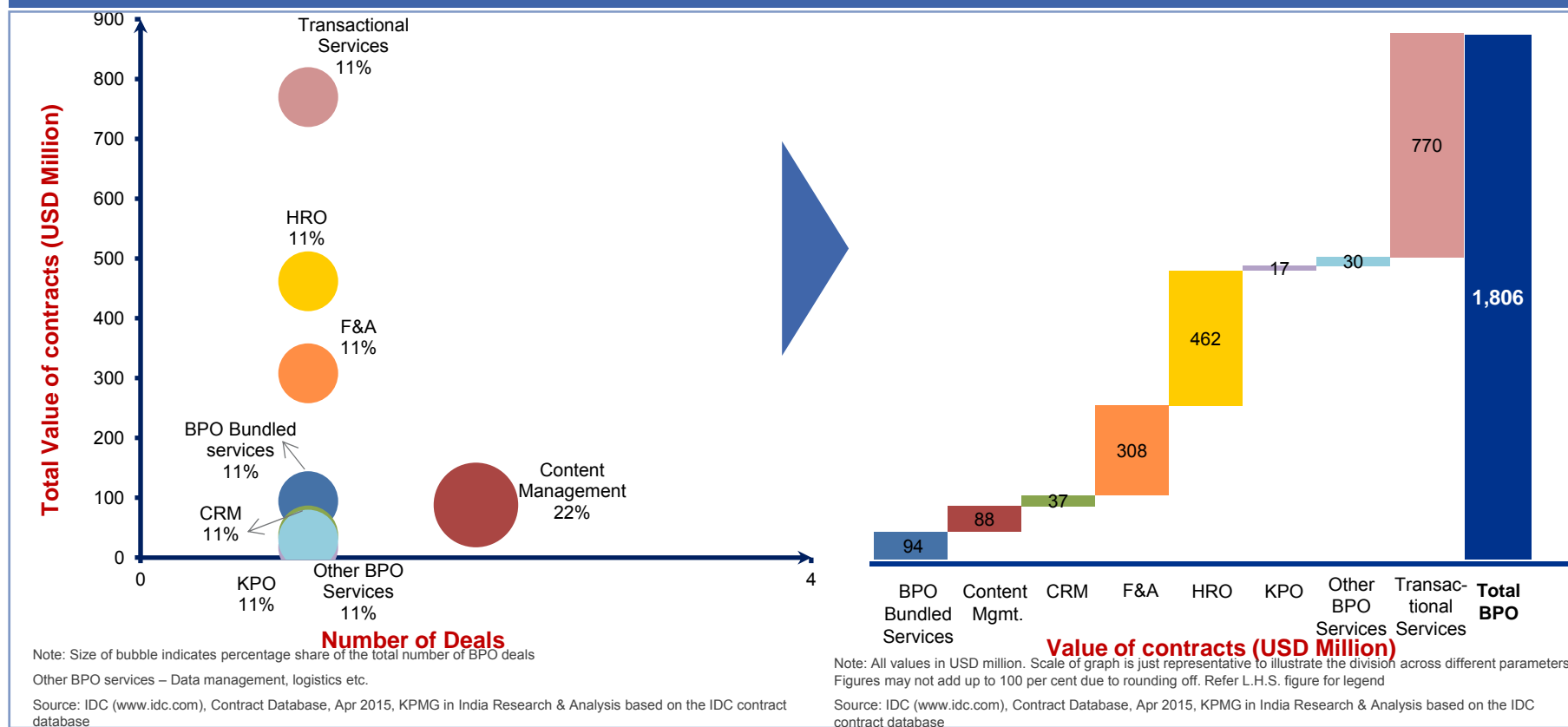


- **IT Infrastructure, IT Bundled Services, and System Integration together contributed 77 per cent of ITO deals in terms of value during 1Q15.**
- **While System Integration and IT Infrastructure have exhibited multifold growth in 1Q15 as compared to 1Q14, ICT services and ADM have exhibited more than 75 per cent reduction in growth during the same period.**

Services segmentation

BPO services

Analysis of BPO deals 1Q15



- **Pure play BPO deals have significantly reduced in market share over the last few quarters, though there was a nominal increase of 1 per cent in 1Q15 as compared to 4Q14 in terms of deal value.**
- **After few quarters of weak activity, F&A services rose back with multifold growth in 1Q15 as compared to 4Q14. HRO and Transactional Services have also exhibited multifold growth in the same period.**

Section 3

IT-BPO outsourcing outlook



Outlook

Global outsourcing industry

- *1Q15 has opened up the year on lines similar to previous first quarters of the last few years with lesser deal activity. But this is portent of an increased number of deals in the coming months as with the previous years.*
- *Many organisations are continuing to expand the scale and scope of their outsourcing efforts geographically, cross-functionally, from a more wide-ranging process standpoint, and with the inclusion of more bundled deals.*
- *Though there has been a significant drop in outsourcing by the Government, Government and Defence sectors continue to be the largest outsourcers in 1Q15 compared to other industries. Banking and financial services companies have driven many outsourcing deals this quarter.*
- *The hybrid and fixed pricing models are strong favorites while there has been a decrease in the share of hybrid pricing deals over the quarters. This may indicate a reduction in the risk appetite of the vendors*
- *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, EMA is continuing to gain outsourcing momentum.*
- *In terms of outsourcing relationships, the recent 1Q15 Pulse survey¹ indicates that traditional generic and transactional outsourcing continues to commoditise. Cloud, client maturity and going forward process automation are major drivers for this, especially in IT. Buyers are seeking more platform solutions tailored to specific industry, geographic, and regulatory needs and that can drive business value beyond cost savings.*

¹ KPMG SSOA Pulse survey 1Q15

Source: IDC (www.idc.com), Contract Database, Apr 2015, KPMG in India 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 | Annualised 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 centre 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) |
| 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. Procurement, logistics, desktop support, other skills training, etc.) |
| Transactional Services | Services like billing services, payment processing, claims processing, mortgage processing, etc. |

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