



*cutting through complexity*

## **Global IT-BPO Outsourcing Deals Analysis**

**2Q15 Analysis:  
April to June**

July 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 2Q15 (April to June), **254 ITO contracts** worth **USD66.6 billion** and **72 BPO contracts** worth **USD7.5 billion** were signed, worldwide.

Globally **eight IT-BPO bundled** deals were signed in 2Q15 with contract value worth **USD1.8 billion**.

In terms of value, approximately **80 percent of deals** originated from the **United States**, followed by the **United Kingdom** at **8.5 percent**. Switzerland and Mexico were two other key outsourcing markets.

The **average deal tenure** increased to **4 years 9 months** in 2Q15 from 3 years 2 months in 1Q15.

**Defense** sector witnessed a multi-fold growth in terms of total contract value contributing to **74 percent** in terms of value of outsourcing deals signed in 2Q15. **Government** sector gained momentum in 2Q15 with a **quadruple** increase in total contract value after a weak market activity in 1Q15.

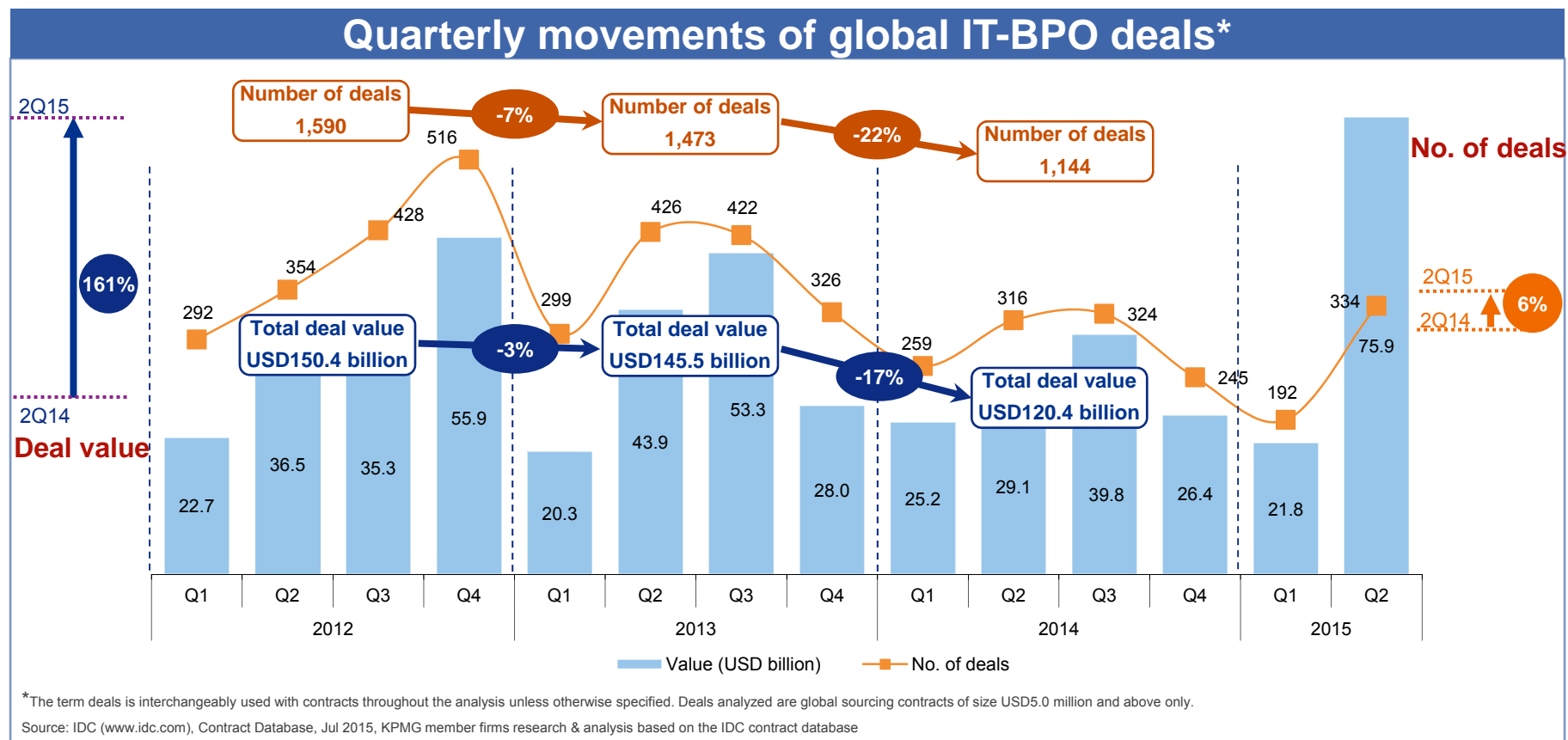
**IT Bundled Services** and **HRO Services** contributed approximately **USD41.6 billion** and **USD3.5 billion** respectively and were the largest procured services globally within ITO and BPO outsourced services, respectively.

**Average annualized contract value** in 2Q15 was **USD49.3 million** as compared to **USD20.2 million** in 2Q14 showing an increase of **145 percent** between the two quarters.

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

# Quarterly deal movements

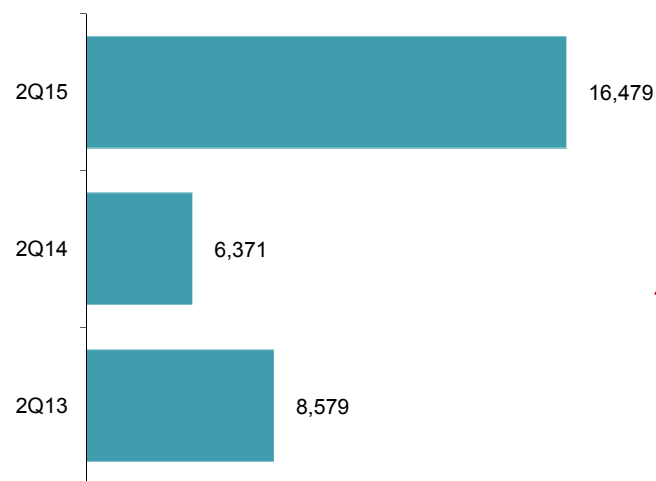
## Snapshot



- 2Q15 witnessed more than thrice the deal value compared to 1Q15 – the highest Q-o-Q growth in the last three years. There was an increase of 161 percent in total contract value and total number of deals increased by 6 percent in 2Q15 as compared to 2Q14
- The average contract value continued to increase in 2Q15 with an increase of 100 percent as compared to 1Q15.

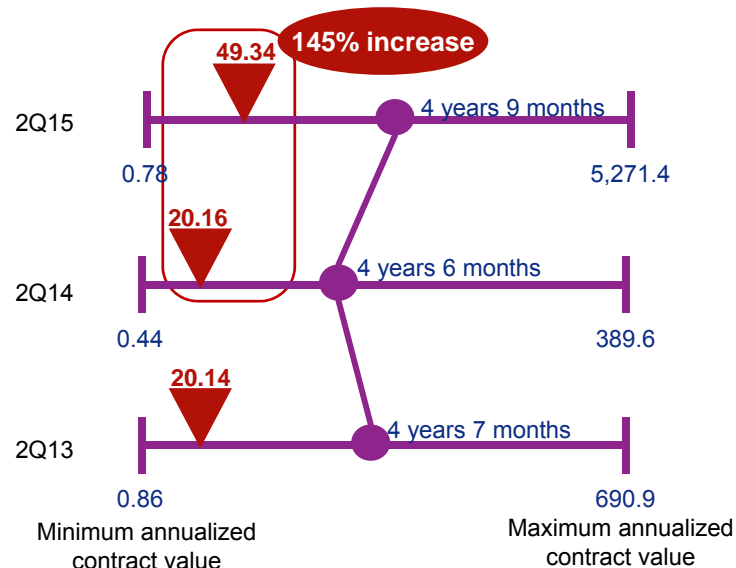
# Annualized contract value (ACV) Q-o-Q comparison

## Annualized\* contract value comparison per quarter



■ Total Annualized Contract Value (USD million)

159% increase  
26% decrease



Note: All values in USD million unless otherwise specified

▼ Average annualized contract value (USD million)  
● Average tenure per contract

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

- **Total annualized contract value in 2Q15 grew to about 2.5 times its value in 2Q14. The average annualized contract value also increased by 145 percent in 2Q15 as against 2Q14. This is highest deal activity which we have observed in the last 14 quarters**
- **The average contract tenure increased to 4 years 9 months in 2Q15 from 4 years 6 months in 2Q14.**

## Sector analysis

### Q-o-Q comparison

#### Trends in deal movement from 2Q14 to 2Q15

Sector	Total Contract Value				Total Number of Contracts				Average Contract Value			
	2Q14 -> 3Q14	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q14 -> 3Q14	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q14 -> 3Q14	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15
Automotive & Aerospace	Decrease >=25%	Decrease >=25%	Increase >=25%	Decrease >=25%	Decrease >=25%	No change	Increase >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Decrease >=25%
Banking & Financial Services	Increase >=25%	Increase >=25%	Decrease <25%	Decrease >=25%	Decrease <25%	Decrease >=25%	Decrease <25%	Increase <25%	Increase >=25%	Increase >=25%	Increase <25%	Decrease >=25%
Defence	Increase >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Increase <25%	Increase >=25%
Energy & Utilities	Increase >=25%	Decrease >=25%	Increase >=25%	Decrease <25%	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Decrease <25%
Government	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Decrease <25%	Decrease <25%	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase >=25%
Insurance	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase <25%	No change	Decrease >=25%	Increase >=25%	Increase <25%	Decrease >=25%
Manufacturing	Decrease >=25%	Increase >=25%	Decrease <25%	Increase >=25%	Decrease >=25%	Increase <25%	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Increase <25%
Pharma & Healthcare	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase >=25%
Publishing, Media & Entertainment	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease <25%	Decrease >=25%	Increase >=25%	Decrease <25%
Retail	Increase >=25%	Decrease >=25%	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Increase >=25%	Increase >=25%
Telecom	Increase <25%	Increase >=25%	Decrease >=25%	Increase >=25%	Decrease <25%	Increase <25%	Decrease >=25%	Increase >=25%	Increase >=25%	Increase >=25%	Decrease >=25%	Increase <25%
Travel & Logistics	Increase <25%	Increase >=25%	Increase <25%	Decrease >=25%	Increase >=25%	Increase >=25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase >=25%	Increase <25%	Decrease >=25%
Others*	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase >=25%	Decrease <25%	Increase <25%	Increase <25%	Increase >=25%	Decrease >=25%	Increase >=25%	Decrease >=25%	Increase >=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, Jul 2015, KPMG member firms research & analysis based on the IDC contract database

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

- In 2Q15, while there has been a decrease in Total Contract Value by more than 25 percent in few sectors, there has been multi-fold growth in remaining sectors with Defense, and Pharma and Healthcare together contributing to an overall increase in this parameter by 249 percent
- Continuous growth in average contract value was observed in Manufacturing sector since 3Q14
- All the sectors, except Travel and Logistics, and Insurance have shown an increase in number of contracts signed in 2Q15 over 1Q15.



## Deal analysis

### Q-o-Q comparison

#### Trends in deal movement from 2Q14 to 2Q15

Deal Type	Total Contract Value				Total Number of Contracts				Average Contract Value			
	2Q14 -> 3Q14	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q14 -> 3Q14	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15	2Q14 -> 3Q14	3Q14->4Q14	4Q14 -> 1Q15	1Q15 -> 2Q15
ITO	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%
BPO	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Decrease >=25%
Bundled	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%
Less than USD 100 MN	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%
Between USD 100- 500 MN	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%
More than USD 500 MN	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%
Less than 1-year	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%
Between 1 to 5-years	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%
More than 5-years	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Increase <25%

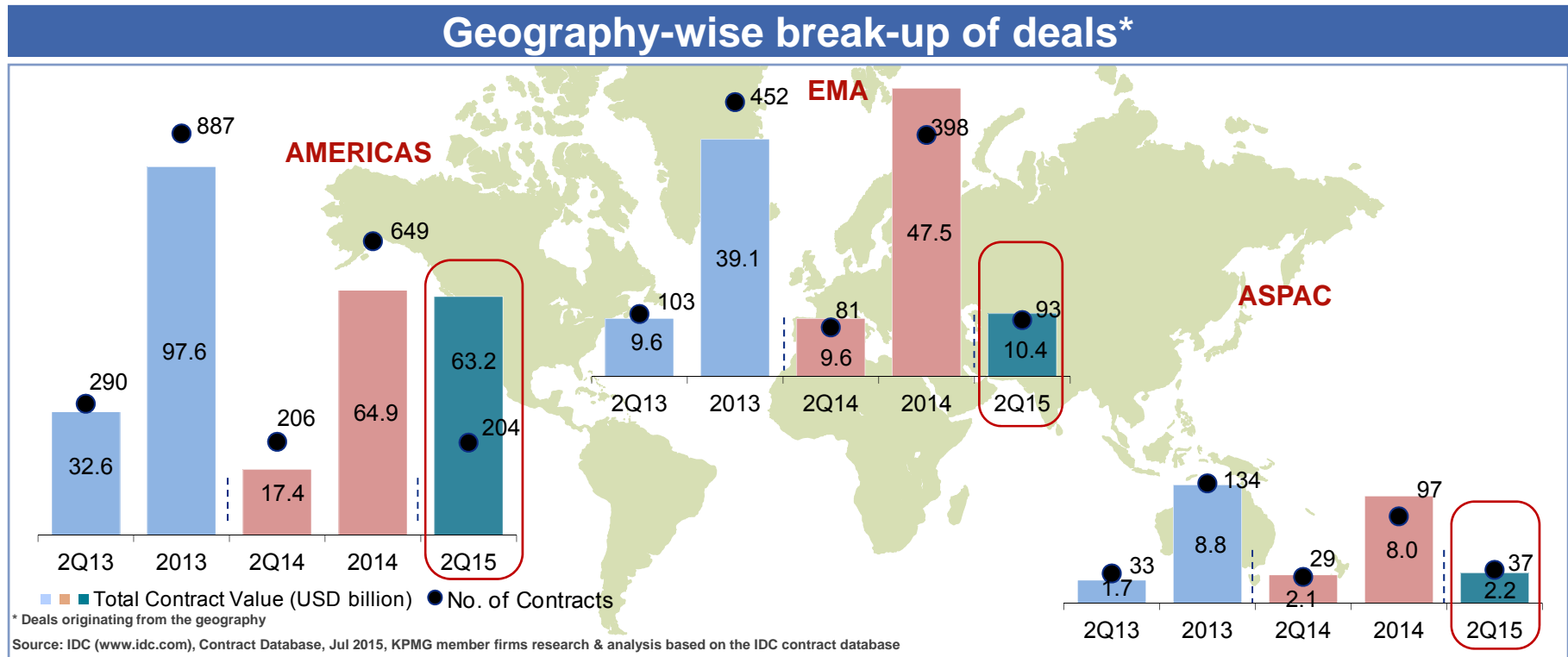
Source: IDC (www.idc.com), Contract Database, Jul 2015, KPMG member firms research & analysis based on the IDC contract database

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

- **Owing to the large increase in the overall deal value, while almost all the other deal categories witnessed an increase in total contract value, Bundled deals decreased by 20 percent in 2Q15 as compared to 1Q15**
- **Average contract value for BPO deals decreased by more than 25 percent in 2Q15 as compared to 1Q15**
- **In terms of tenure, the average contract value of deals with tenure between 1 to 5 years grew by less than 25 percent whereas both, short tenure (less than 1 year) and long tenure deals (more than 5 years) declined by less than 25 percent.**

## Geography analysis

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



- **AMERICAS** rose back to be the major outsourcing region contributing 83 percent of the total deal value in 2Q15, 89 percent of which is from Defense sector
- The outsourcing market in EMA and ASPAC continue to grow with an increase in total deal value of 8.2 percent and 6.6 percent respectively in 2Q15 as compared to 2Q14
- In terms of number of deals, AMERICAS contributed to 61 percent of the total number of deals signed in 2Q15, whereas EMA and ASPAC contributed 28 percent and 11 percent respectively.

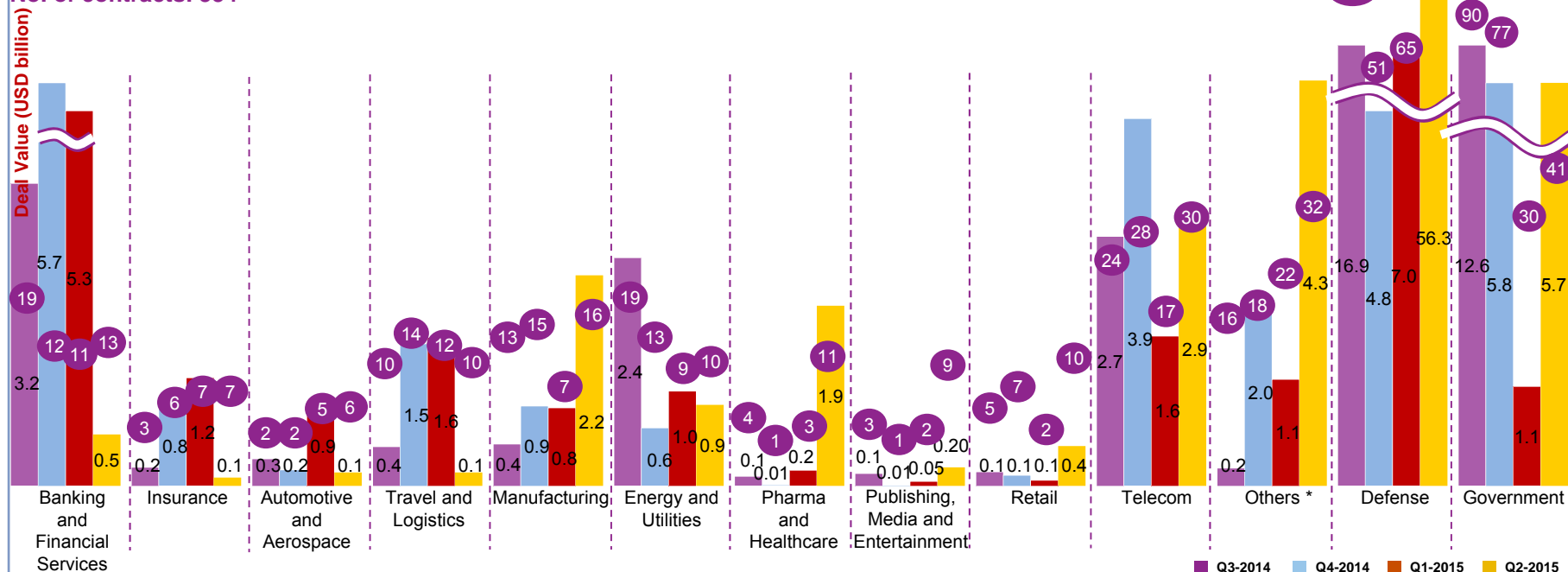
## Sector analysis

### IT-BPO deals across sectors by value and numbers

#### Sector-wise break-up of deals (3Q14 to 2Q15)

TCV : USD75.9 billion

No. of contracts: 334



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

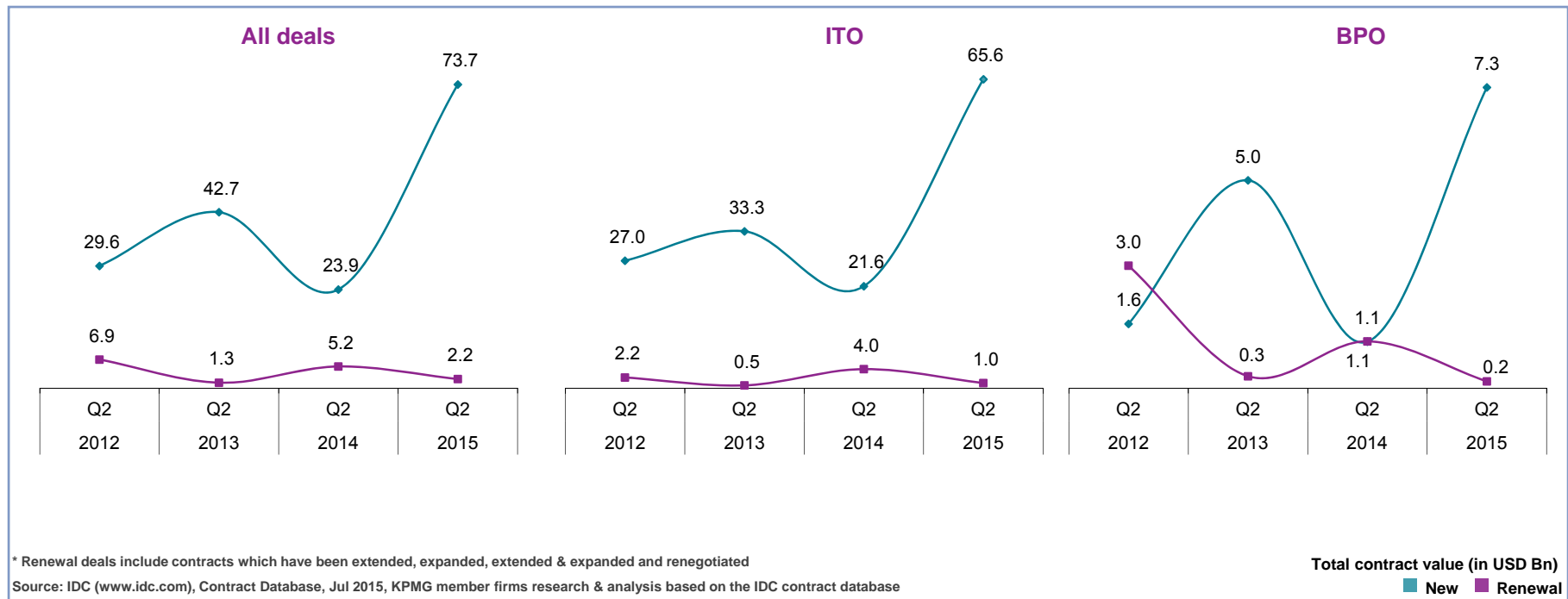
■ Q3-2014 ■ Q4-2014 ■ Q1-2015 ■ Q2-2015  
● No. of contracts

- **Defense sector witnessed strong deal activity contributing to 74 percent of the total contract value signed in 2Q15. This also increased the overall total deal value by 249 percent**
- **After a weak market activity in the Government sector last quarter, there was a sharp upturn in 2Q15 with a quadruple increase in total contract value over 1Q15**
- **Pharma and Healthcare also witnessed multi-fold growth in deal value in 2Q15 as compared to 1Q15.**

# New and renewal\* deal analysis

## Q-o-Q comparison

### Analysis of new and renewal\* deals



- The overall increase of 161 percent in total contract value in 2Q15 as compared to 2Q14 was due to addition of USD73.7 billion worth new deals in 2Q15 against USD23.9 billion worth new deals in 2Q14
- The ratio of new deals to renewal deals in terms of total contract value was 64:1 for ITO and 46:1 for BPO in 2Q15.

Section 2

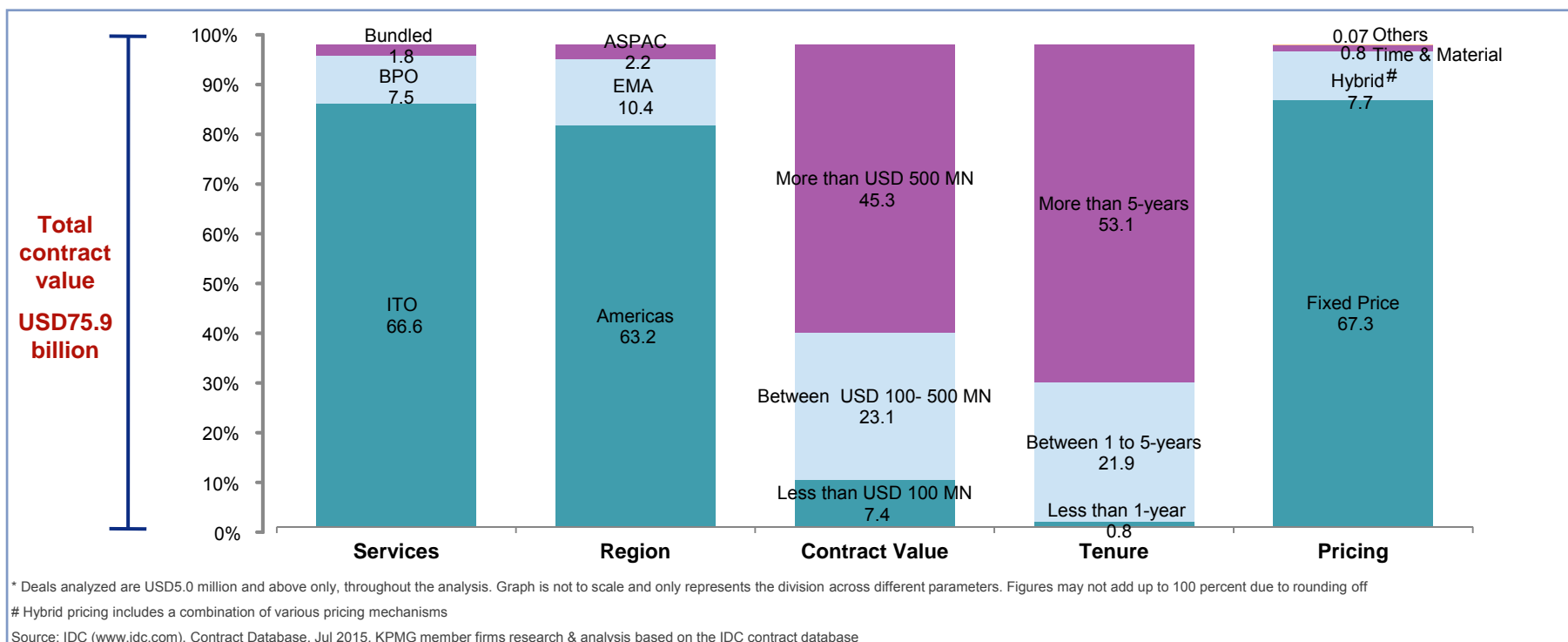
## 2Q15 deal analysis



## Deal value

### Global sourcing snapshot: April to June 2015

#### IT-BPO deals\* signed in 2Q15 (Total contract value: USD75.9 billion)

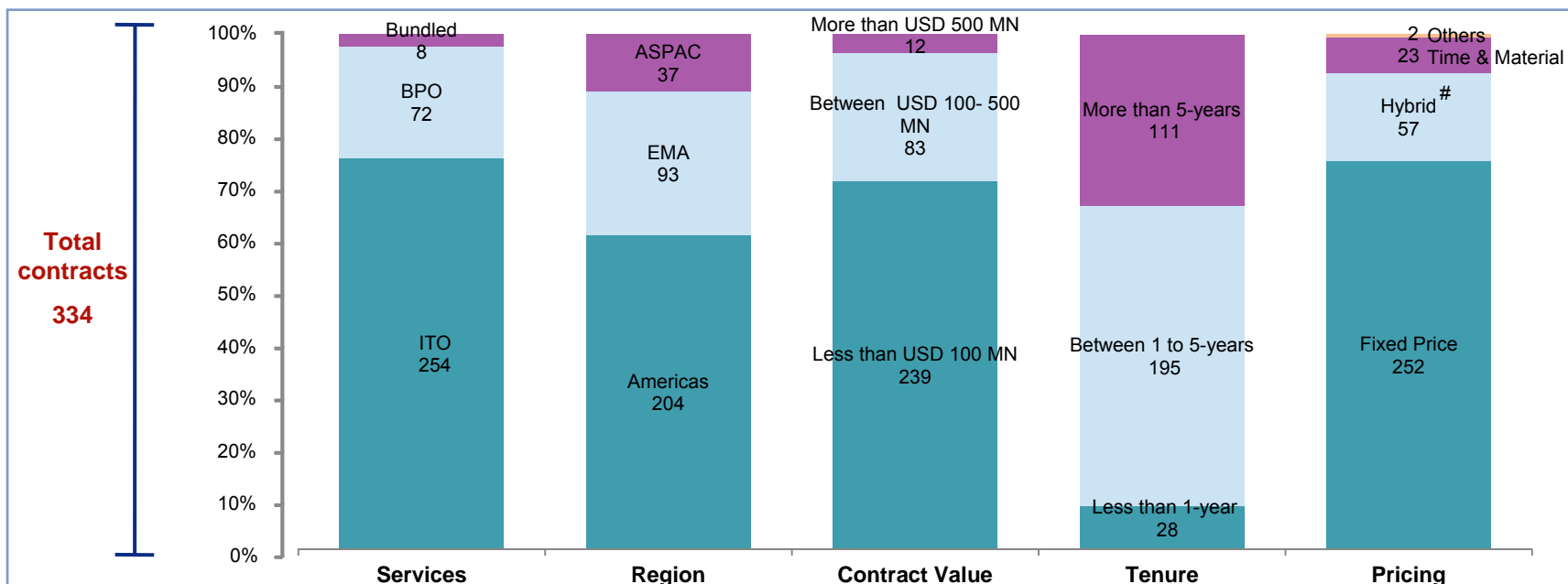


- **ITO deals continue to dominate the outsourcing space, there has been a 276 percent increase in total ITO deal value as compared to 1Q15**
- **2Q15 sees a 786 percent growth over 1Q15 in terms of total contract value in the AMERICAS. After the dips in the last two quarters, this is a significant jump for the region.**
- **2Q15 saw the continued dominance of Fixed Price contracting model, contributing 89 percent of the deal value, followed by Hybrid model, contributing 10 percent.**

## Number of deals

### Global sourcing snapshot: April to June 2015

#### IT-BPO deals\* signed in 2Q15 (Total number of contracts: 334)



\* 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

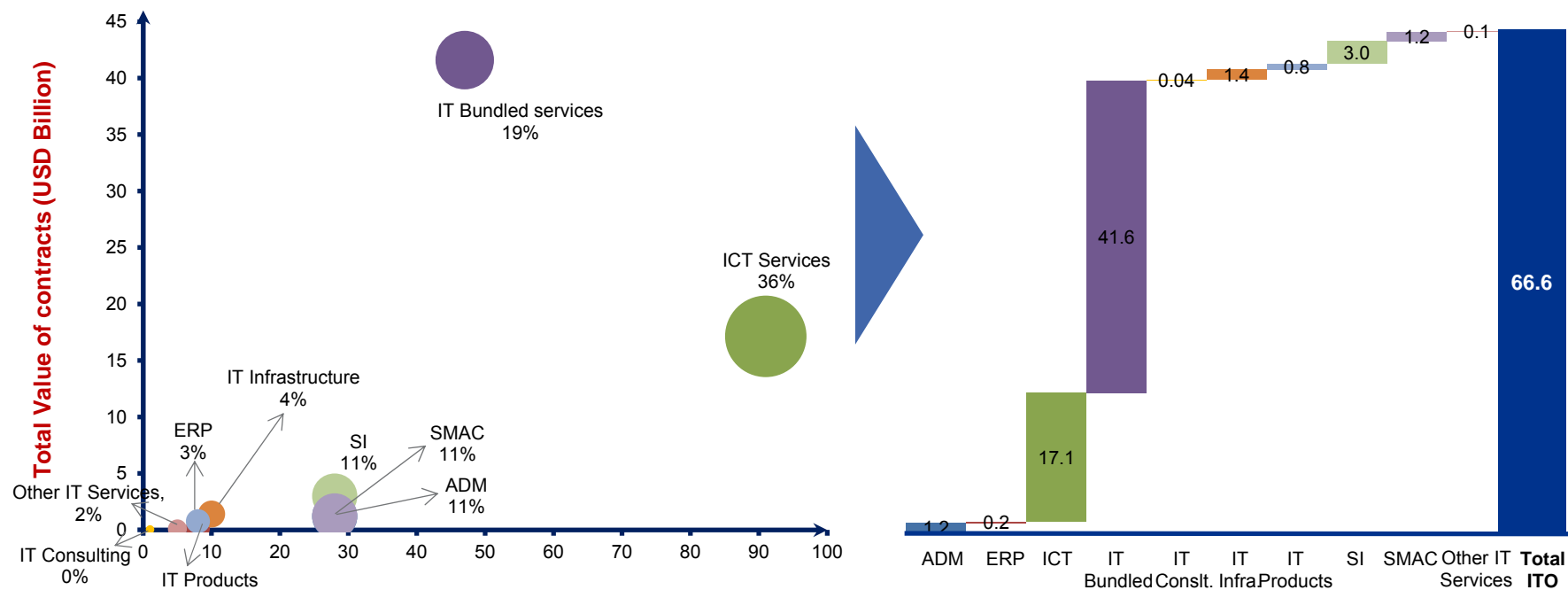
Source: IDC (www.idc.com), Contract Database, Jul 2015, KPMG member firms research & analysis based on the IDC contract database

- **The overall number of contracts increased by 74 percent in 2Q15 over 1Q15 while the number of Bundled deals has decreased by 77 percent in the same period**
- **There has been a more than eight times growth in the number of BPO deals in 2Q15 over 1Q15**
- **AMERICAS and ASPAC have shown similar growth in deal numbers with more than a 100 percent increase in deal activity by numbers.**

# Services segmentation

## ITO services

### Analysis of ITO deals 2Q15



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, SaaS

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

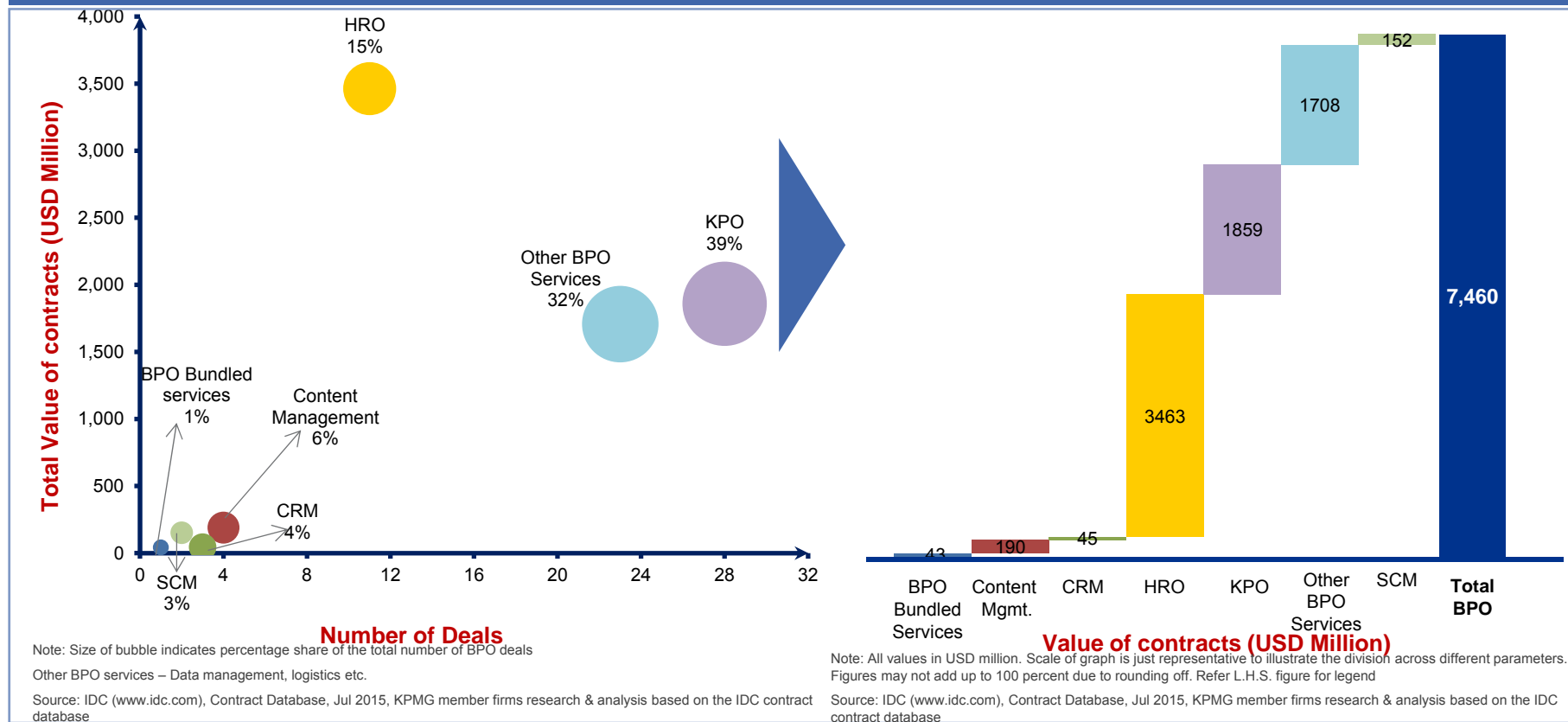
- **ICT Services and IT Bundled together contributed to 88 percent of all ITO deals in terms of value and 54 percent in terms of number of deals during 2Q15**
- **IT Infrastructure and ERP deal activity has decreased by more than 50 percent in 2Q15 as compared to 1Q15, ICT services, IT Bundled services and IT Consulting have exhibited more than 75 percent reduction in growth during the same period.**



# Services segmentation

## BPO services

### Analysis of BPO deals 2Q15



- We have seen a decrease in BPO Bundled deals since the beginning of 2015, a trend which was observed in the first half of 2014 while the later half saw a splurge of bundled deal activity
- HRO, KPO and Other BPO Services have also exhibited multifold growth in 2Q15 in terms of deal value and deal numbers as compared to 1Q15.

Section 3

# IT-BPO outsourcing outlook



## Outlook

### Global outsourcing industry

- *2Q15 shows a typical jump expected from a second quarter – the significance is that it has highest deal activity in the last 14 quarters. This could indicate that organizations especially in the Tier I markets continue to see the value in outsourcing.*
- *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.*
- *After a significant drop in outsourcing by the Government and Defense sectors over the last few quarters, 2Q15 sees an upturn in the deal activity in these sectors – this trend is evident in other sectors too but not to that extent.*
- *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, 2Q15 deal activity has been driven by the AMERICAS – a trend which was last seen 3Q14.*
- *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.*

<sup>1</sup> KPMG SSOA Pulse survey 1Q15

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

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### Topics to Explore

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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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