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Global IT-BPO Outsourcing Deals Analysis

**3Q14 Analysis
July – September 2014**

October 2014



About Global IT-BPO Outsourcing Deals Analysis

Global IT-BPO Outsourcing Deals Analysis is a quarterly analysis of IT-BPO outsourcing contracts signed across industries and geographies, with a total contract value (TCV) of USD 5 million and above per deal. The KPMG Shared Services and Outsourcing Advisory (SSOA) publishes this analysis quarterly.

Methodology & limitations of the study:

The KPMG analysis and findings presented in this report are based on select third party deal 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).

Disclaimer: The information contained here in is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Section 1

Global Deals – An overview



The Summary

Key Messages

In 3Q14 (July– September 2014), **197 ITO contracts** worth **USD 17.1 billion** and **103 BPO contracts** worth **USD 17.9 billion** were signed worldwide

Globally **24 IT-BPO bundled** deals were signed in 3Q14 with contract value worth **USD 4.8 billion**

In terms of value, approximately **70 percent of deals** by value originated from the **United States**, followed by **Spain** at more than **5 percent**. Brazil and India were two other key outsourcing markets

The **average deal tenure** has been consistently increasing since 1Q14, with an increase of one month as compared to 2Q14 to **4 years 7 months** in 3Q14

Defense and Government sectors continue to be the top consumer of IT-BPO services contributing to **44 percent** and **30 percent** respectively in terms of value of all outsourcing deals signed in 3Q14

ICT Services and **BPO Bundled Services** contributed **USD 5.5 billion** and **USD 8.5 billion** respectively and were the largest procured services globally within ITO and BPO outsourced services respectively

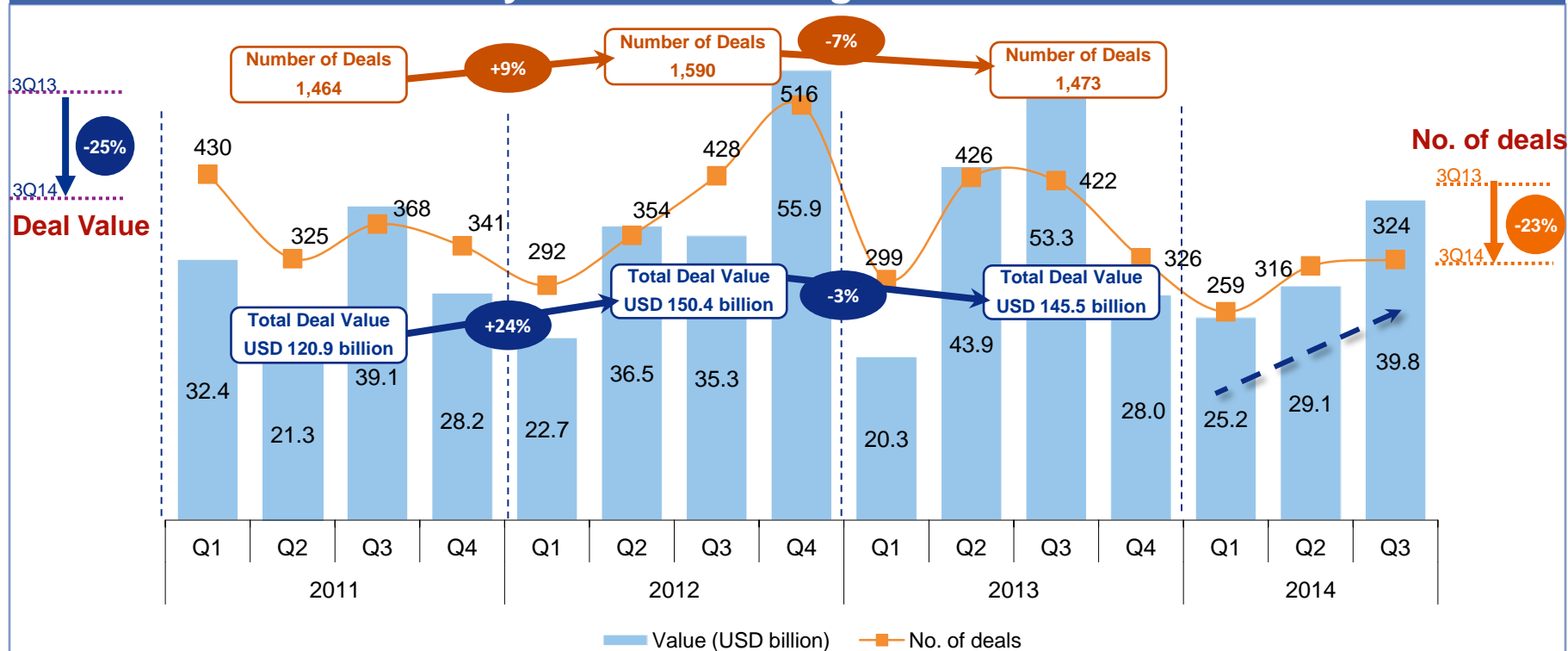
Average annualized contract value in 3Q14 was **USD 24.9 million** as compared to **USD 27.7 million** in 3Q13 showing **minor decrease** between the two quarters

Source: IDC (www.idc.com), Contract Database, Oct 2014, Research & Analysis based on the IDC contract database

Global 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 USD 5.0 million and above only.

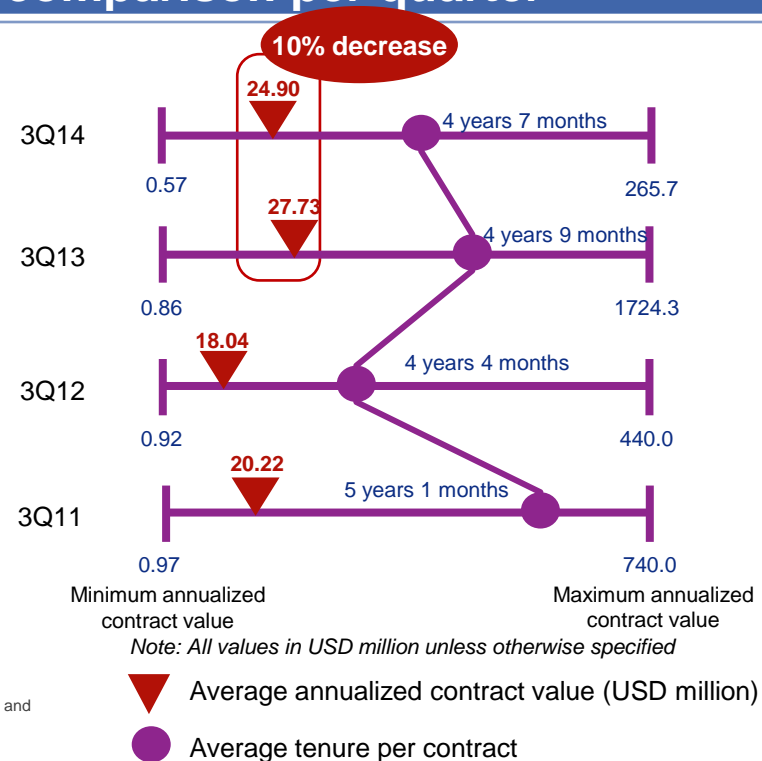
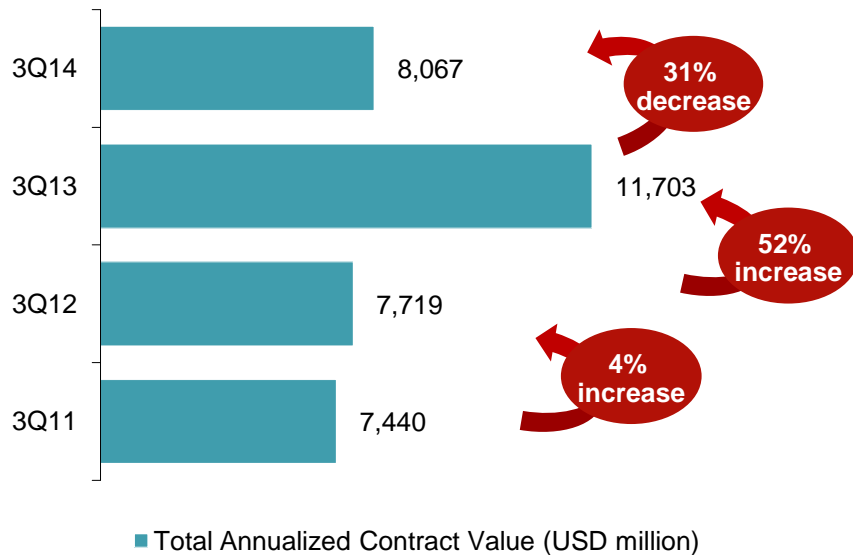
Source: IDC (www.idc.com), Contract Database, Oct 2014, Research & Analysis based on the IDC contract database

- **The total deal value has been steadily increasing since the beginning of 2014 with 3Q14 experiencing a 37 percent growth as compared to the previous quarter. The number of deals have also consistently increased since 1Q14**
- **3Q14 witnessed an decrease in both the total value of deals and the number of deals as compared to 3Q13**

Annualized Contract Value (ACV)

Q-o-Q Comparison

Annualized* contract value comparison per quarter



- **Total annualized contract value has sharply decreased by 31 percent as compared to 3Q13 with the average annualized contract value displaying only a 10 percent decrease over the same period**
- **There was a nominal change in average deal tenure with tenure being 4 years 7 months in 3Q14 as compared to 4 years 9 months in 3Q13**

Trends in deal movement from 3Q13 to 3Q14

Sector	Total Contract Value				Total Number of Contracts				Average Contract Value			
	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q14 -> 3Q14	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q14 -> 3Q14	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q14 -> 3Q14
Automotive & Aerospace												
Banking & Financial Services												
Defense												
Energy & Utilities												
Government												
Insurance												
Manufacturing												
Pharma & Healthcare												
Publishing, Media & Entertainment												
Retail												
Telecom												
Travel & Logistics												
Others*												

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

Source: IDC (www.idc.com), Contract Database, Oct 2014, Research & Analysis based on the IDC contract database

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

- **Defense, Banking and Financial Services, Energy & Utilities, Retail and Government sectors exhibited > 25 percent growth in terms of value over 2Q14. All the sectors which had a negative growth have had >25 percent decrease in total contract value**
- **Defense, Energy & Utilities and Travel & Logistics sectors displayed >25 percent increase in number of contracts in 3Q14 over 2Q14**

Deal Analysis

Q-o-Q Comparison

Trends in deal movement from 3Q13 to 3Q14

Deal Type	Total Contract Value				Total Number of Contracts				Average Contract Value			
	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q14->3Q14	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q14->3Q14	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q14->3Q14
ITO	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease <25%
BPO	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease >=25%	Increase <25%
Bundled	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%
Less than USD 100 MN	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%
Between USD 100- 500 MN	Decrease >=25%	Decrease >=25%	Increase <25%	Decrease <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%
More than USD 500 MN	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%
Less than 1-year	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	No change	Decrease <25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease <25%	Increase <25%
Between 1 to 5-years	Decrease >=25%	Increase <25%	Decrease >=25%	Increase <25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%
More than 5-years	Decrease >=25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease >=25%	Decrease <25%	Increase <25%

Source: IDC (www.idc.com), Contract Database, Oct 2014, Research & Analysis based on the IDC contract database

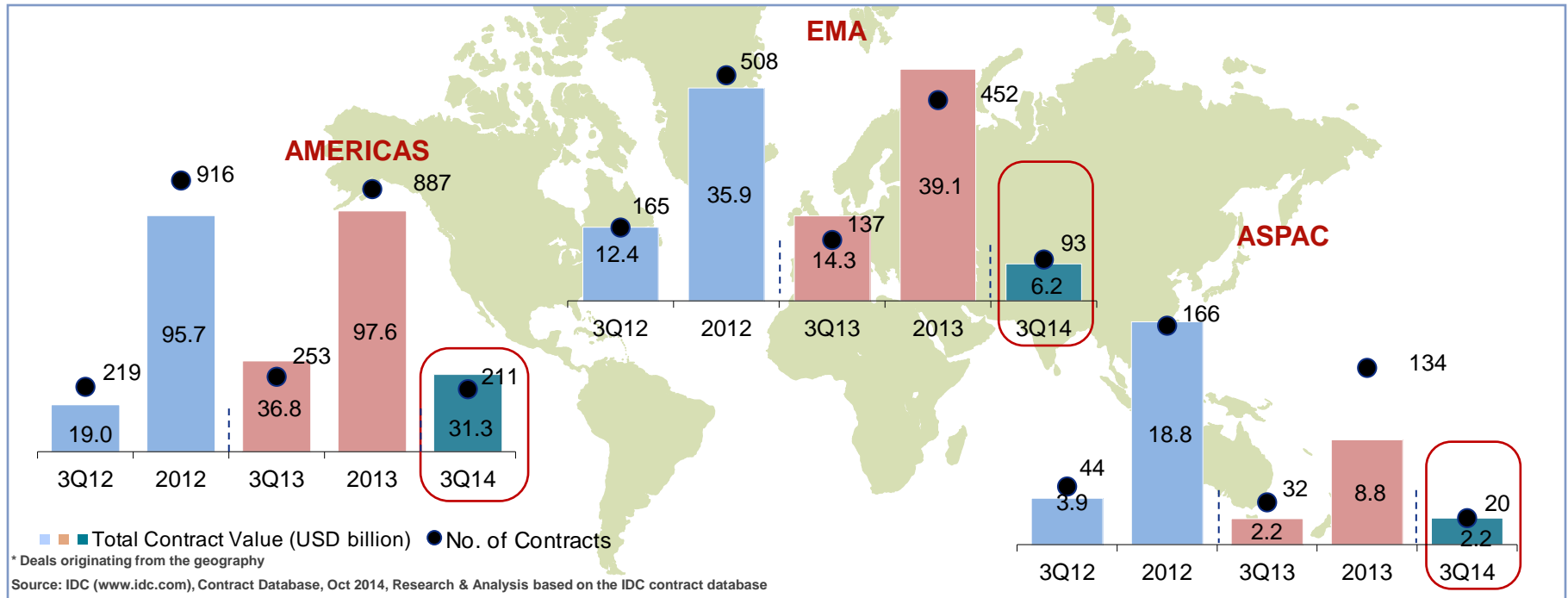
Decrease >=25% Decrease <25% No change Increase <25% Increase >=25%

- ***BPO and bundled deals have had >25 percent increase in terms of TCV as well as number of contracts over 2Q14, while, ITO deals have shown a decrease in both parameters for the same period***
- ***Unlike the previous quarter deals more than USD 500 MN have shown an increase both in terms of value and numbers while deals between USD 100-500 MN and deals less than USD 100 MN have shown a relatively decreased growth in terms of TCV as well as number of deals***
- ***Deals across all tenure categories have displayed an increase in both TCV and Average Contract Value while only the deals with tenure more than 5 years have shown a decrease >25 percent in terms of number of deals in 3Q14 over 2Q14***

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 79 percent of the total deal value in 3Q14**
- **EMA has displayed a sharp decline in terms of value, with a 57 percent dip in 3Q14 as compared to the previous quarter**
- **ASPAC witnessed a growth of 6 percent in total deal value as compared to 2Q14 which is slightly better than the 10 percent negative growth in 2Q14 as compared to 1Q14. Average deal size has also improved in the region in 3Q14**

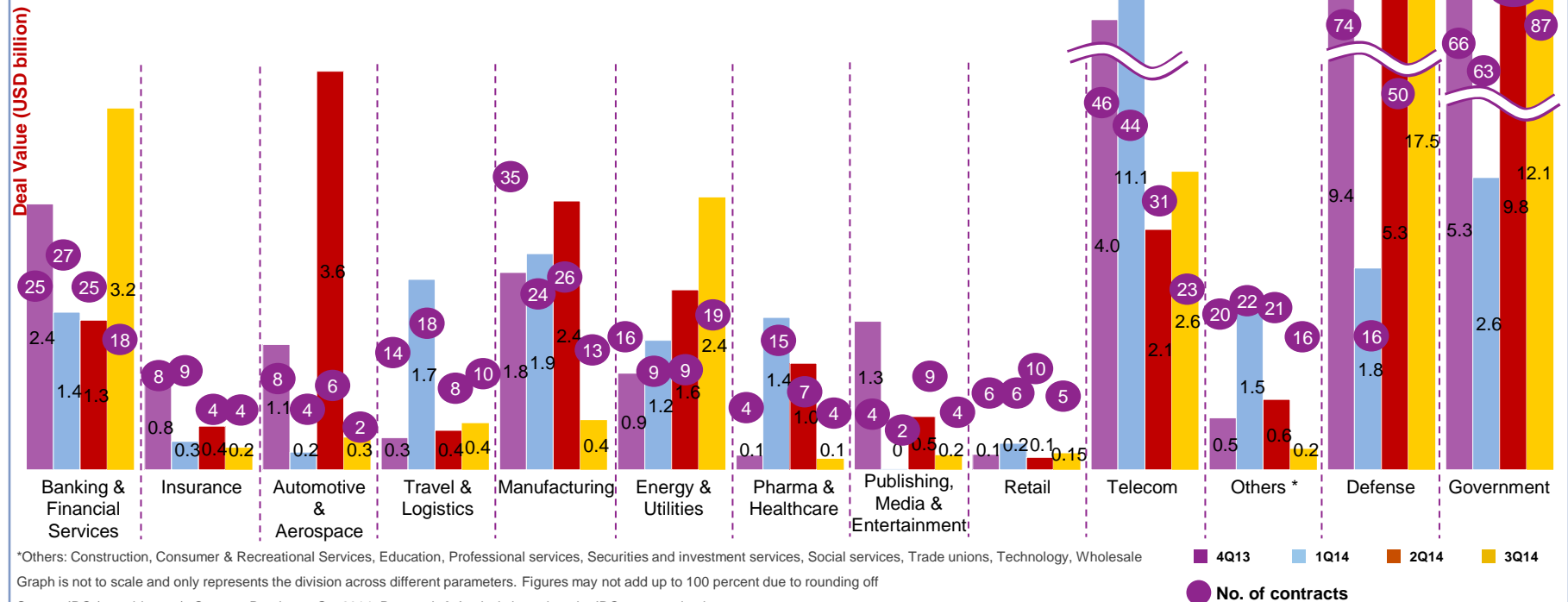
Sector Analysis

IT-BPO deals across sectors by value and numbers

Sector-wise break-up of deals (4Q13 to 3Q14)

TCV : USD 39.8 billion

No. of contracts: 324



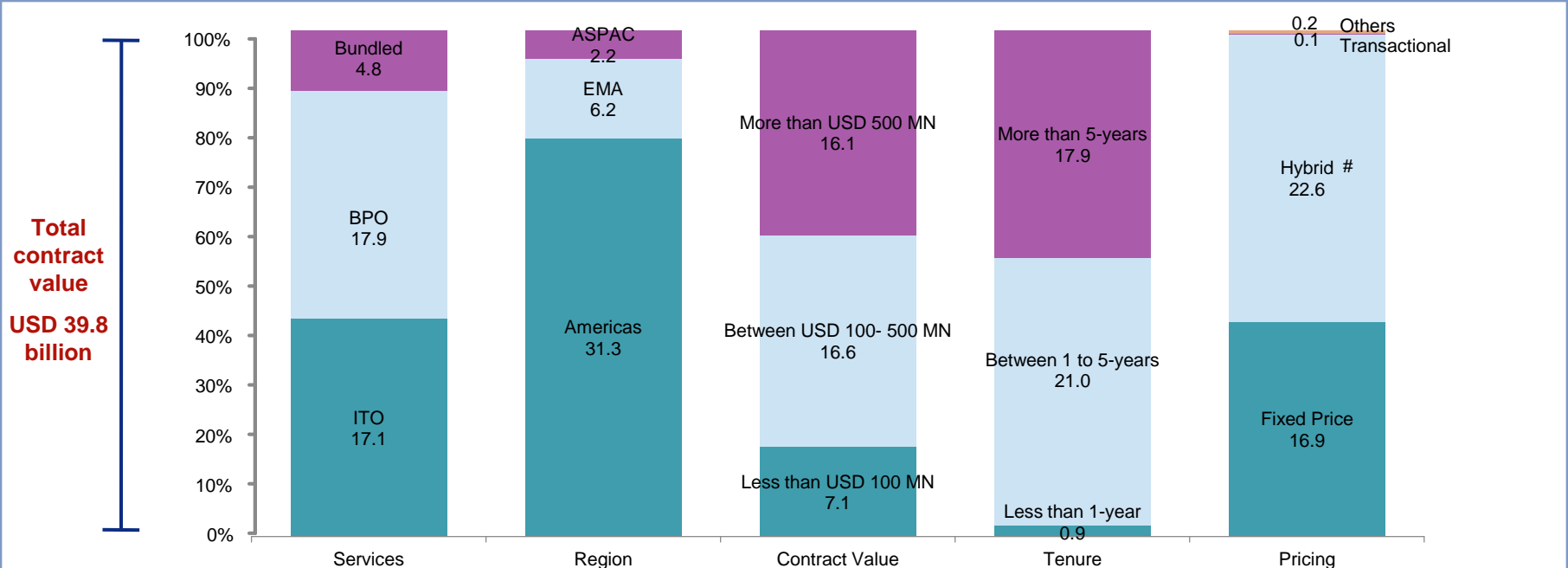
- The Defense and Government sectors contribute to 44 percent and 30 percent of TCV in 3Q14
- Defense and Banking and Financial Services sectors have exhibited multifold growth in TCV in 3Q14 as compared to 2Q14

Section 2

3Q14 Deal Analysis



IT-BPO deals* signed in 3Q14 (Total Contract Value = USD 39.8 billion)



* Deals analyzed are USD 5.0 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

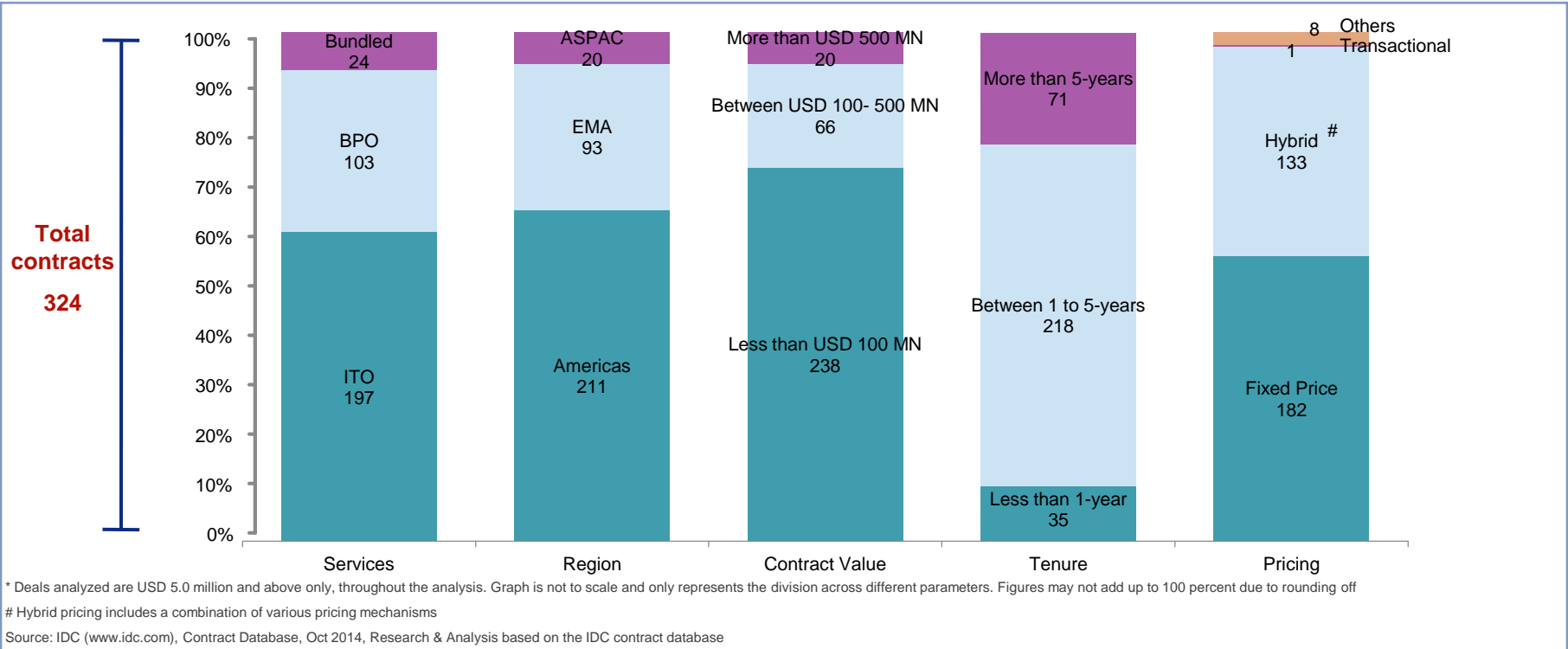
Source: IDC (www.idc.com), Contract Database, Oct 2014, Research & Analysis based on the IDC contract database

- In 3Q14, there have been almost equal ITO and BPO deals in terms of value with their respective shares being 43 percent and 45 percent
- AMERICAS is the largest outsourcing region contributing 79 percent of the total deal value in 3Q14, followed by EMA with 16 percent contribution to total deal value
- Deals > 100 MN contribute to 82 percent in value terms while deals >1-year contribute to 98 percent in value terms

Number of Deals

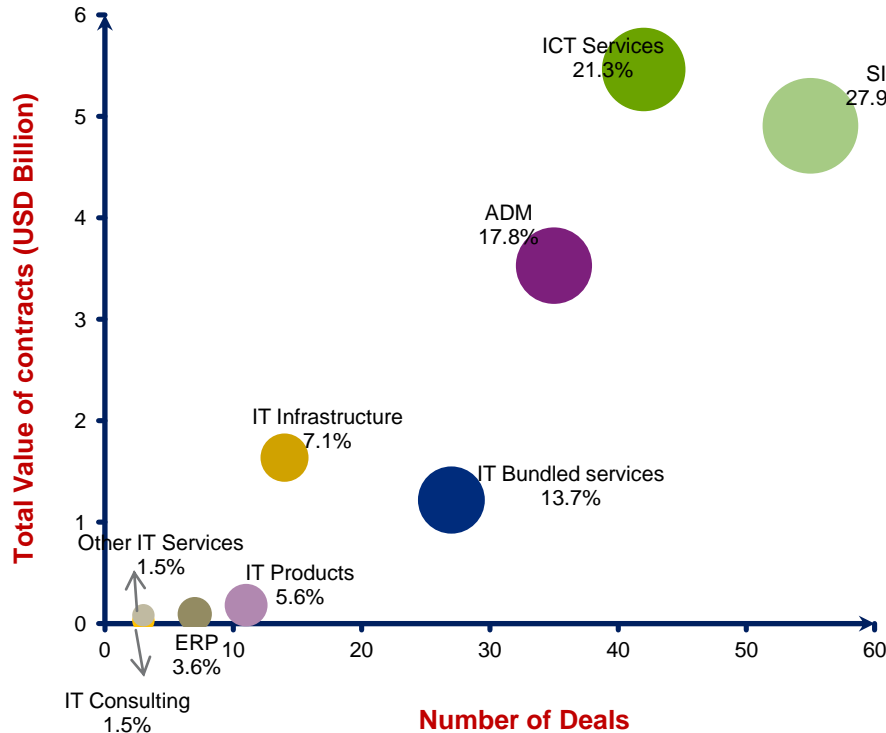
Global sourcing snapshot – July to September 2014

IT-BPO deals* signed in 3Q14 (Total Number of Contracts = 324)



- **3Q14 saw a multifold increase in BPO deals with an increase of 151 percent while there has been a decrease of 25 percent in ITO deals in terms of number of deals signed**
- **Overall deal numbers have increased by only 3 percent with the split of the deals across the regions being very much similar to what it was in 2Q14**
- **There has been a strong preference shown to medium to longer tenure deals which has been indicated by the ~90 percent number of deals being contributed by the deals > 1 year**

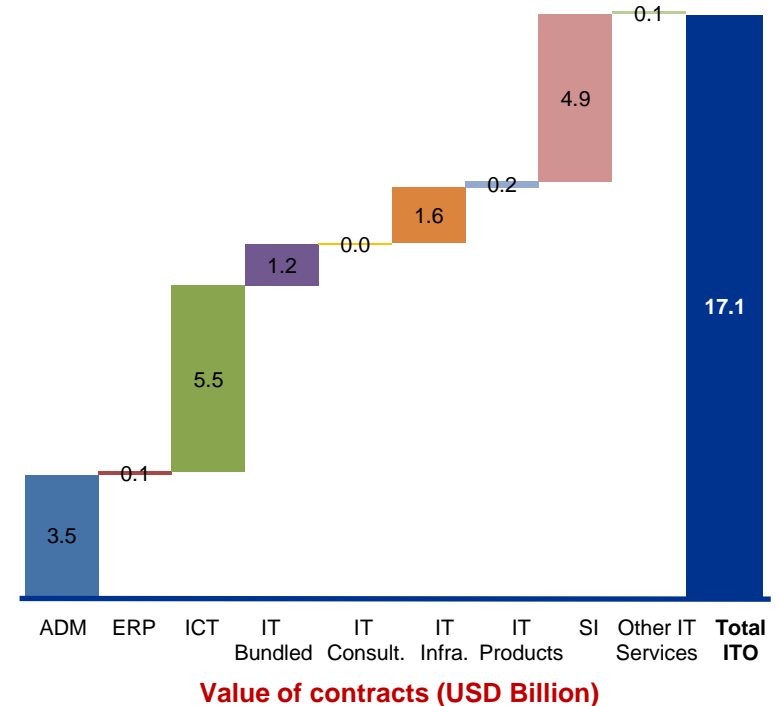
Analysis of ITO deals 3Q14



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

SI – System Integration, Other IT services – Software testing, IT helpdesk support services, Cyber security

Source: IDC (www.idc.com), Contract Database, Oct 2014, 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

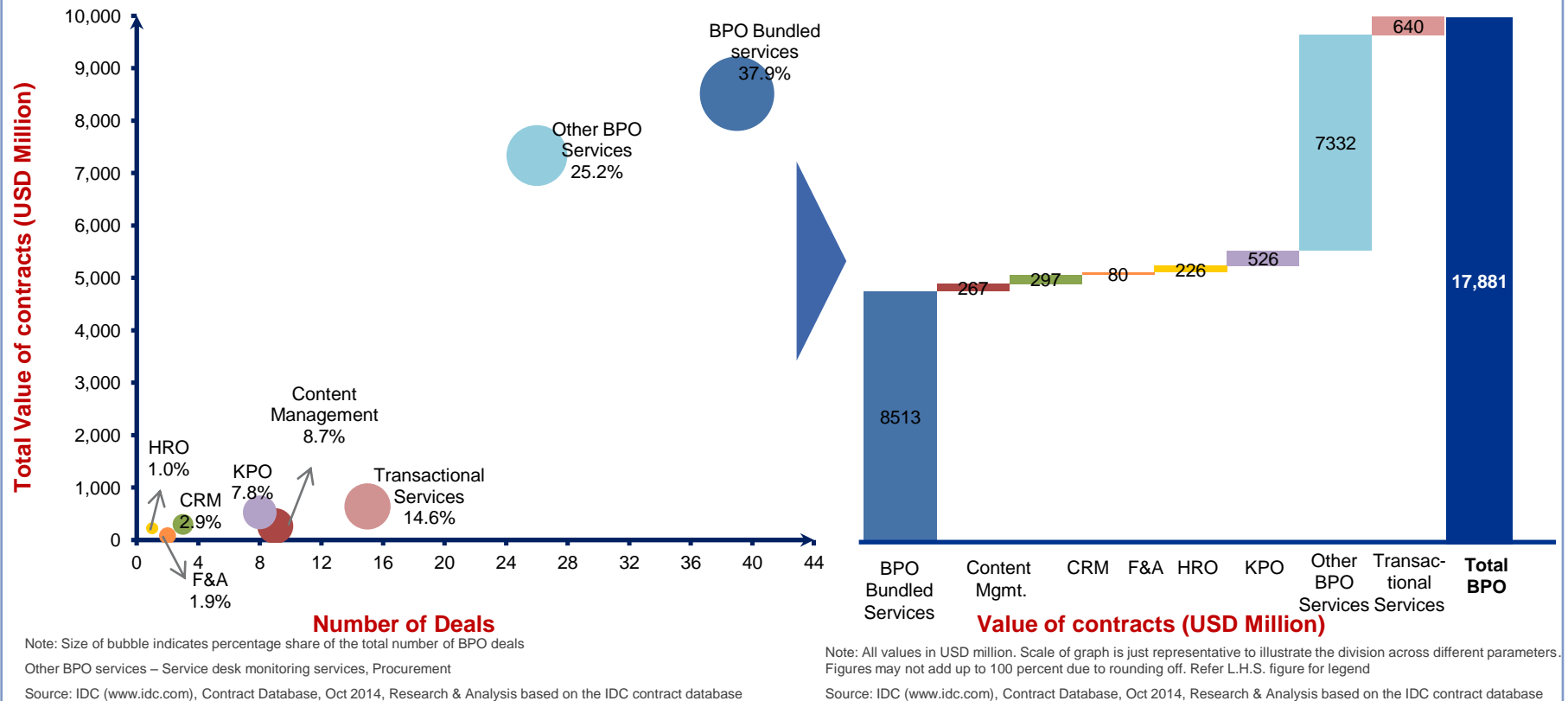
Source: IDC (www.idc.com), Contract Database, Oct 2014, Research & Analysis based on the IDC contract database

- **TCV of ITO deals decreased by 33 percent in 3Q14 as compared to 2Q14, and total count of the deals decreased by 25 percent over same period**
- **ICT Services, System Integration and ADM services together contributed to more than 80 percent of all ITO deals in terms of value during 3Q14. These are also the same services which have increased in value as compared to 2Q14 whereas almost all other services displayed a decrease in deal value**

Services Segmentation

BPO Services

Analysis of BPO deals 3Q14



- **3Q14 experienced increased heightened market activity in terms of BPO deals with TCV increasing by nearly 695 percent and deal count by 151 percent as compared to 2Q14. This is largely due to ~ USD 15 billion worth of Government and Defense BPO services deals which is not a typical scenario each quarter**
- **BPO Bundled Services, Other BPO Services and Transactional Services together contribute 92 percent of all BPO deals in terms of value during 3Q14**

Section 3

IT-BPO Outsourcing Outlook




- *The total contract value in 2014 has been steadily increasing each quarter at a CAGR of 26% since the beginning of the year. The number of deals have also consistently increased in the same time frame. We anticipate the positive trend to continue in the last quarter of the year too*
- *The contribution of BPO deals to the overall TCV was ~50% in 3Q14 due to few deals in the Defense sector and does not indicate a change in trend. We expect majority deals (~80% - 90%) to remain in the ITO sector in the coming quarters as has been usually observed each quarter*
- *Services and outsourcing have entered a critical phase of disruption. Providers need to prove they can do more than basic operations, otherwise outsourcing runs the risk of becoming a staff augmentation model for flexing operations as opposed to a strategic partnership between provider and buyer*
- *Both shared services and outsourcing are on the rise. KPMG survey* indicates one in four enterprise buyers are reinvesting heavily in their global shared services operations, while seven out of ten are continuing to make (largely moderate) investments in their outsourcing delivery*
- *Buyers are shifting more of their higher-value work into their offshore shared services. *Three out of ten enterprises are increasing the offshore component of their finance and accounting, over the next year, with similar trends are occurring across IT, procurement, HR, industry-specific, and customer service functions*
- *Analytics and process automation technologies have emerged as critical technologies to drive better outcomes for clients. *Close to half of buyers now see these two technologies as adding significant value in their outsourcing engagements*

* Source: Executive report: The State of Services & Outsourcing in 2014, Sep. 2014, KPMG Institutes


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