



cutting through complexity

Global IT-BPO Outsourcing Deals Analysis

Annual Analysis for 2014

January 2015



About global IT-BPO outsourcing deals analysis

The KPMG 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 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).

Foreword

We are at the beginning of 2015 and it is worthwhile looking back at the achievements and roadblocks of the past year and plan for a better future.

It gives us great pleasure to bring to you the year-end 2014 edition of the KPMG Global IT-BPO Outsourcing Deals Analysis.

The current edition looks at IT-BPO outsourcing contracts signed in the last three years, from 2012 to 2014, and identifies the major trends influencing the market across geographies. This report also includes our regular analysis feature for the latest quarter Q4-2014 (October – December).

In 2014, the number of deals signed globally in the IT-BPO space were 1,144 with a total contract value (TCV) of USD20.4 billion. This year too, we have seen a rise in the number of BPO deals being signed. For the last three years, BPO deals are growing steadily in terms of total contract value, and ITO deals have declined since 2012. Of the three years (2012 - 14) analysed in this report, the year 2012 was a strong year for outsourcing. At the same time we are seeing a rise in average TCV year on year since 2012 even though there has been a decline in TCV and number of contracts signed in same period.

Dominant sectors like Defence and Government have seen significant drop in TCV in the last quarter of 2014, while sectors like Energy and Utilities, and Telecom have grown every quarter since 2011.

Hope you will find these market trends on the IT-BPO deals useful. Happy reading!

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Section 1

Global deals – Overview of last three years



A summary

Of the three years (2012 - 14) analysed, the year 2012 was a strong year for outsourcing in terms of total contract value (TCV) and numbers. However, deals signed in 2012 had an average TCV of USD95 million compared to USD99 million and USD105 million in 2013 and 2014 respectively

Worldwide in 2014, **889 ITO contracts** worth **USD86.7 billion** and **189 BPO contracts** worth **USD23.7 billion** were signed

Globally, **66 IT-BPO Bundled** deals were signed in 2014 with aggregate contract value of **USD9.9 billion**

Average deal tenure for contracts in 2014 was **4 years 4 months** which was shorter compared to the previous two years, indicating the continuity of the market's proclivity towards shorter tenure deals

Defence and Government were the top two consumers of IT-BPO services contributing **24 per cent, and 26 per cent** respectively of the total deal value signed in 2014. Telecom, and Banking and Financial Services were the next big contributors by deal value

IT Bundled Services and **BPO Bundled Services** contributed **USD26.9 billion** and **USD10.1 billion** respectively and were largely procured services globally within ITO and BPO outsourced services respectively, in 2014

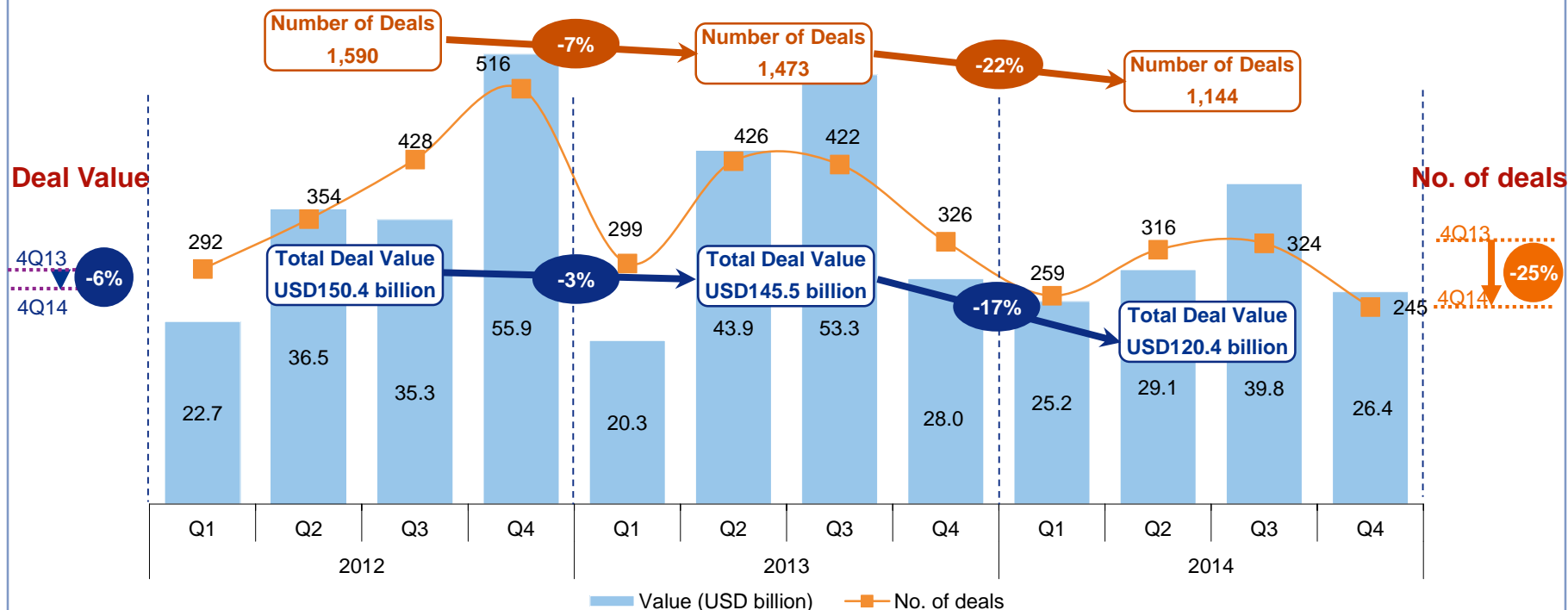
Average annualised contract value in 2014 was **USD23.4 million** as compared to **USD21.7 million** during 2013 showing an increase **of around 8 per cent**

Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and 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 analysed are global sourcing contracts of size USD5.0 million and above only.

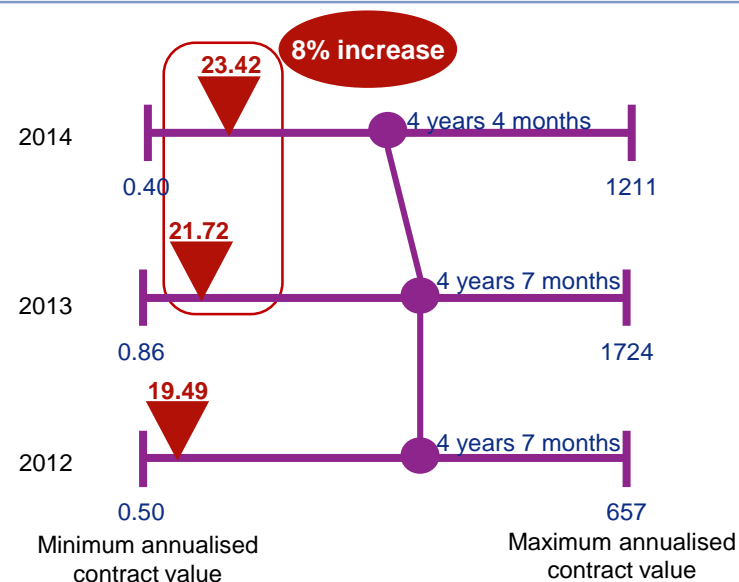
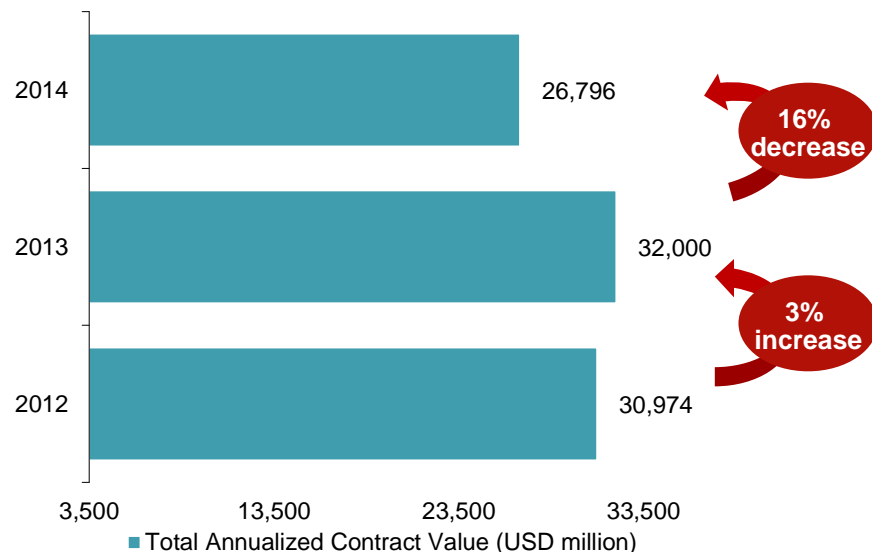
Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

- 4Q14 witnessed a marginal decrease of 6 per cent in total deal value and total number of deals reduced by 25 per cent as compared to 3Q14, indicating strong growth in the average deal value
- The average deal value has increased by 25 per cent as compared to 4Q13 showing a trend of larger size deals being signed in this quarter

Annualised contract value (ACV)

Y-o-Y comparison

Annualised* contract value comparison, 2012-14



Note: All values in USD million unless otherwise specified

- ▼ Average annualised contract value (USD million)
- Average tenure per contract

- There was a decrease of 16 per cent in total annualised contract value in 2014 as compared to 2013
- There was an 8 per cent increase in average annualised contract value in 2014 as against 2013, while the average deal tenure decreased to 4 years 4 months from 4 years 7 months

Trends in deal movement from 2012 to 2014

Sector	Total Contract Value			Total Number of Contracts			Average Contract Value		
	2011->2012	2012->2013	2013->2014	2011->2012	2012->2013	2013->2014	2011->2012	2012->2013	2013->2014
Automotive and Aerospace	Decrease >=25%	Increase <25%	Increase >=25%	Decrease <25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Increase >=25%
Banking and Financial Services	Decrease >=25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease >=25%	Increase <25%	Increase >=25%
Defence	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%	Decrease <25%
Energy and Utilities	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease <25%	Increase <25%
Government	Increase <25%	Decrease >=25%	Decrease <25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease <25%
Insurance	Increase <25%	Decrease >=25%	Decrease <25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease <25%	Decrease >=25%	Increase <25%
Manufacturing	Increase <25%	Decrease >=25%	Increase <25%	Decrease <25%	Decrease <25%	Increase <25%	Increase <25%	Decrease >=25%	Increase <25%
Pharma and Healthcare	Decrease <25%	Decrease <25%	Increase <25%	Decrease <25%	Decrease >=25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%
Publishing, Media and Entertainment	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease >=25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease <25%	Decrease >=25%
Retail	Increase <25%	Decrease >=25%	Decrease >=25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <25%	Decrease >=25%	Decrease >=25%
Telecom	Increase <25%	Increase <25%	Increase <25%	Increase <25%	Decrease <25%	Increase <25%	Decrease >=25%	Increase <25%	Increase <25%
Travel and Logistics	Decrease >=25%	Decrease <25%	Increase <25%	Decrease <25%	No change	Decrease <25%	Decrease >=25%	Decrease <25%	Increase <25%
Others*	Decrease >=25%	Increase <25%	Increase <25%	Decrease >=25%	Decrease <25%	Decrease <25%	Decrease <25%	Increase <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, Jan 2015, Research and Analysis based on the IDC contract database

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

- **Automotive and Aerospace, Manufacturing, Telecom, and Travel and Logistics exhibited growth greater than 25 per cent in terms of value over 2013, while Defence, Publishing, Media and Entertainment, and Retail sectors had a decline greater than 25 per cent in total contract value (TCV)**
- **Continuous growth in the TCV was observed across Energy and Utilities, and Telecom since 2012**
- **Defence and Publishing, Media and Entertainment sectors have shown decrease greater than 25 per cent in number of contracts signed in 2014 over 2013**

Trends in deal movement from 2012 to 2014

Deal Type	Total Contract Value			Total Number of Contracts			Average Contract Value		
	2011->2012	2012->2013	2013->2014	2011->2012	2012->2013	2013->2014	2011->2012	2012->2013	2013->2014
ITO									
BPO									
Bundled									
Less than USD 100 MN									
Betw een USD 100- 500 MN									
More than USD 500 MN									
Less than 1-year									
Betw een 1 to 5-years									
More than 5-years									

Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

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

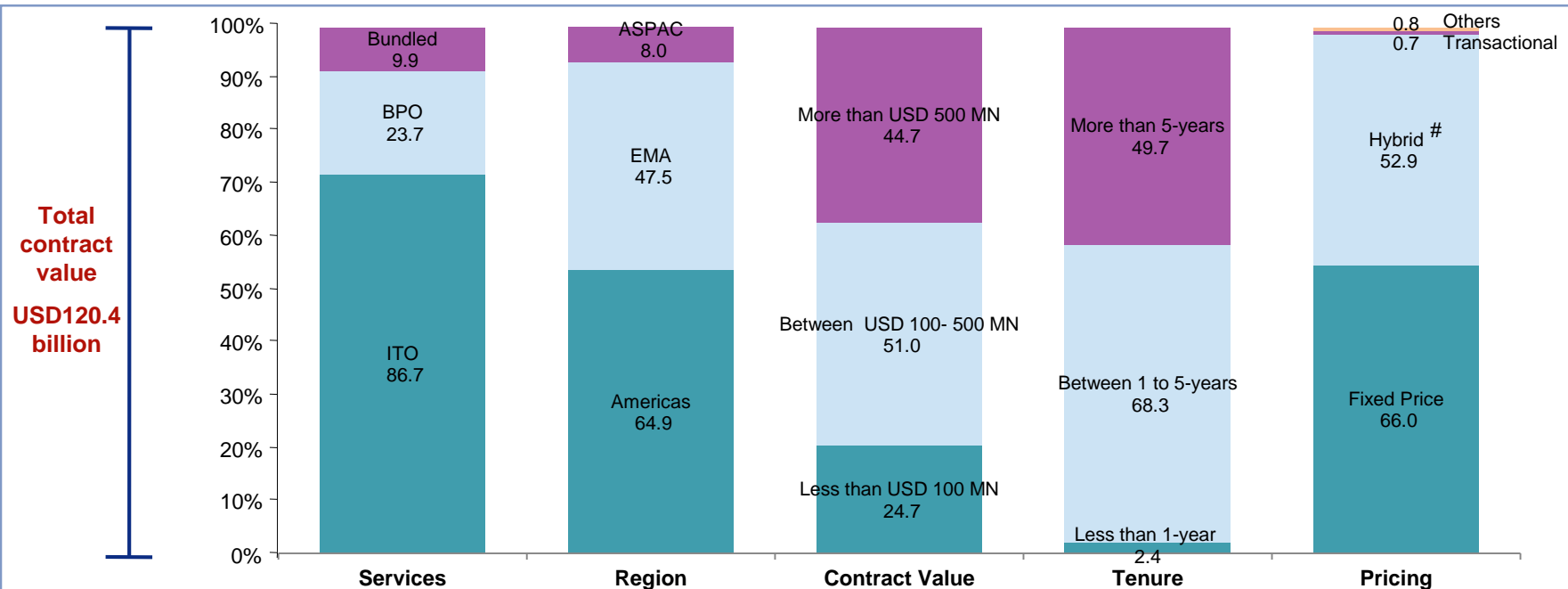
- ***BPO deals have grown steadily over the last 3 years in terms of total contract value (TCV) but ITO deals have declined since 2012***
- ***In terms of number of contracts signed and TCV, deals less than USD100 million and more than USD500 million have consistently reduced since 2012***
- ***Average contract value for long tenure deals (more than 5-years) decreased by more than 25 per cent while deals with tenures between 1 to 5-years grew by more than 25 per cent in 2014 over 2013***

Section 2

Deal analysis: 2014



IT-BPO deals* signed in 2014 (Total contract value = USD120.4 billion)



* 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

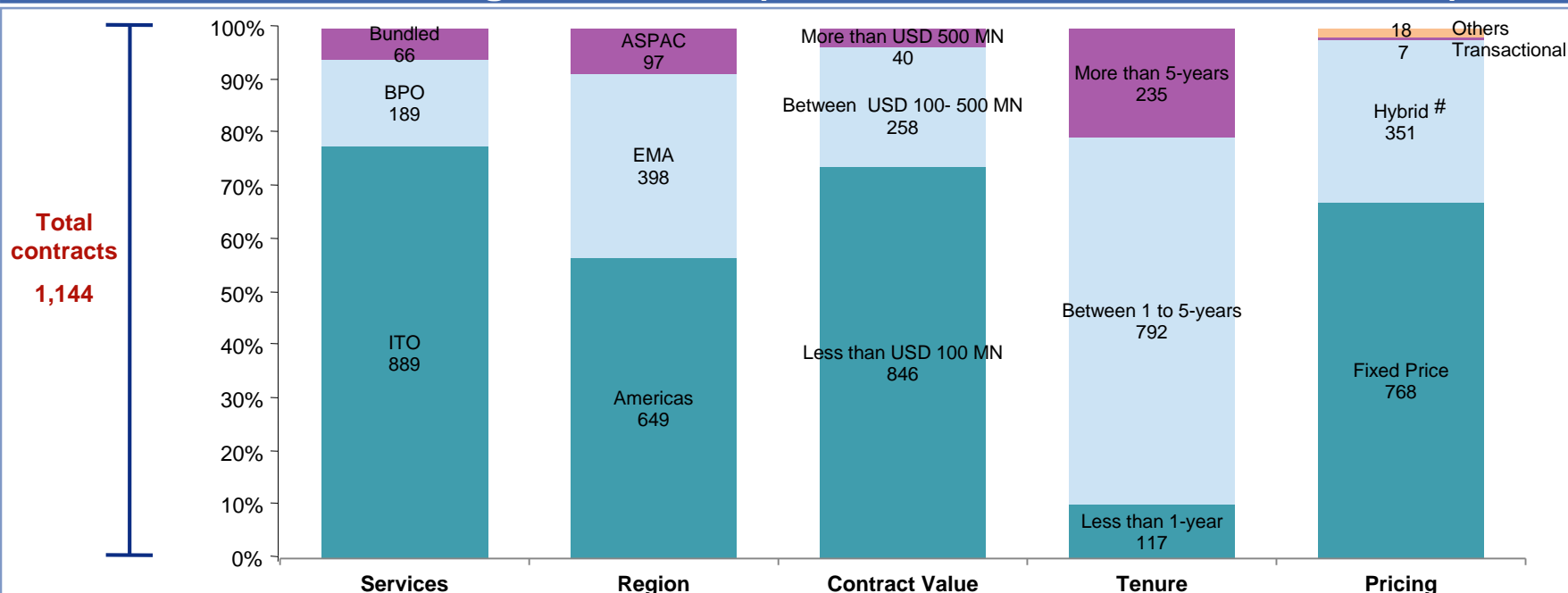
Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

- **ITO deals contributed 72 per cent of the total deal value in 2014, a 5 percentage point reduction from contribution in 2013**
- **While BPO deals grew by 17 per cent, ITO deals and Bundled deals decreased by 22 per cent and 27 per cent respectively in 2014 as compared to 2013 in terms of total deal value**
- **Organizations from the AMERICAS region continue to contribute to majority of the deals, followed by EMA. Contribution by EMA continues to increase from 27 per cent in 2013 to 39 per cent in 2014**

Number of deals

Global sourcing snapshot – 2014

IT-BPO deals* signed in 2014 (Total number of contracts = 1,144)



* 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, Jan 2015, Research and Analysis based on the IDC contract database

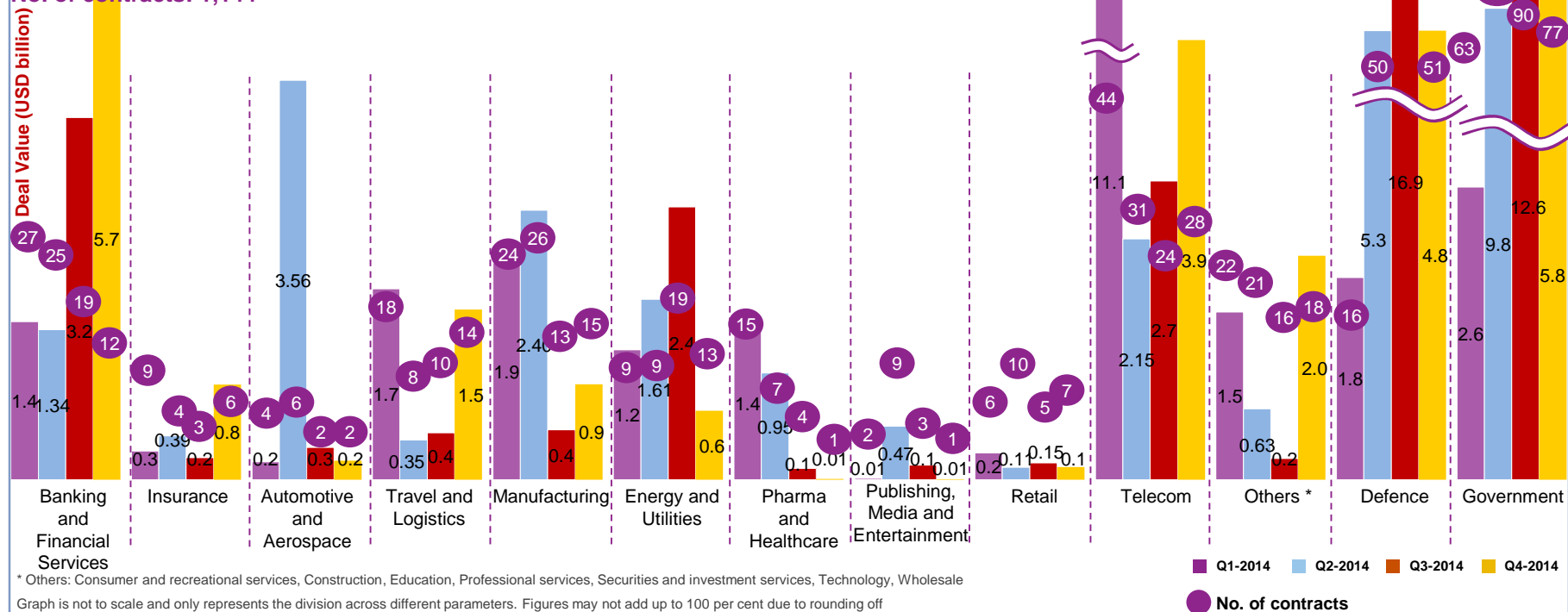
- ***Though the contracts under USD100 million in TCV continue to contribute to the majority of the deals, their volume or count has decreased by 25 per cent in 2014 over 2013***
- ***Shorter tenure deals (less than 1-year) were a minority of overall deals by number but exhibited a 15 per cent increase in 2014 as compared to 2013***
- ***98 per cent share by volume was contributed by deals having either Hybrid or Fixed price model in 2014***

Sector analysis

IT-BPO deals across sectors by value and numbers

Sector-wise break-up of deals in 2014

TCV : USD120.4 billion
No. of contracts: 1,144



- While the Defence and Government sectors continue to lead deal activity, together contributing to 50 per cent of the total deal value in 2014, 4Q14 witnessed a sharp drop in their deal activity with 72 per cent and 54 per cent decrease respectively in TCV as compared to 3Q14
- Insurance, Travel and Logistics, Manufacturing and Others have exhibited more than 50 per cent growth in TCV in 4Q14 as compared to 3Q14

Section 3

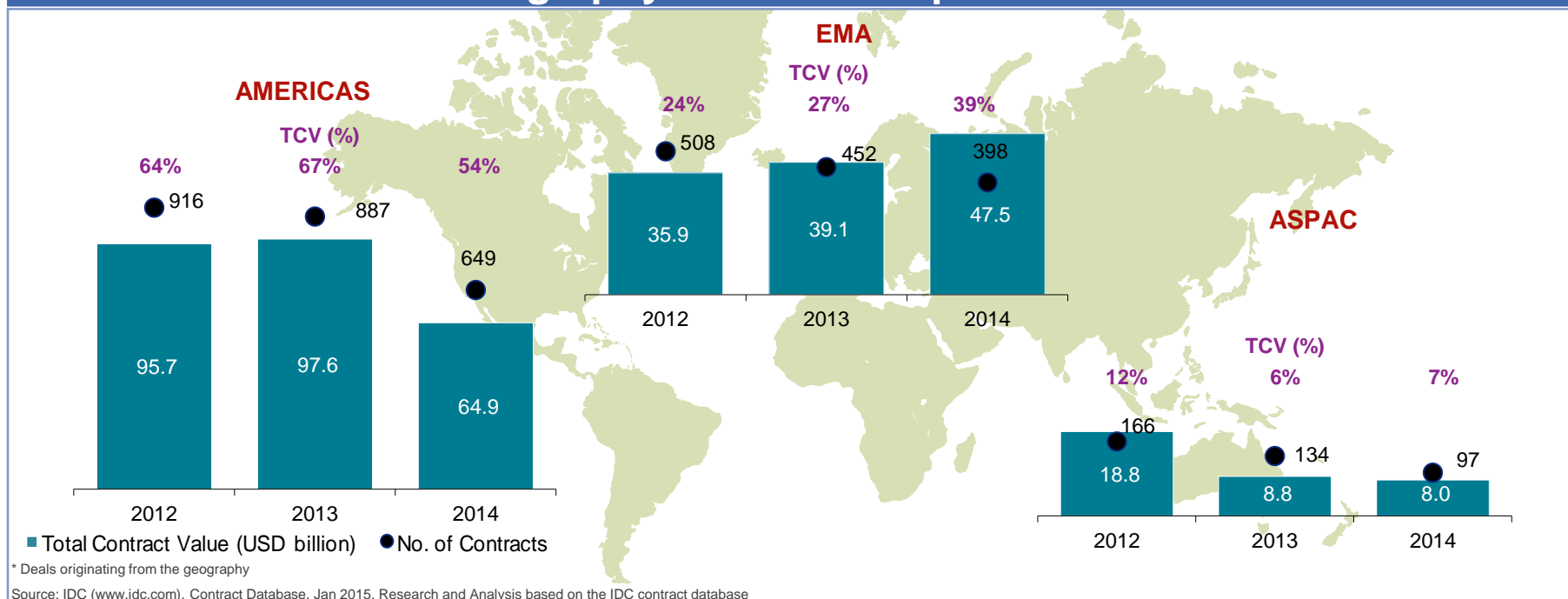
Deals by geography



Geography analysis

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

Geography-wise break-up of deals*



- **AMERICAS** continued to be the major outsourcing region contributing 54 per cent of the total deal value in 2014. However, in last three years contribution from EMA to the total deal value for the year is consistently increasing
- **ASPAC** continues to be a weak buyer market of IT-BPO services and has shown a 30 per cent reduction in the IT-BPO deal numbers in 2014 over the previous year



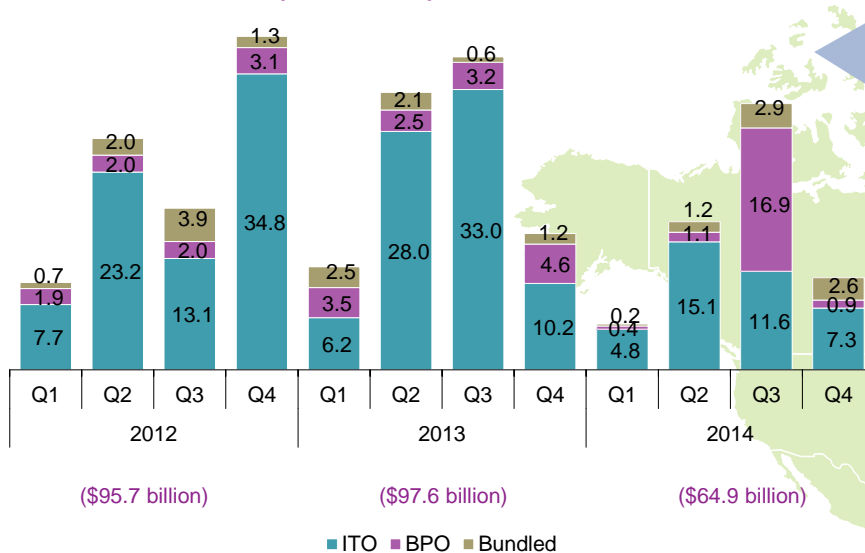
AMERICAS

Geography analysis

IT-BPO deals in AMERICAS: Value and number of deals

Geography-wise break-up of deals*

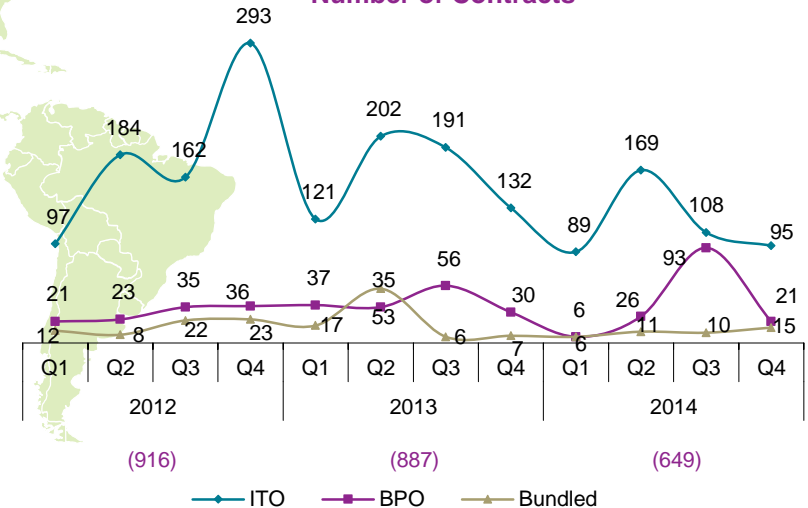
Total Contract Value (USD billion)



- Total deal value of AMERICAS decreased by 33 per cent in 2014 as compared to 2013, owing to decrease in ITO deals value, which suffered with a decrease of 50 per cent
- After strong market activity for BPO deals in 3Q14, its deal value slumped with a decrease of 94 per cent in 4Q14

- After a dip in 1Q14, the IT-BPO market recovered in 2Q14, but dropped again in 3Q14 and 4Q14
- Number of IT-BPO Bundled Services deals remained fairly stagnant across all quarters in 2014

Number of Contracts



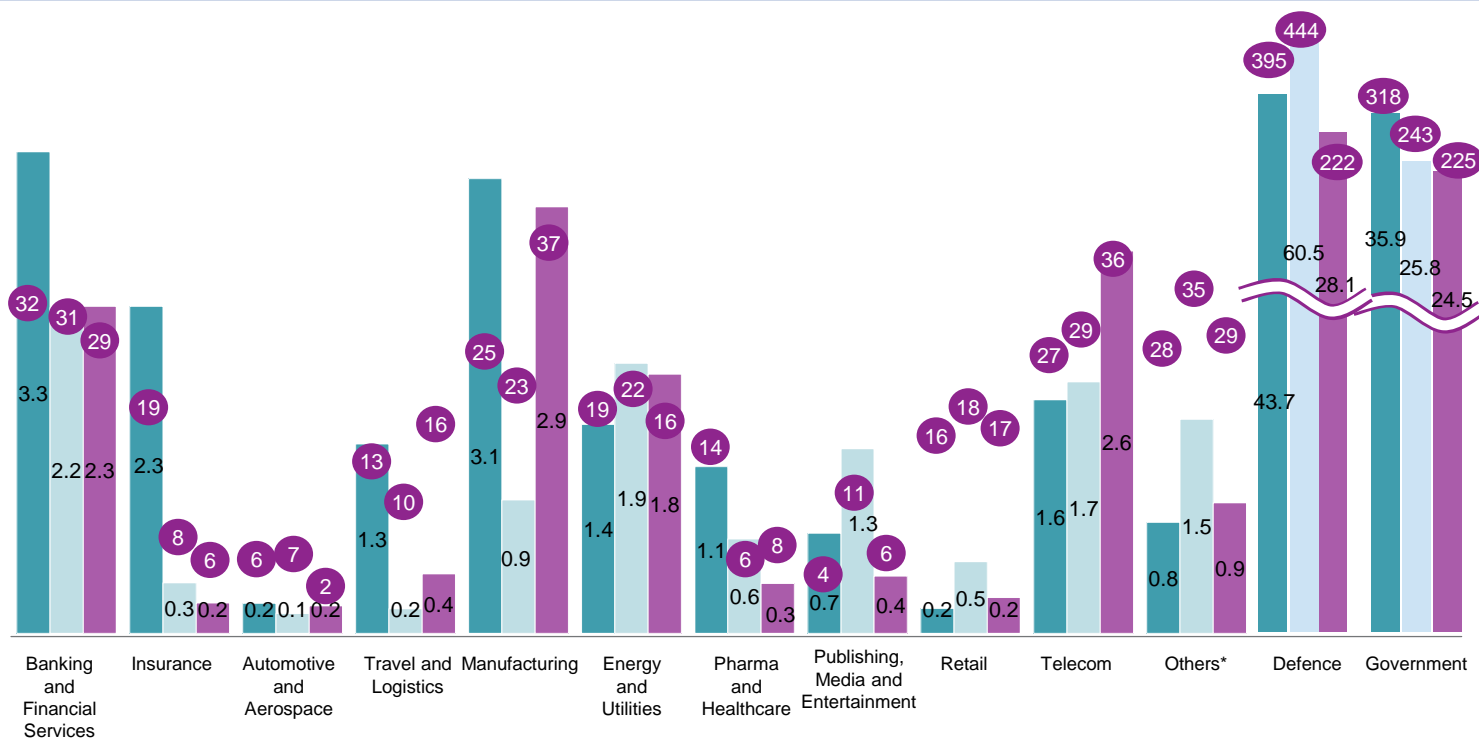
* Deals originating from the geography

Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

Geography analysis

IT-BPO deals in AMERICAS

Sector-wise break-up of deals



* Others: Consumer and recreational services, business federation, Construction, 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, Jan 2015, Research and Analysis based on the IDC contract database

■ 2012 ■ 2013 ■ 2014
 All figures in USD billion
 ● No. of deals

- **Government and Defence sector of AMERICAS region remain the strongest users of outsourcing in 2014 with total contribution of 81 per cent to deal value**
- **Travel and Logistics, and Manufacturing sectors have exhibited multifold growth in TCV in 2014 as compared to 2013**



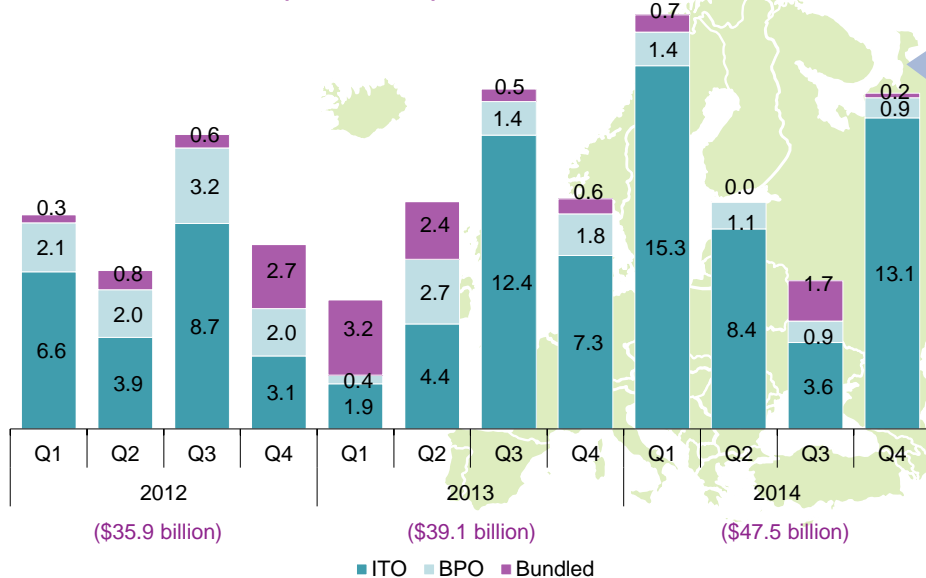
EMA

Geography analysis

IT-BPO deals in EMA: Value and number of deals

Geography-wise break-up of deals*

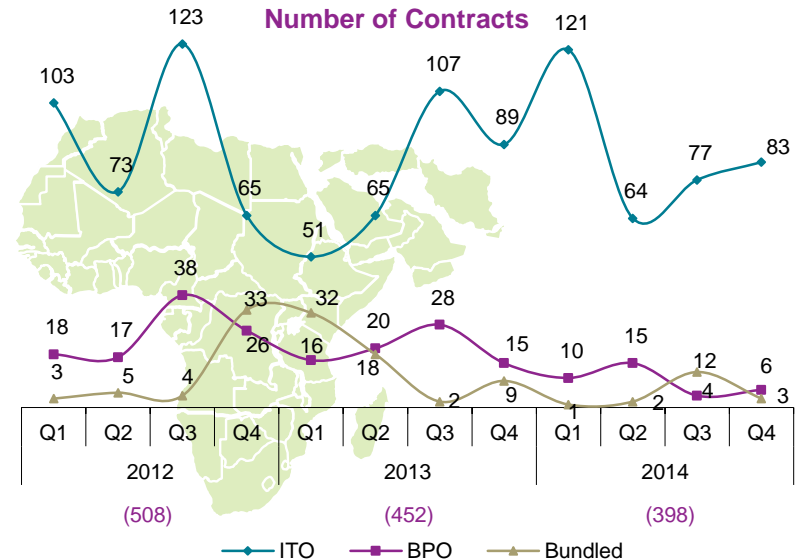
Total Contract Value (USD billion)



- While the contribution of AMERICAS and ASPAC has decreased as compared to 2013, EMA shows increased deal activity in 2014
- Unlike other regions, ITO deals in EMA showed a growth of 56 per cent in deal value in 2014 over 2013

- Number of deals in EMA has reduced over last 3 years but at the same time the TCV has increased in same period
- The region has seen a growth in number of ITO deals by 11 per cent in 2014 compared to 2013, while BPO deals have reduced by more than 55 per cent in the same period

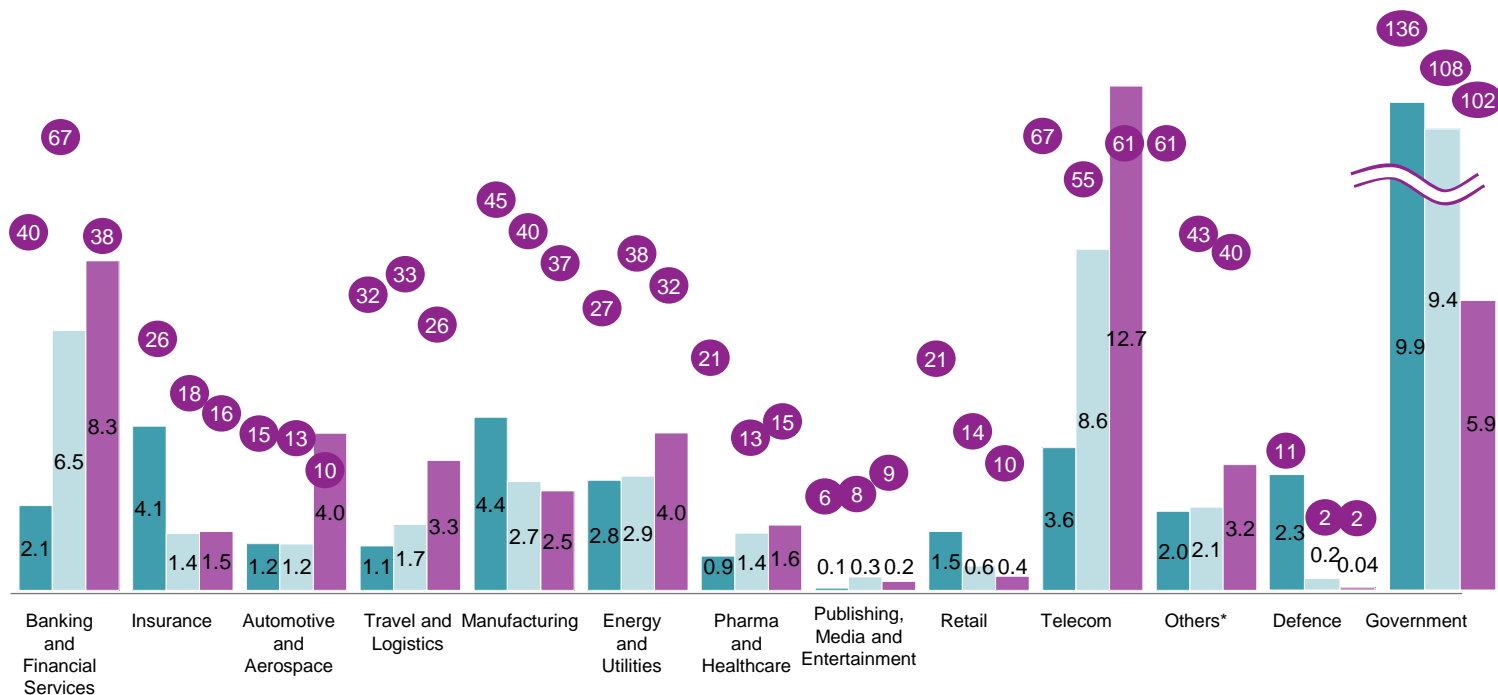
Number of Contracts



* Deals originating from the geography

Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

Sector-wise break-up of deals



* Others: Consumer and recreational services, Construction, Education, Professional services, Securities and investment services, 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, Jan 2015, Research and Analysis based on the IDC contract database

■ 2012 ■ 2013 ■ 2014
All figures in USD billion
● No. of deals

- **The Government continues to be the dominant consumer of IT-BPO services in the EMA region, however, 2014 saw strong growth in sectors like Telecom, and Banking and Financial Services**
- **Automotive and Aerospace sector exhibited more than 100 per cent growth in deal value in 2014 over 2013**



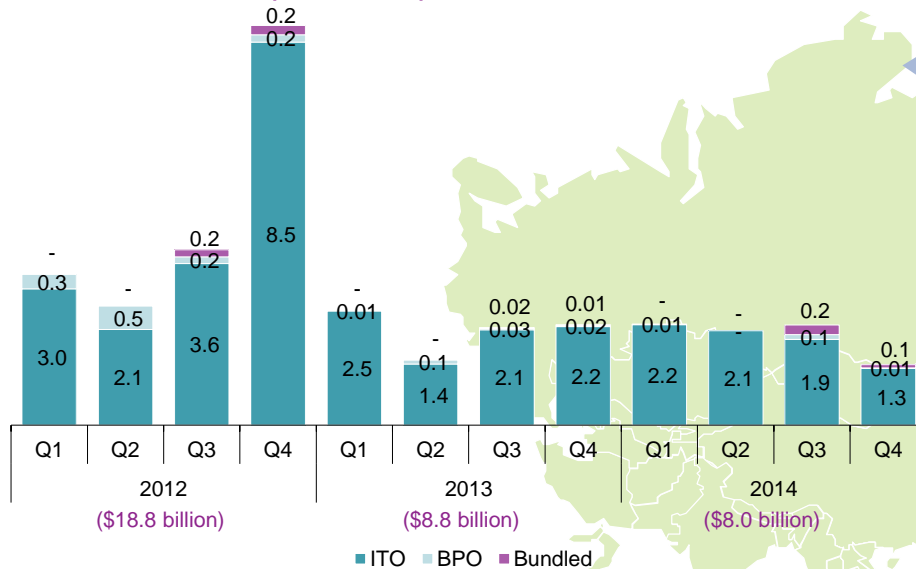
ASPAC

Geography analysis

IT-BPO deals in ASPAC: Value and number of deals

Geography-wise break-up of deals*

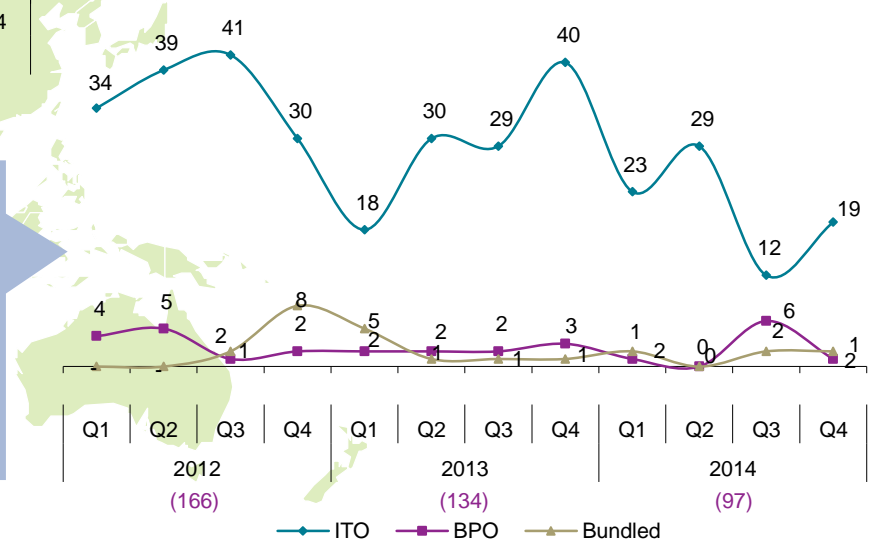
Total Contract Value (USD billion)



- Following the decline in 2013, the year 2014 saw the same trend continue, with ASPAC being the weakest buyer market of IT-BPO outsourcing services
- Unlike 4Q12, all the following quarters have shown a stagnation in deal values in ASPAC

- ASPAC was the only region where the volume of IT-BPO contracts showed minor positive growth in 4Q14 as compared to 3Q14
- Overall as compared to 2013, there was close to 30 per cent reduction in the IT-BPO deal numbers in ASPAC in 2014

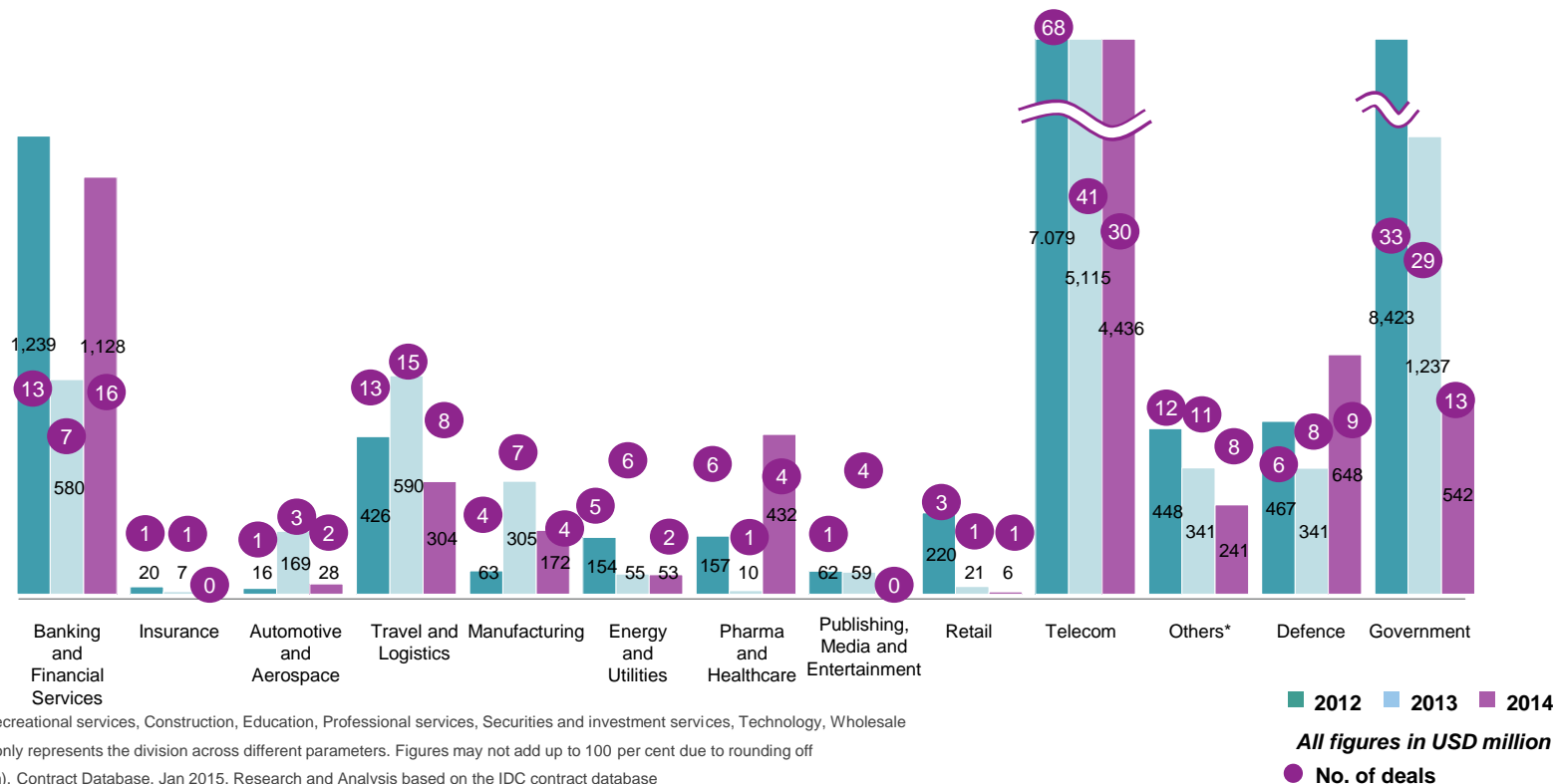
Number of Contracts



* Deals originating from the geography

Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

Sector-wise break-up of deals



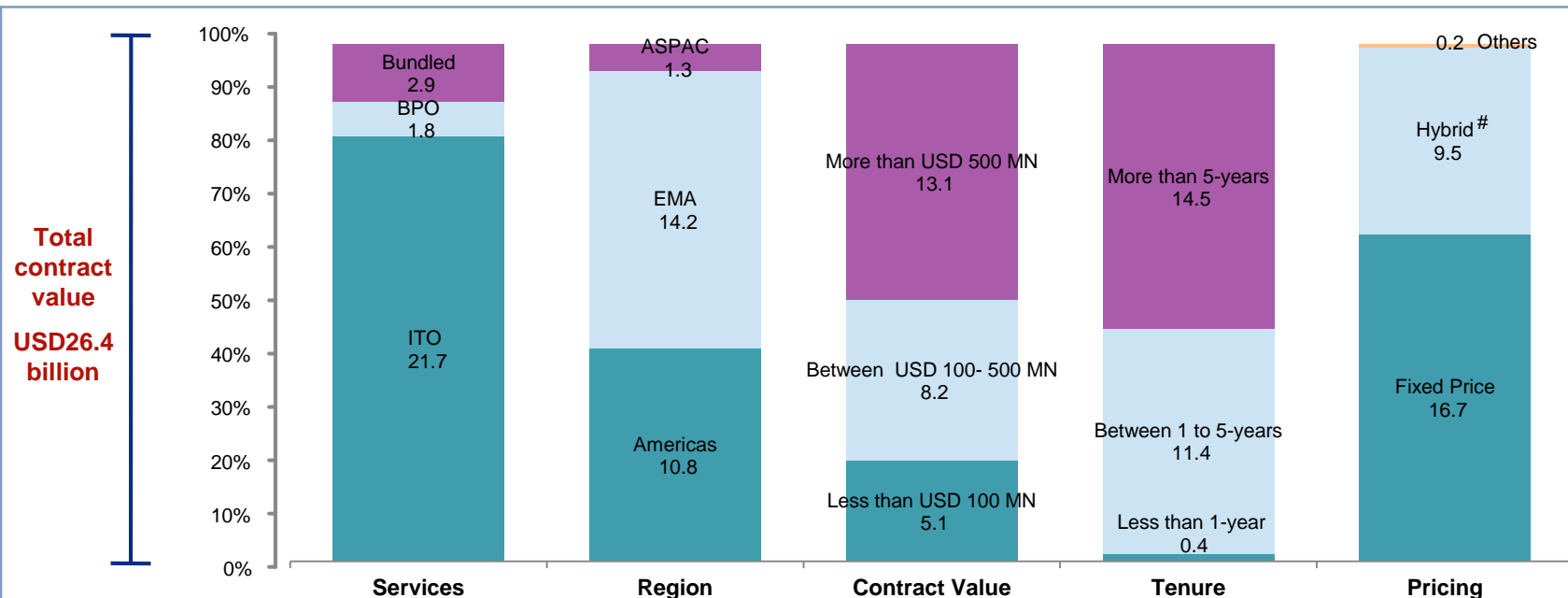
- **Banking and Financial Services and Telecom are the top outsourcing sectors in the ASPAC region Y-o-Y. In 2014, these sectors together contributed 70 per cent of the TCV**
- **Banking and Financial Services, and Pharma and Healthcare Sectors demonstrated multifold increase in TCV in 2014 over 2013**

Section 4

4Q14 deal analysis



IT-BPO deals* signed in 4Q14 (Total contract value = USD26.4 billion)



* 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

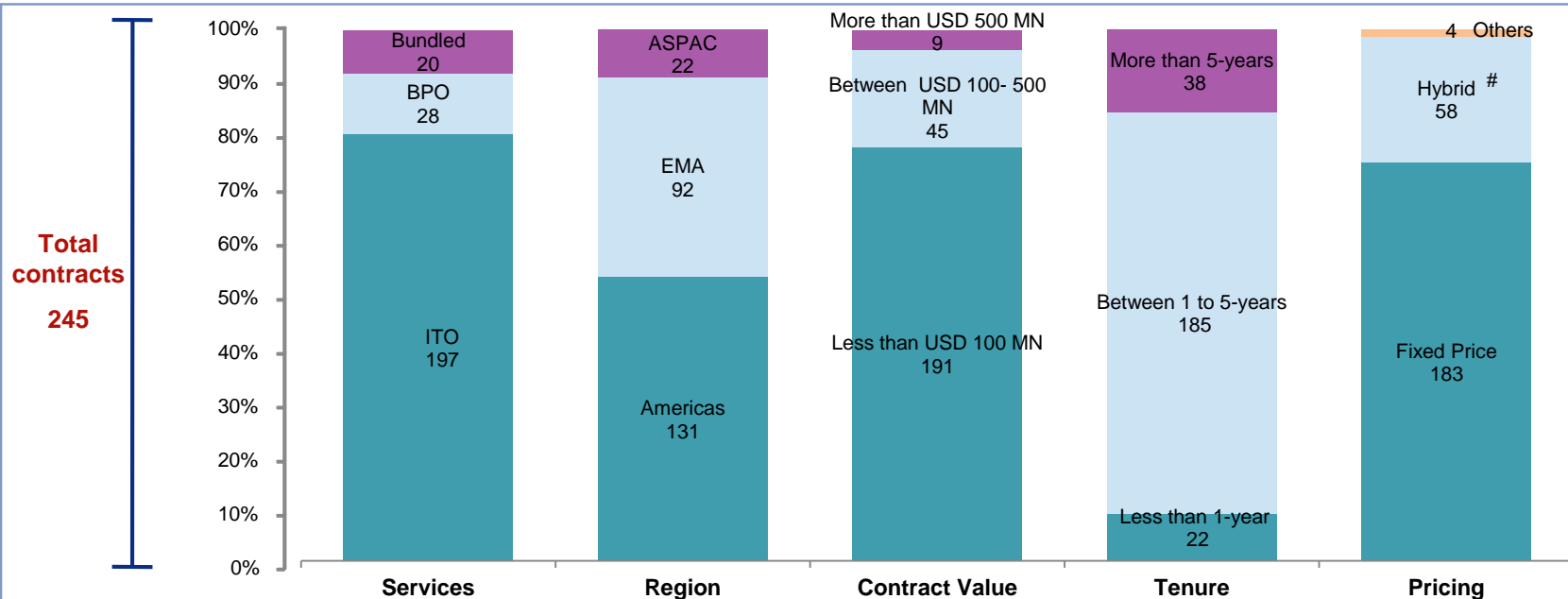
Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

- **ITO deals continue to dominate the outsourcing space, the total ITO deal value has increased by 26 per cent in 4Q14 over 3Q14. Contribution of BPO deals decreased by a significant 90 per cent from 3Q14**
- **AMERICAS has moved away from being the largest outsourcing region with EMA now contributing 54 per cent of the total deal value in 4Q14**
- **4Q14 saw the continued dominance of Fixed Price contracting model, contributing 63 per cent of the deal value, followed by Hybrid model, contributing 36 per cent**

Number of deals

Global sourcing snapshot – October to December 2014

IT-BPO deals* signed in 4Q14 (Total number of contracts = 245)



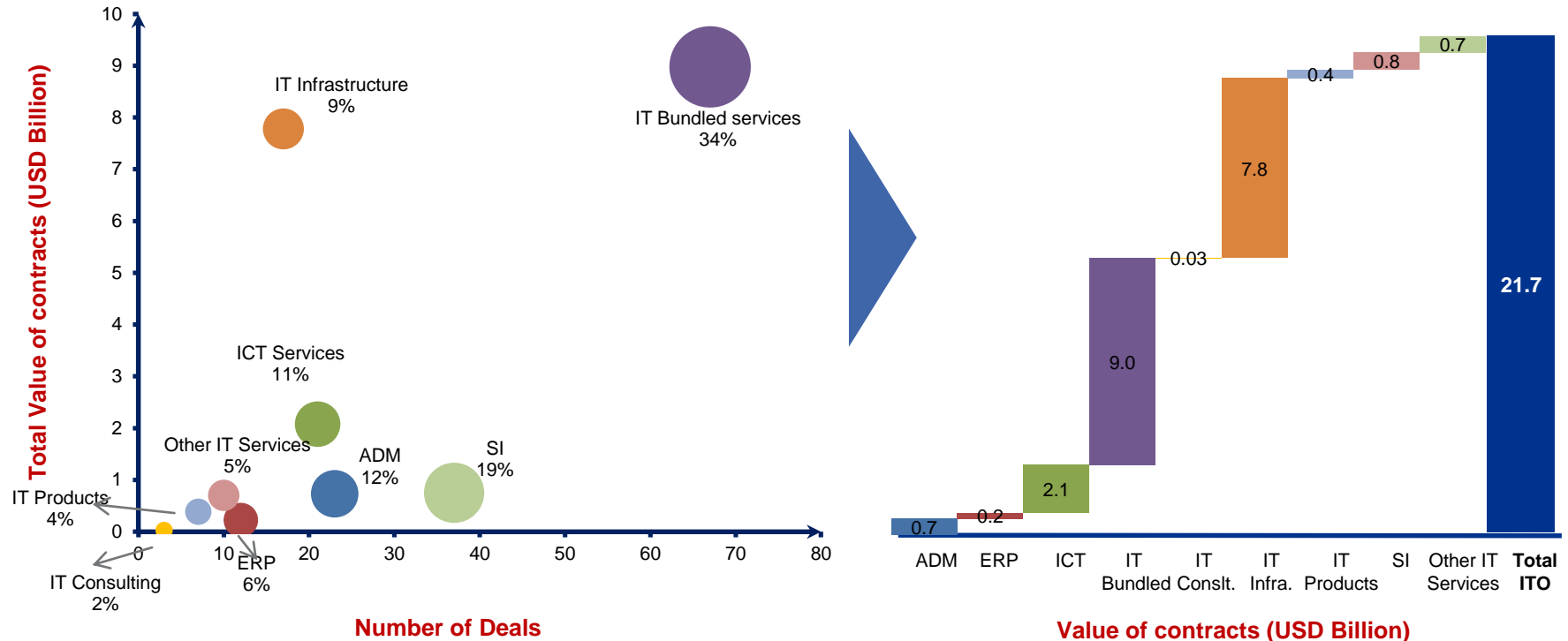
* Deals analysed are USD5.0 million and above only, throughout the analysis. Graph is not to scale and only represents the division across different parameters. Figures may not add up to 100 per cent due to rounding off

Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

- ***Though the overall number of contracts have decreased by 25 per cent in 4Q14 over 4Q13, their percentage contribution across each group of 'Contract Value' and 'Tenure' shown above has remained the same for both these quarters***
- ***There has been a significant (~ 40 per cent) reduction in the number of BPO deals in 4Q14 over 4Q13 and except for 3Q14 which showed a spike in BPO deals signed, the other quarters of the year 2014 had no huge variations in the number of BPO deals signed***

Analysis of ITO deals 4Q14



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, Jan 2015, Research and 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 per cent due to rounding off. Refer L.H.S. figure for legend

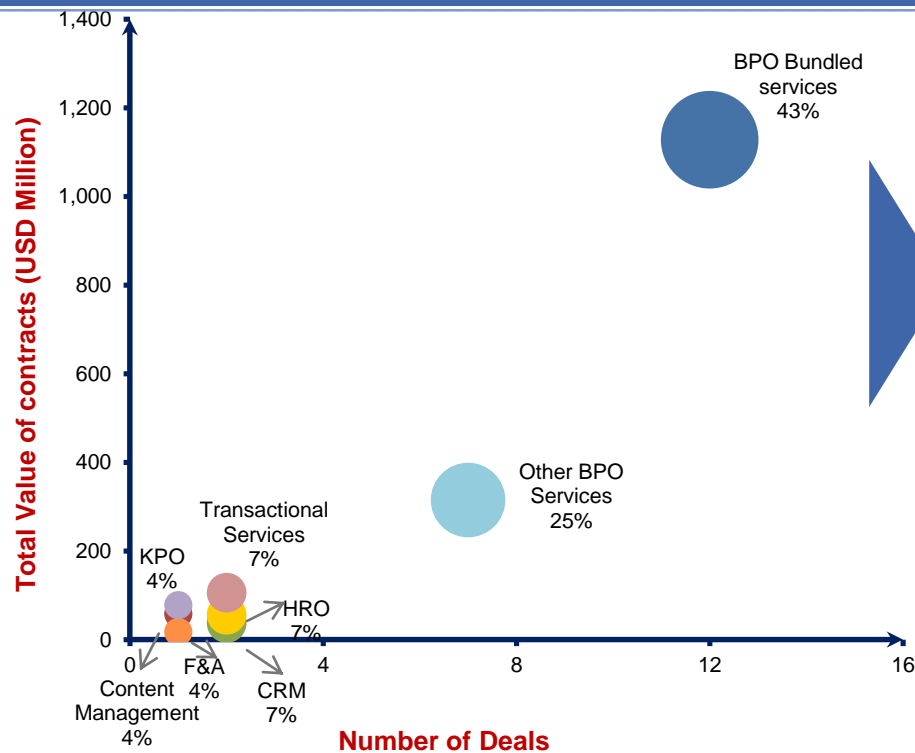
Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

- **IT Bundled Services, IT Infrastructure and ICT Services together contributed 87 per cent of all ITO deals in terms of value during 4Q14**
- **While IT Bundled Services and IT Infrastructure together have grown by more than 75 per cent in 4Q14 as compared to 4Q13, ICT services and ADM together have exhibited more than 65 per cent reduction in growth in the same period**

Services segmentation

BPO services

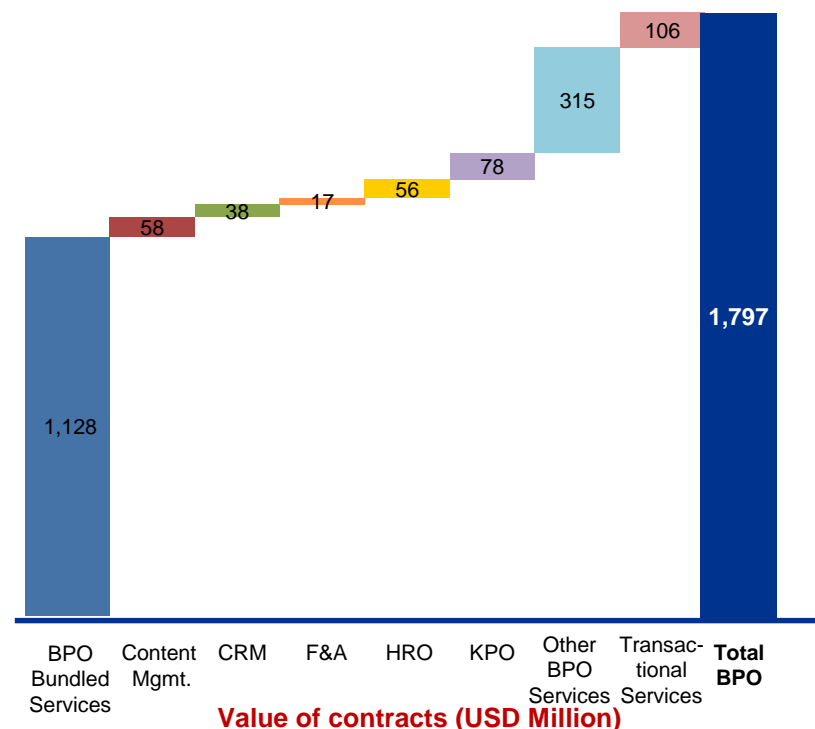
Analysis of BPO deals 4Q14



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, Jan 2015, Research and 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, Jan 2015, Research and Analysis based on the IDC contract database

- **Pure play BPO deals have significantly reduced in market share over the last few quarters in value and the preference is towards BPO Bundled Services**
- **BPO Bundled Services and Other BPO Services have contributed the most in 4Q14 together constituting 80 per cent of the total deals by value in 4Q14**

Section 5

IT-BPO outsourcing outlook



- *The year 2014 may not have been one of the best years for the outsourcing industry when we see the past three years. However, we are observing a steady growth in terms of the average deal value. In 4Q14 the average deal value increased by 25 per cent as compared to 4Q13, showing a trend of larger size deals being signed. We expect this trend to continue in the next year too*
- *Government and Defence sectors are expected to continue being the largest outsourcers in 2015 compared to other industries. We may also see stabilization in the telecom sector that has been gaining momentum in the past few quarters*
- *Buyers are cautious about models that include outcome-based pricing while hybrid and fixed pricing model are preferred, contributing around 96 to 99 per cent of the deal value over the last three years. The same trend is likely to continue in 2015*
- *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 contributing 54 per cent of the total deal value in 2014. EMA is gaining momentum gradually*
- *In terms of outsourcing relationships, a recent KPMG-HfS study¹ showed that only a third of outsourcing buyers see current relationships delivering significant value, vast majority of these buyers view service provider collaboration, integration and accountability as a means to drive significant value*
- *We are seeing several enterprises are realizing significant benefits by shifting from 'on-premises' to 'as-a-service' delivery models. Close to one-in-three organizations already is using or about to use BPaaS/cloud as an alternative to legacy outsourcing in areas like human resources, industry-specific operations, finance and accounting, and procurement²*

¹ KPMG and Horses for Sources published report- 'From Global Business Services to Digital Business Services', December 8, 2014

² KPMG research published in the report Pulse, Issue 14 | Nov/Dec 2014 published by IAOP

Source: IDC (www.idc.com), Contract Database, Jan 2015, Research and Analysis based on the IDC contract database

KPMG Shared Services and Outsourcing Advisory (SSOA) research

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Cliff Justice
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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 (e.g. SAP, Oracle implementations) 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 center 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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