



Global IT-BPO outsourcing deals analysis

1Q16 analysis:
January to March



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).

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Section 1

Global deals: an overview

A summary

In 1Q16, **195 ITO contracts** worth **USD36.1 billion** and **22 BPO contracts** worth **USD3.1 billion** were signed, worldwide.

Globally **11 IT-BPO bundled** deals were signed in 1Q16 with contract value worth **USD614 million**.

In terms of value, approximately **72 per cent of deals** originated from the **United States** followed by the **United Kingdom** at **14 per cent**. France and Spain were two other key outsourcing markets.

The **average deal tenure** increased to **4 years 11 months** in 1Q16 from 3 years 7 months in 4Q15.

Government and Defense sectors were the top consumers of IT-BPO services contributing to **65 per cent** and **17 per cent** in terms of value of outsourcing deals signed in 1Q16. **Banking and Financial Services** sector was the next big contributor in terms of deal value

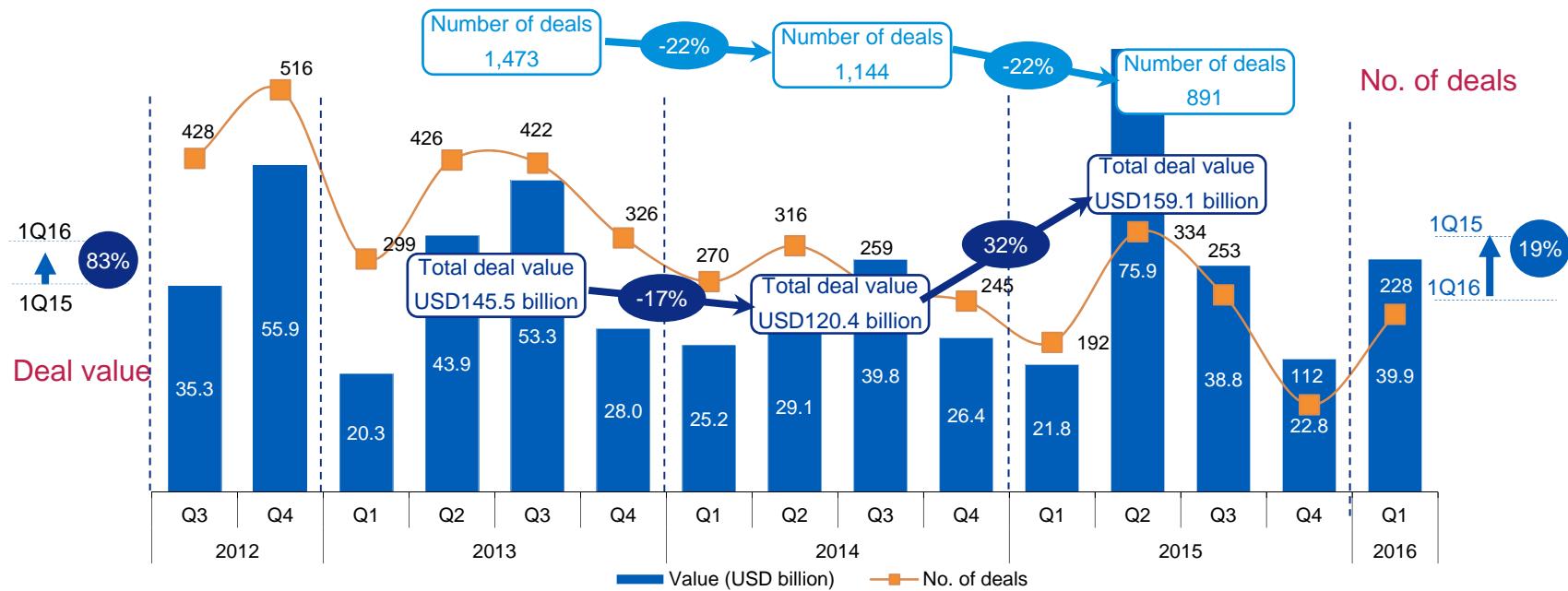
IT Bundled Services and **F&A** contributed approximately **USD25.4 billion** and **USD797.6 million** respectively and were the largest procured services globally within ITO and BPO outsourced services, respectively.

Average annualized contract value in 1Q16 was **USD27.3 million** as compared to **USD50.4 million** in 4Q15 showing a decrease of **46 per cent** between the two quarters.

Source: IDC (www.idc.com), Contract Database, Apr 2016, KPMG member firms research & analysis based on the IDC contract database

Snapshot Quarterly deal movements

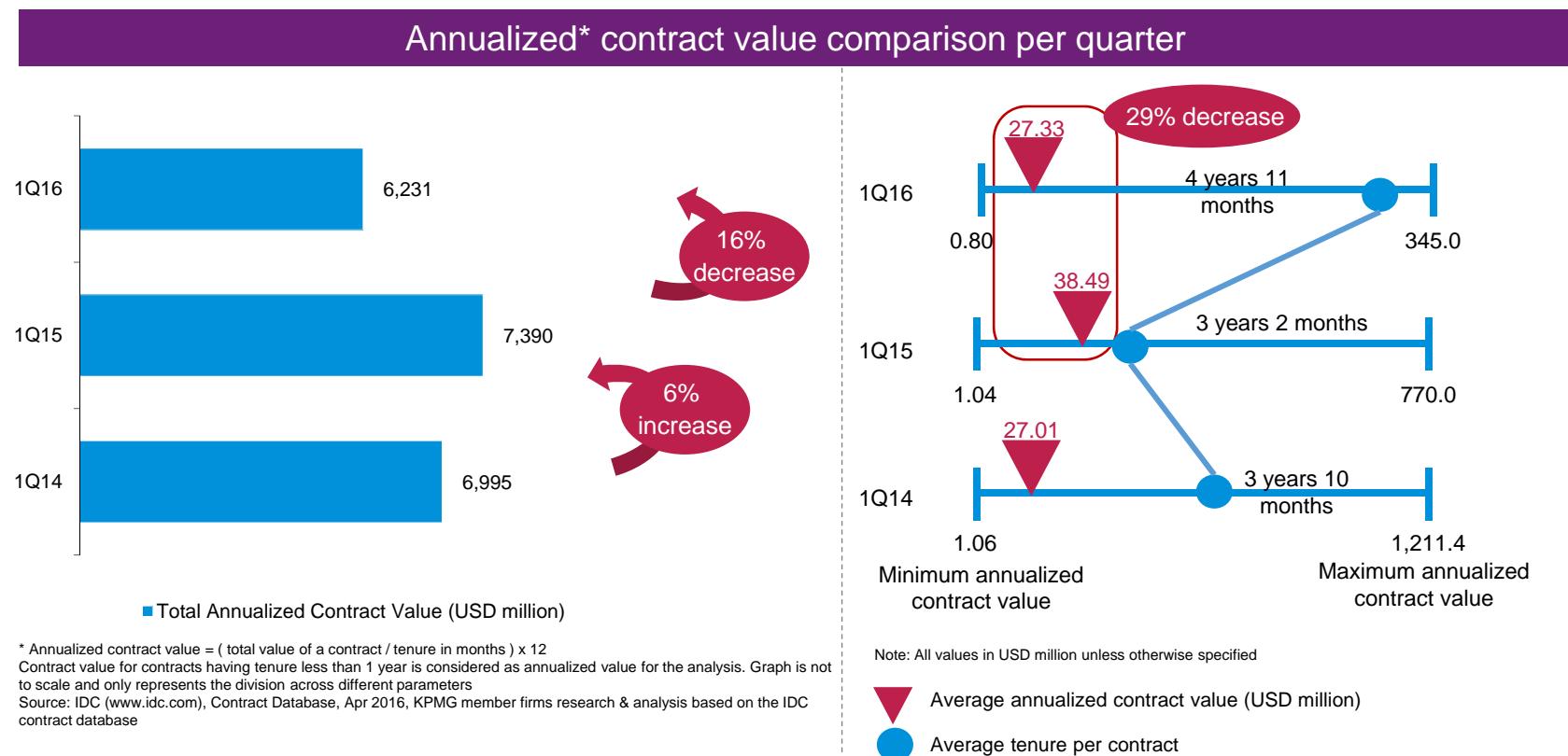
Quarterly movements of global IT-BPO deals*



*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, Apr 2016, KPMG member firms research & analysis based on the IDC contract database

1Q16 witnessed a sharp increase in total contract value as compared to 1Q15. There was an increase of 83 per cent in total contract value and 19 per cent increase in the total number of deals in 1Q16 as compared to 1Q15. Though there was an increase in both these parameters, the average contract value also decreased by approximately 30 per cent in 1Q16 as compared to 1Q15

Q-o-Q comparison Annualized Contract Value (ACV)



- Total annualized contract value in 1Q16 decreased by 16 per cent as compared to 1Q15. The average annualized contract value also decreased by 29 per cent in 1Q16 as against 1Q15
- The average contract tenure increased by 21 months to 4 years 11 months in 1Q16 over 1Q15

Q-o-Q comparison

Sector analysis

Trends in deal movement from 1Q15 to 1Q16

Sector	Total Contract Value				Total Number of Contracts				Average Contract Value			
	1Q15 -> 2Q15	2Q15 -> 3Q15	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q15 -> 2Q15	2Q15 -> 3Q15	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q15 -> 2Q15	2Q15 -> 3Q15	3Q15 -> 4Q15	4Q15 -> 1Q16
Automotive & Aerospace	Decrease	Decrease	Decrease	Decrease	No change	No change	Decrease	No change	Decrease	Decrease	Decrease	Decrease
Banking & Financial Services	Decrease	Decrease	Decrease	Decrease	No change	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Defence	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Energy & Utilities	Decrease	Decrease	Decrease	Decrease	No change	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Government	Decrease	Decrease	Decrease	Decrease	No change	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Insurance	Decrease	Decrease	Decrease	Decrease	No change	No change	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Manufacturing	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Pharma & Healthcare	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Publishing, Media & Entertainment	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Retail	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Telecom	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Travel & Logistics	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Others*	Decrease	Decrease	Decrease	Decrease	No change	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

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

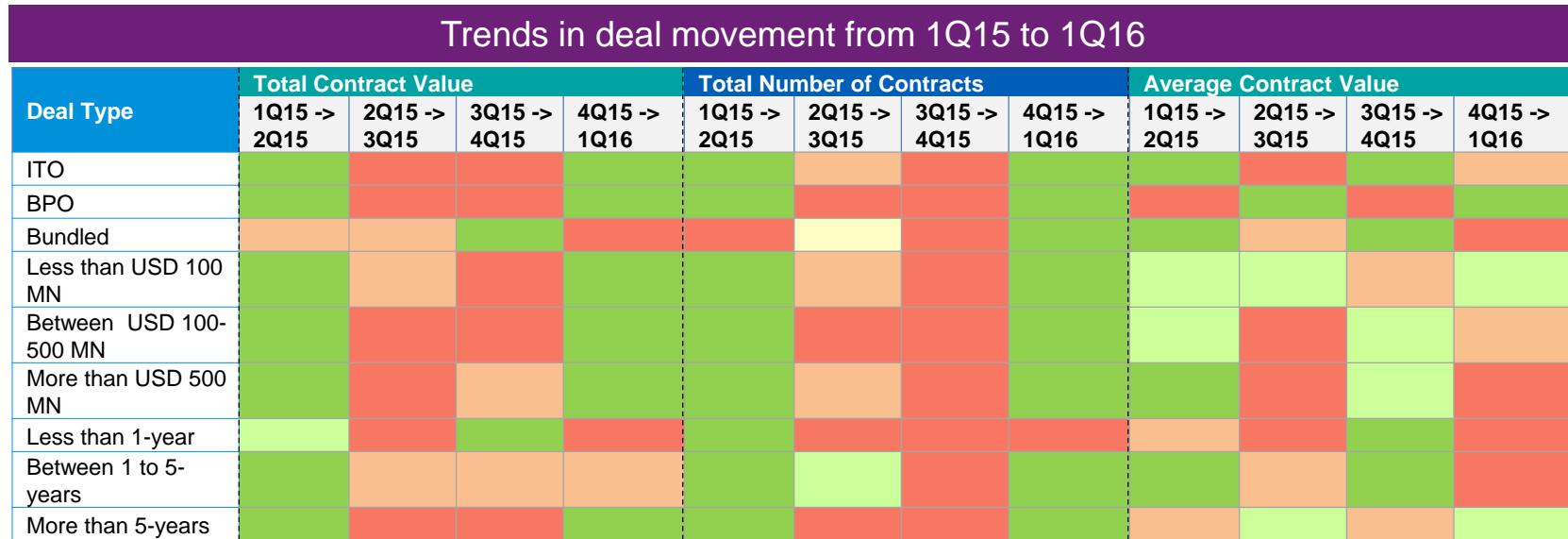
Source: IDC (www.idc.com), Contract Database, Apr 2016, KPMG member firms research & analysis based on the IDC contract database

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

- In 1Q16, while there has been an increase in Total Contract Value and Total Number of Contract by more than 25 per cent in many sectors including Banking & Financial Services, Defense, Government, Manufacturing, Pharma & Healthcare and Publishing, Media & Entertainment. While corresponding increasing trend is not evident in the Average Contract Value for Banking & Financial Services, Manufacturing, Pharma & Healthcare and Publishing, Media & Entertainment.

Q-o-Q comparison

Sector analysis

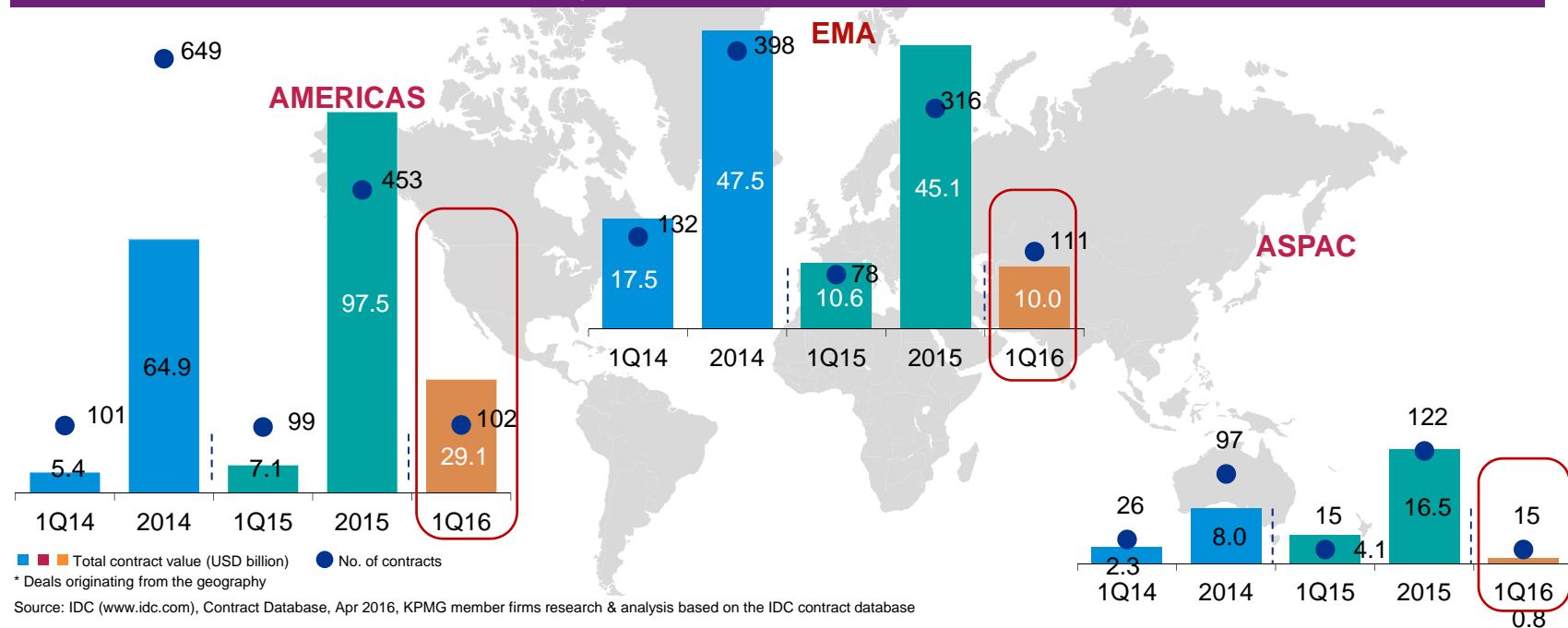


- Whilst ITO and BPO deals showed an increase both in terms of value and numbers over 4Q15, Bundled deals showed a decrease in terms of value
- There were many deals in terms of numbers which has mid to longer tenure deals (deals over one year duration), while their average contract value showed decrease
- The average contract value of deals more than 100 million USD showed a decreased growth over 4Q15 while the total contract value and the number of deals showed an increase of more than 25 per cent

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

Geography analysis

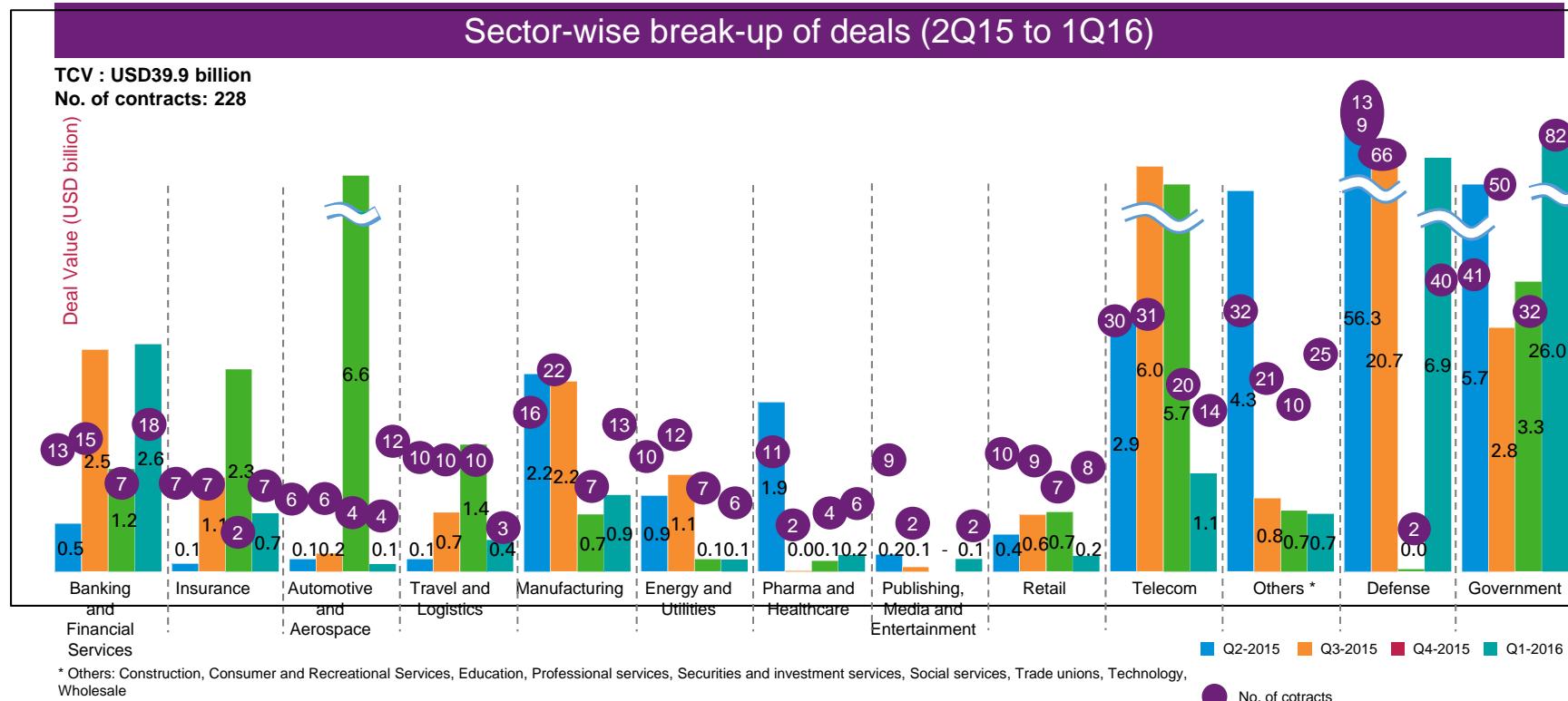
Geography-wise break-up of deals*



- AMERICAS continues to be the major outsourcing region contributing 73 per cent of the total deal value in 1Q16. EMA and ASPAC regions contribute to 25 per cent and 2 per cent respectively
- While AMERICAS experienced a multi-fold growth in deal value in 1Q16 as compared to 4Q15, both the ASPAC and EMA regions faced a drop in deal value
- The outsourcing market in EMA grew by more than 90 per cent in deal number while ASPAC had a dip of 2 per cent in 1Q16 as compared to 4Q15

IT-BPO deals across sectors by value and numbers

Sector analysis

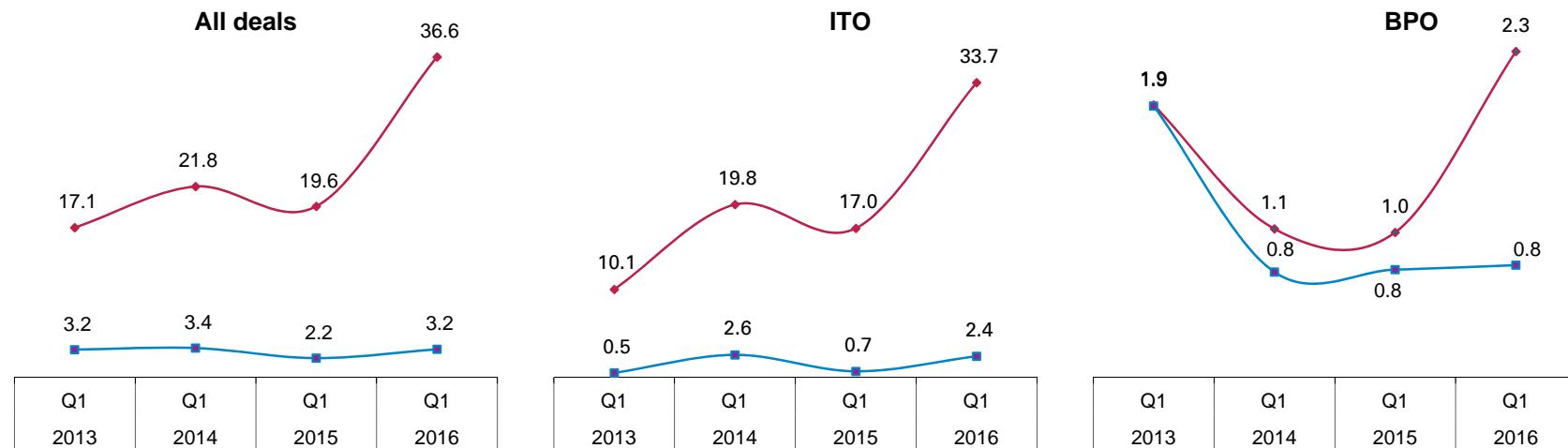


- The Government and Defence sector lead deal activity, contributing to more than 82 per cent of the total deal value in 1Q16. Both the sectors have experienced multi-fold growth both in terms of deal value and deal numbers as compared to 4Q15
- Manufacturing and Banking & Financial Services are the only other sectors which have grown in terms of deal value in 1Q16 vis-à-vis 4Q15

Q-o-Q comparison

New and renewal* deal analysis

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, Apr 2016, KPMG member firms research & analysis based on the IDC contract database

Total contract value (in USD Bn)

■ New ■ Renewal

- Over the last four years, 1Q16 has seen the highest deal activity overall as well as over the both the segments – ITO and BPO
- Renewal deals both in ITO and BPO have seen relatively lesser growth than new deals – this could mark an upturn in outsourcing this year

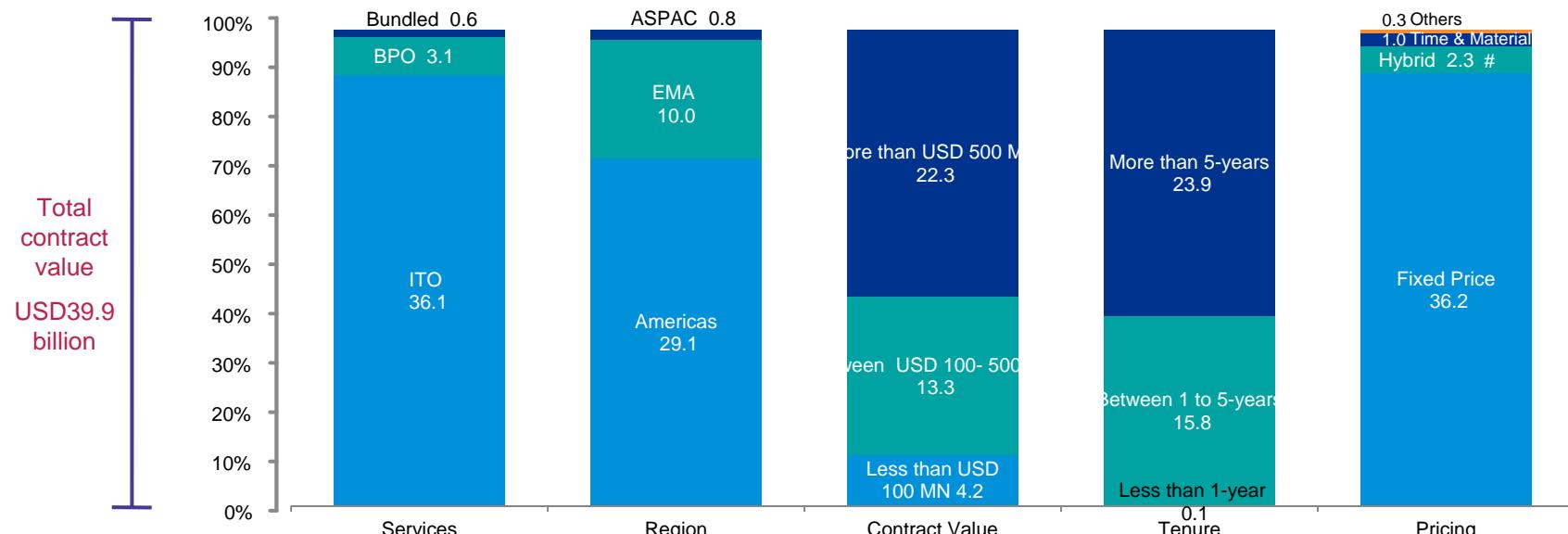


Section 2

1Q16 deal analysis

Deal value

IT-BPO deals* signed in 1Q16(Total contract value: USD39.9 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

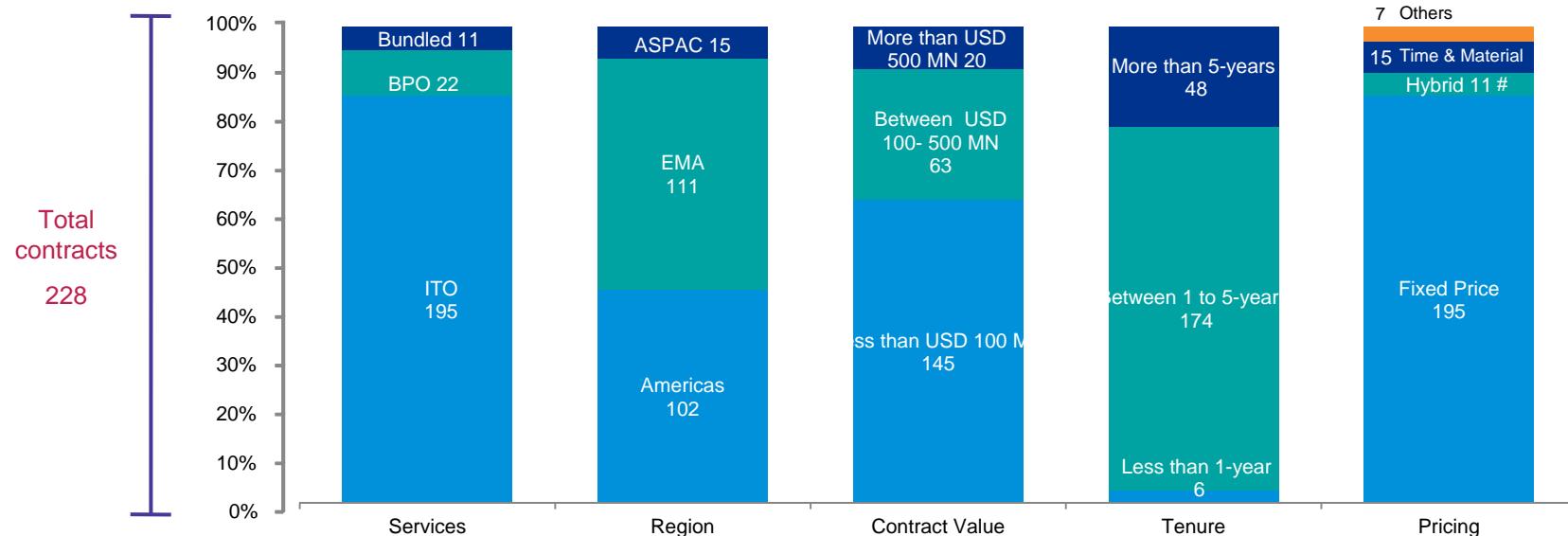
Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, Apr 2016, KPMG member firms research & analysis based on the IDC contract database

- ITO deals continue to dominate the outsourcing space with a contribution of 91 per cent to the total deal value signed in 1Q16
- AMERICAS continues to be the major outsourcing region contributing 73 per cent of the total deal value in 1Q16. EMA and ASPAC contribute 25 per cent and 2 per cent respectively
- 1Q16 saw the continued dominance of the Fixed Price contracting model, contributing over 90 per cent of the deal value

Number of deals

IT-BPO deals* signed in 1Q16 (Total number of contracts: 228)



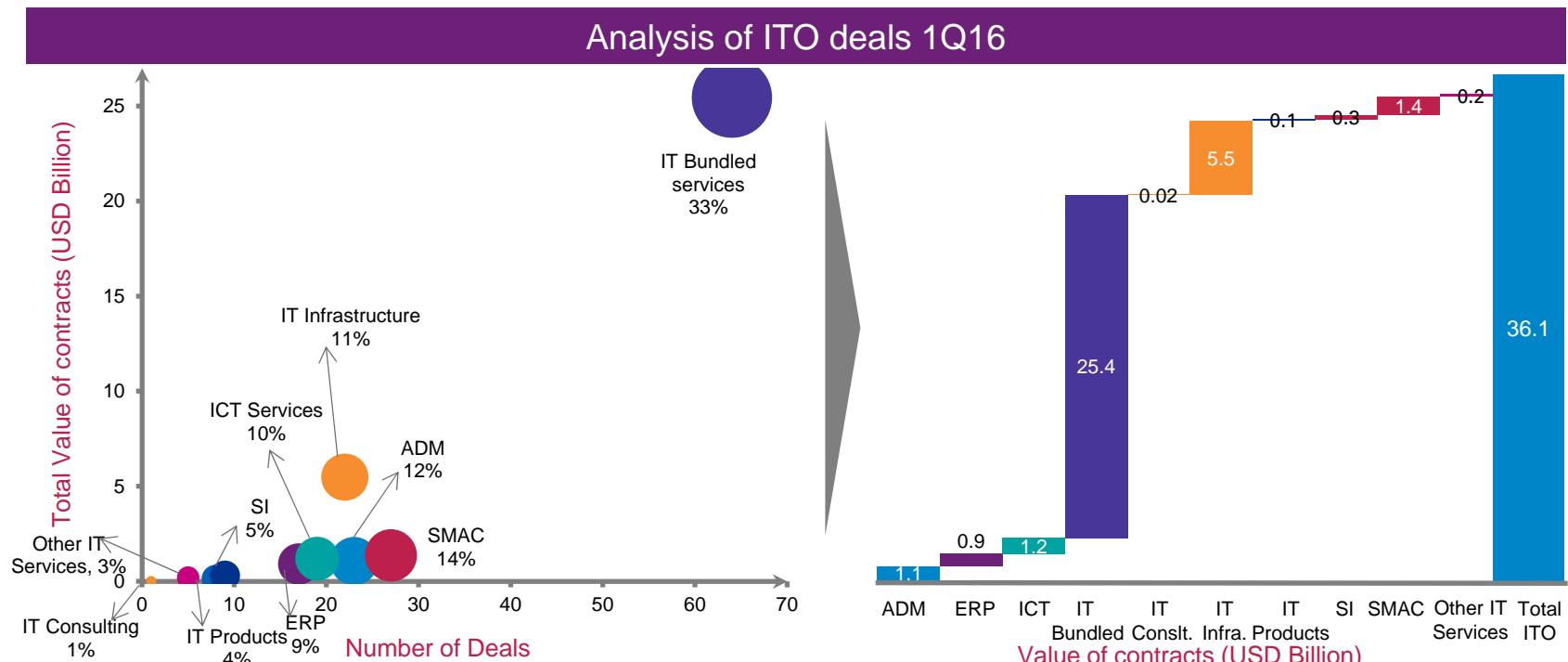
* Deals analyzed are USD5.0 million and above only, throughout the analysis. Graph is not to scale and only represents the division across different parameters. Figures may not add up to 100 per cent due to rounding off

Hybrid pricing includes a combination of various pricing mechanisms

Source: IDC (www.idc.com), Contract Database, Apr 2016, KPMG member firms research & analysis based on the IDC contract database

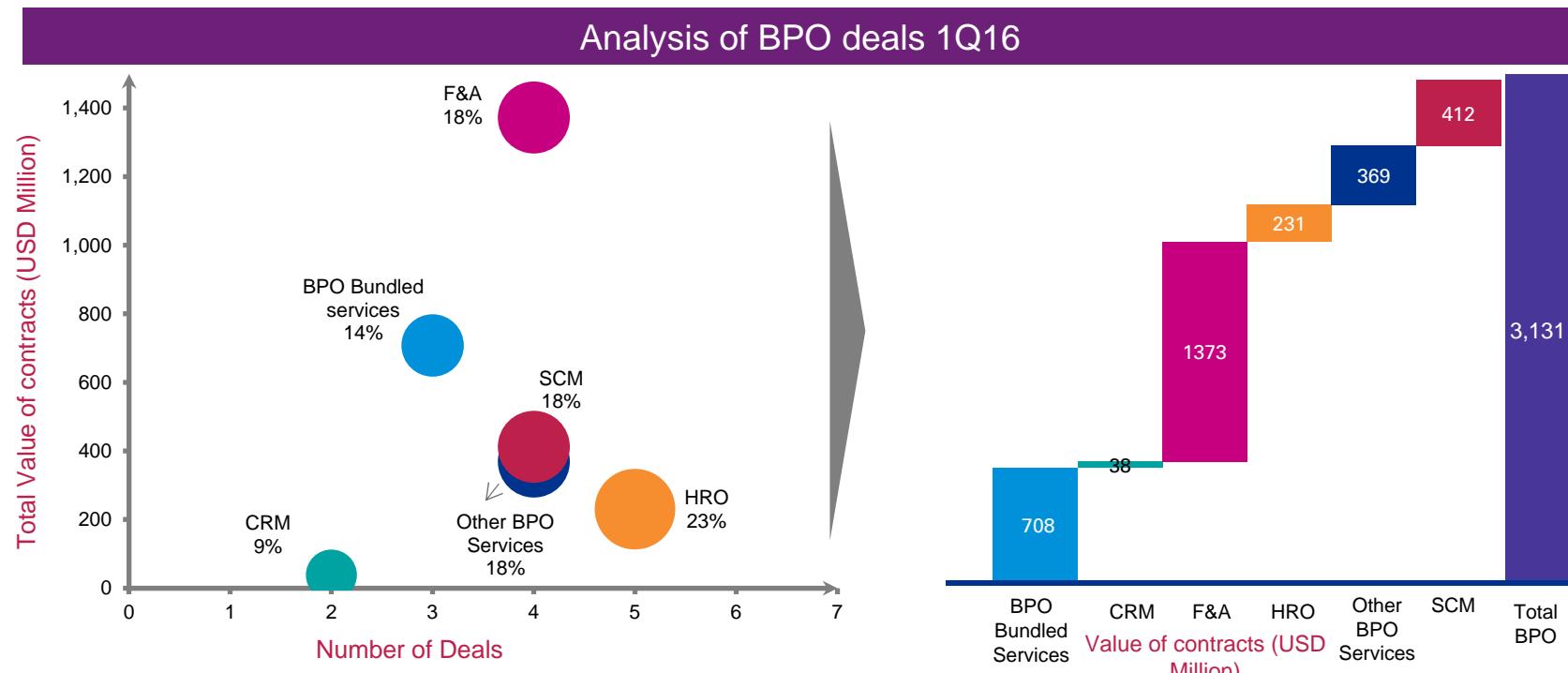
- ITO deals and BPO deals contribute to 86 per cent and 10 per cent respectively in terms of number of deals signed in 1Q16 which is comparable to 4Q15
- 64 per cent of the deals, in terms of number of deals signed in 1Q16, were of value less than USD100 million
- Deals with tenure between one to five years were largest in number, comprising 76 per cent to the deals signed in 1Q16

Services segmentation



- There have been many large IT Bundled Deals because of which though this service segment contributes to only 33 per cent in terms of deal numbers, it contributes to 70 per cent of all ITO deals in terms of value
- ERP, IT Bundled services, IT Infrastructure and System Integration gained activity with multi-fold growth in total contract value in 1Q16 over 4Q15

Services segmentation



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, Apr 2016, 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, Apr 2016, KPMG member firms research & analysis based on the IDC contract database

- F&A and BPO Bundled contributed to 44 per cent and 23 per cent of all BPO deals in terms of value and 32 per cent both consolidated in terms of number of deals during 1Q16
- HRO is the highest contributor in terms of number of deals but only 7 per cent in terms of deal value



Section 3

IT-BPO outsourcing outlook

Global outsourcing industry Outlook

- 2016 begins with a positive outlook with 1Q16 showing one of the highest deal activity for a first quarter since 2013. Past trends indicate that there is a slump in deal activity post the fourth quarter, but 1Q16 stands out in this regard. Whether this remains portent for the rest of the year is yet to be seen.
- The value of renewal deals is minuscule as compared to new deals 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 4Q15 saw significant decrease in the deal activity, 1Q16 showed that these sectors contributed to more than 80 per cent of the total deal value
- Traditional pricing models are relatively highly prevalent as compared to a hybrid model which has been the trend in the last few years. While this may indicate a reduced risk appetite of the vendors, the deal activity indicates that organizations are experimenting with multiple pricing models
- While EMA is continuing to gain outsourcing momentum, 1Q16 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.

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Glossary (1/2)

Terms	Definition
ACV	Annualized contract value = (total value of a contract/tenure in months) x 12
AMERICAS	North America and South America
ASPAC	Asia and Oceania
BPO	Business Process Outsourcing
EMA	Europe, Middle East and Africa
ITO	Information Technology Outsourcing
TCV	Total contract value

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 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)
SMAC	Social, Mobile, Analytics and Cloud services (i.e. Social Media, Mobility, Analytics and Cloud computing)
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. Industry specific processes, Facilities Management)
SCM	Supply Chain Management services (including procurement, logistics etc.)

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