



Global IT-BPO outsourcing deals analysis

2Q16 analysis

August 2016

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About global IT-BPO outsourcing deals analysis

KPMG's Shared Services and Outsourcing Advisory (SSOA) practice publishes a quarterly analysis on Information Technology and Business Process Outsourcing (IT-BPO) 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.

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Section 1

Global deals: an overview

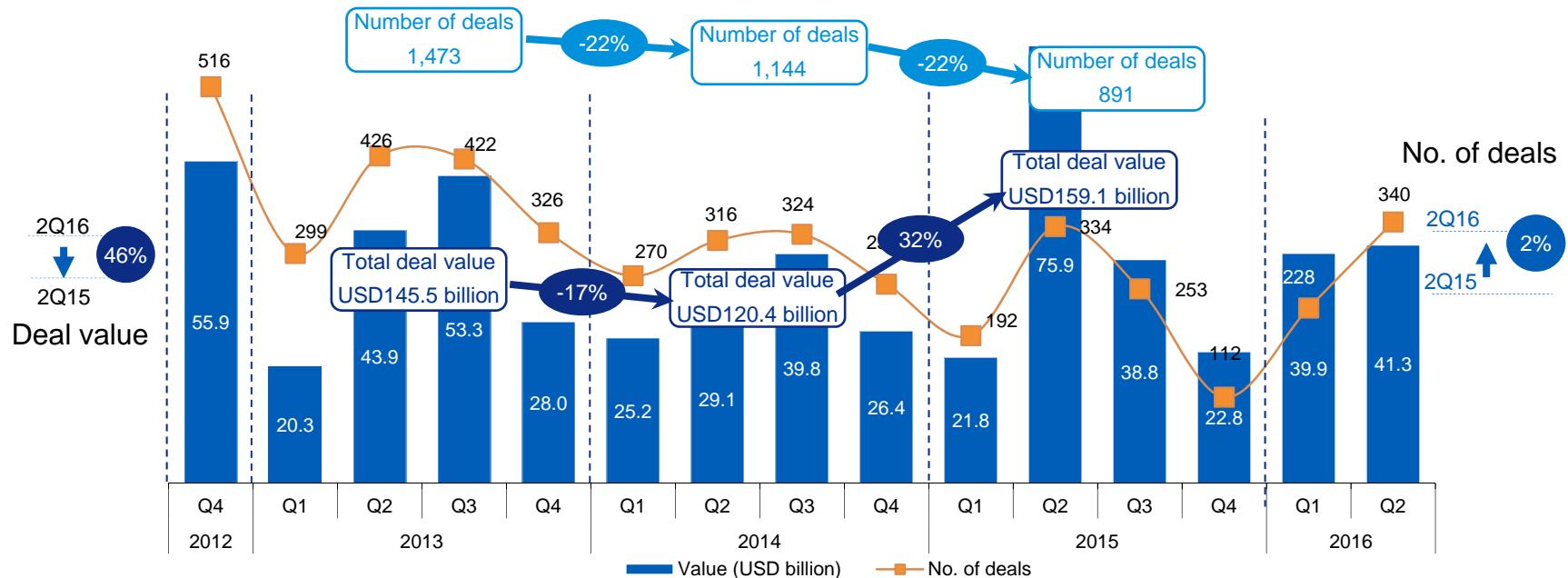
A summary

- ▶ In 2Q16, **311 ITO contracts** worth **USD40.1 billion** and **21 BPO contracts** worth **USD739 million** were signed, worldwide
- ▶ Globally **8 IT-BPO bundled** deals were signed in 2Q16 with contract value worth **USD463 million**
- ▶ In terms of value, approximately **71 per cent of deals** originated from the **United States** followed by the **United Kingdom** at **5 per cent**. China and Australia were two other key outsourcing markets
- ▶ The **average deal tenure** increased to **5 years 5 months** in 2Q16 from 4 years 11 months in 1Q16
- ▶ **Government and Telecom** sectors were the top consumers of IT-BPO services contributing to **65 per cent** and **12 per cent** in terms of value of outsourcing deals signed in 2Q16. **Defense** sector was the next big contributor in terms of deal value
- ▶ **IT Bundled Services** and **CRM** contributed approximately **USD31.4 billion** and **USD378.5 million** respectively and were the largest procured services globally within ITO and BPO outsourced services, respectively
- ▶ **Average annualized contract value** in 2Q16 was **USD23.0 million** as compared to **USD27.3 million** in 1Q16 showing a decrease of **16 per cent** between the two quarters

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

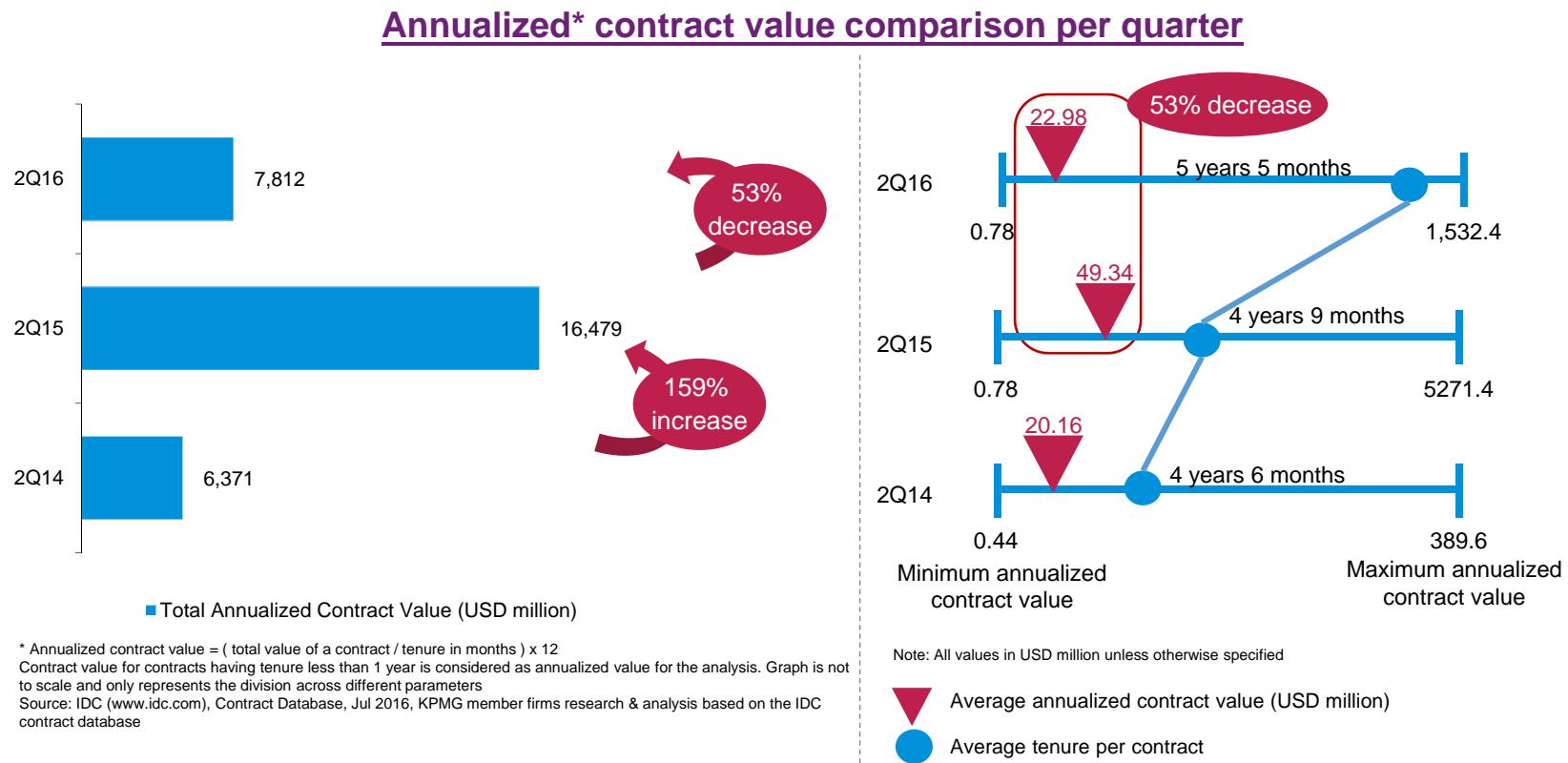
Snapshot Quarterly deal movements

Quarterly movements of global IT-BPO deals*



- 2Q16 was almost consistent with 1Q16 in terms of total contract value as compared to 1Q16 whilst there was a 49 per cent increase in the total number of deals, indicating that the average deal size has gone down considerable (34 per cent over 1Q16)

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



- Total annualized contract value in 2Q16 decreased by 53 per cent as compared to 2Q15. The average annualized contract value also decreased by 53 per cent during the same period
- The average contract tenure increased by 9 months to 5 years 5 months in 2Q16 over 2Q15

Q-o-Q comparison

Deals analysis by sector

Trends in deal movement from 2Q15 to 2Q16

Sector	Total Contract Value				Total Number of Contracts				Average Contract Value			
	2Q15 -> 3Q15	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16	2Q15 -> 3Q15	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16	2Q15 -> 3Q15	3Q15 -> 4Q15	4Q15 -> 1Q16	1Q16 -> 2Q16
Automotive & Aerospace												
Banking & Financial Services												
Defense												
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, Jul 2016, KPMG member firms research & analysis based on the IDC contract database

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

- In 2Q16, many sectors have shown an increase in total contract value but Banking & Financial Services, Defense, Insurance and Publishing, Media & Entertainment have shown a decrease in total contract value of more than 25 per cent as compared to 1Q16, along with corresponding decreasing trend in the Average Contract Value

Q-o-Q comparison

Deals analysis by category

Trends in deal movement from 2Q15 to 2Q16



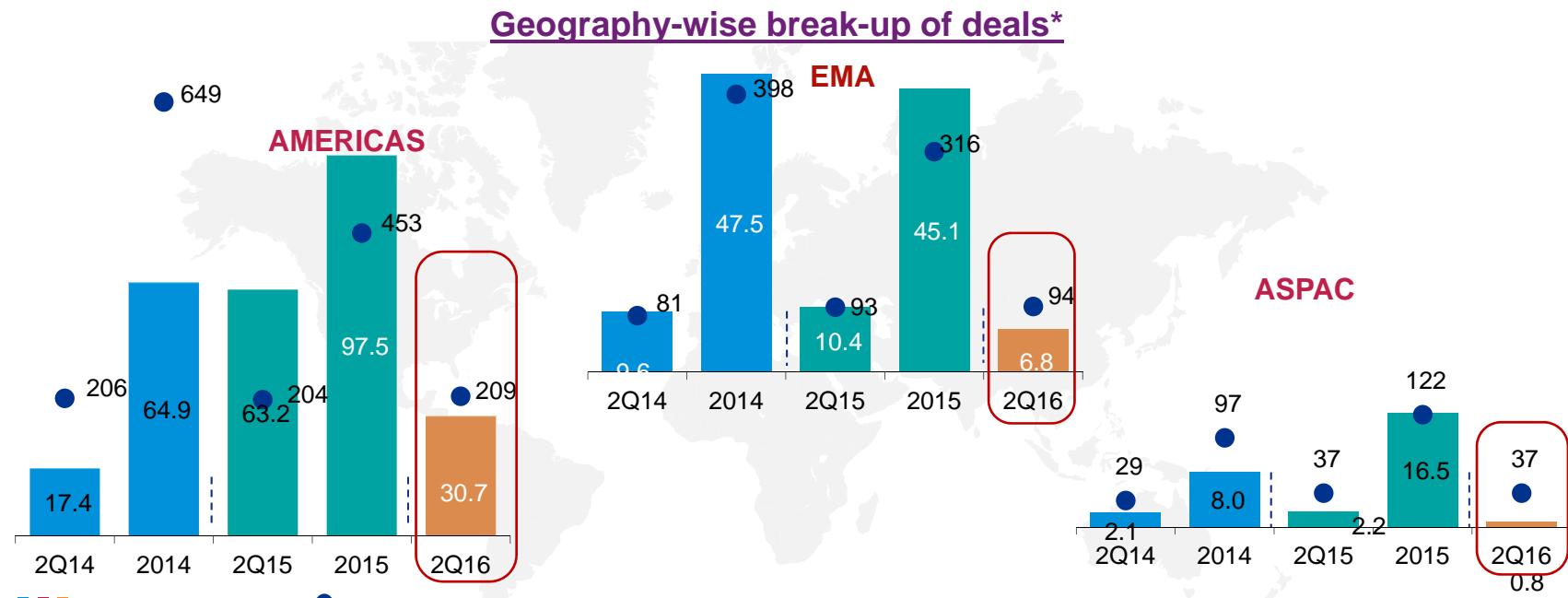
Source: IDC (www.idc.com), Contract Database, Jul 2016, KPMG member firms research & analysis based on the IDC contract database

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

- Whilst ITO deals showed an increase both in terms of value and numbers in 2Q16 over 1Q16, BPO deals and Bundled deals showed a decrease in terms of value and numbers
- 2Q16 shows higher deal activity in terms of both number and total contact value of shorter tenure deals (deals less than one year) indicating that organizations preferred short-term outsourcing
- The average contract value of deals has decreased across all categories except for Bundled deals

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

Geography analysis



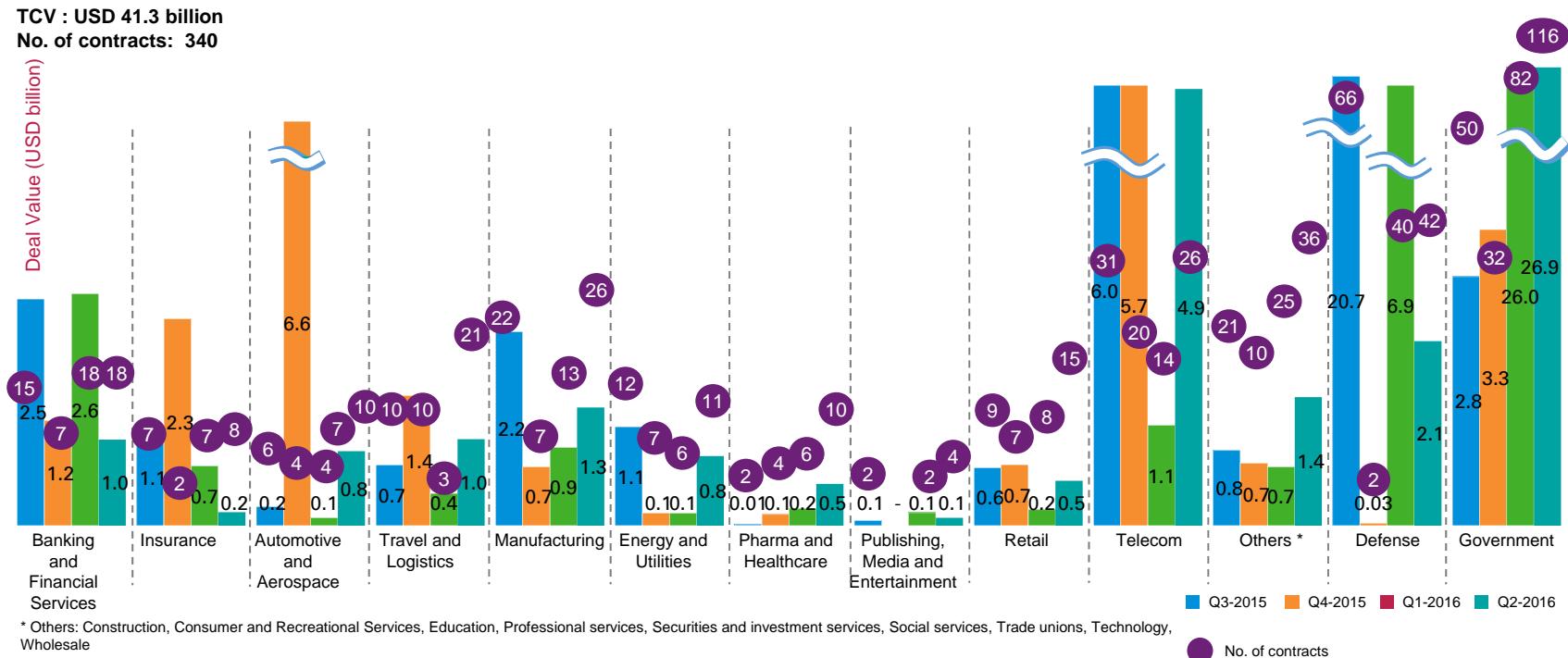
Source: IDC (www.idc.com), Contract Database, Jul 2016, KPMG member firms research & analysis based on the IDC contract database

- AMERICAS continues to be the major outsourcing region contributing 74 per cent of the total deal value and 62 per cent of total number of deals in 2Q16. EMA and ASPAC regions contribute to 16 per cent and 9 per cent respectively in terms of deal value
- While AMERICAS and EMA experienced very minimal growth in deal value as compared to 1Q16, ASPAC experienced a multi-fold growth of more than 376 per cent in 2Q16 vis-à-vis 1Q16

IT-BPO deals across sectors by value and numbers

Sector analysis

Sector-wise break-up of deals (3Q15 to 2Q16)

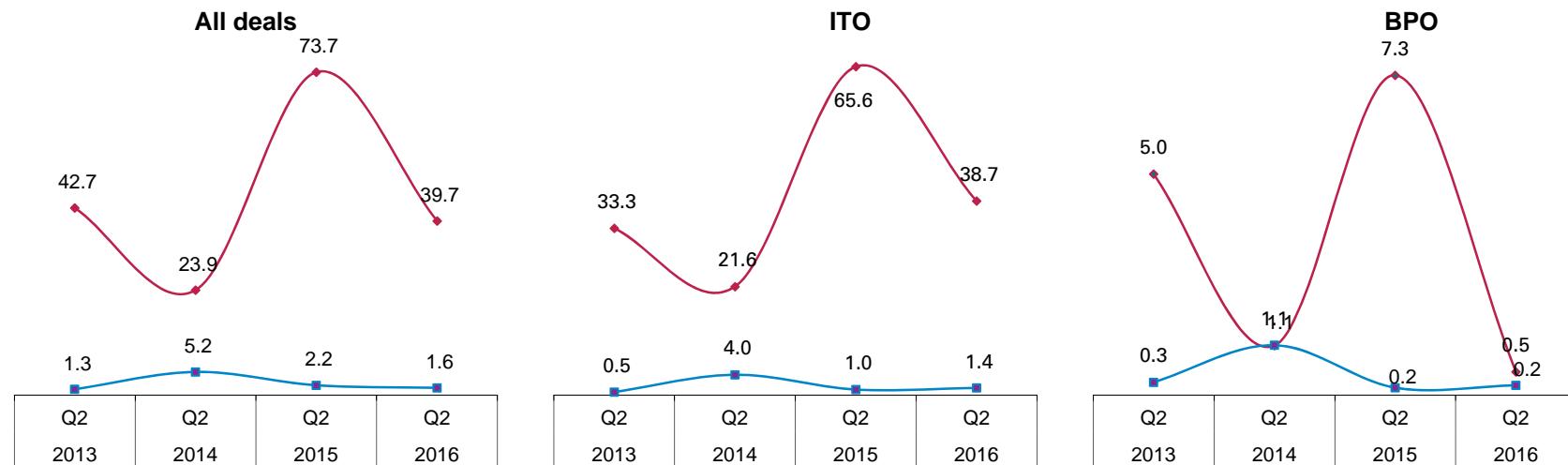


- The Government and Defense sector lead deal activity, contributing to more than 70 per cent of the total deal value in 2Q16.
- While not all sectors showed an increased deal activity in terms of deal value, all sectors showed an increase in number of deals 2Q16 vis-à-vis 1Q16

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

Total contract value (in USD bn)

■ New ■ Renewal

- After having seen the highest deal activity over the last four years in 1Q16, 2Q16 saw a dip in all the segments – ITO, BPO and Bundled
- There has been remarkable few new BPO deals in 2Q16 as compared to 2Q15 when there was a significantly large number of new deals – 2Q16 looks very similar to 2Q14 in this trend

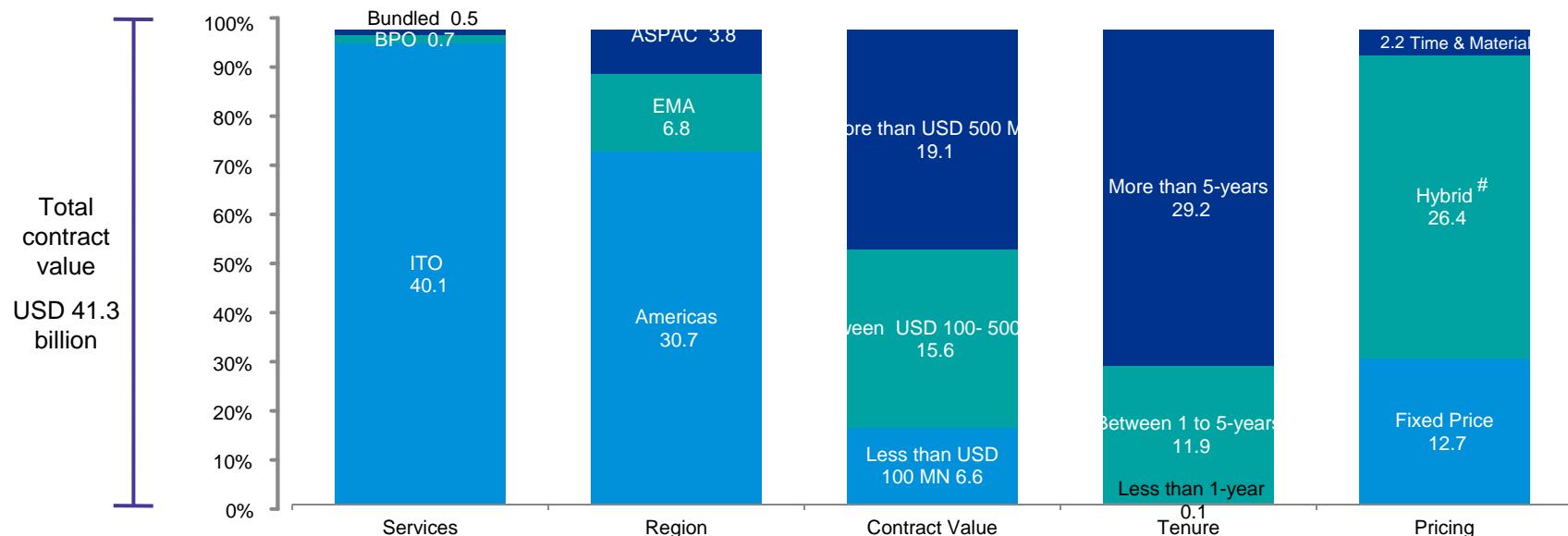


Section 2

2016 deal analysis

Deal value

IT-BPO deals* signed in 2Q16(Total contract value: USD41.3 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

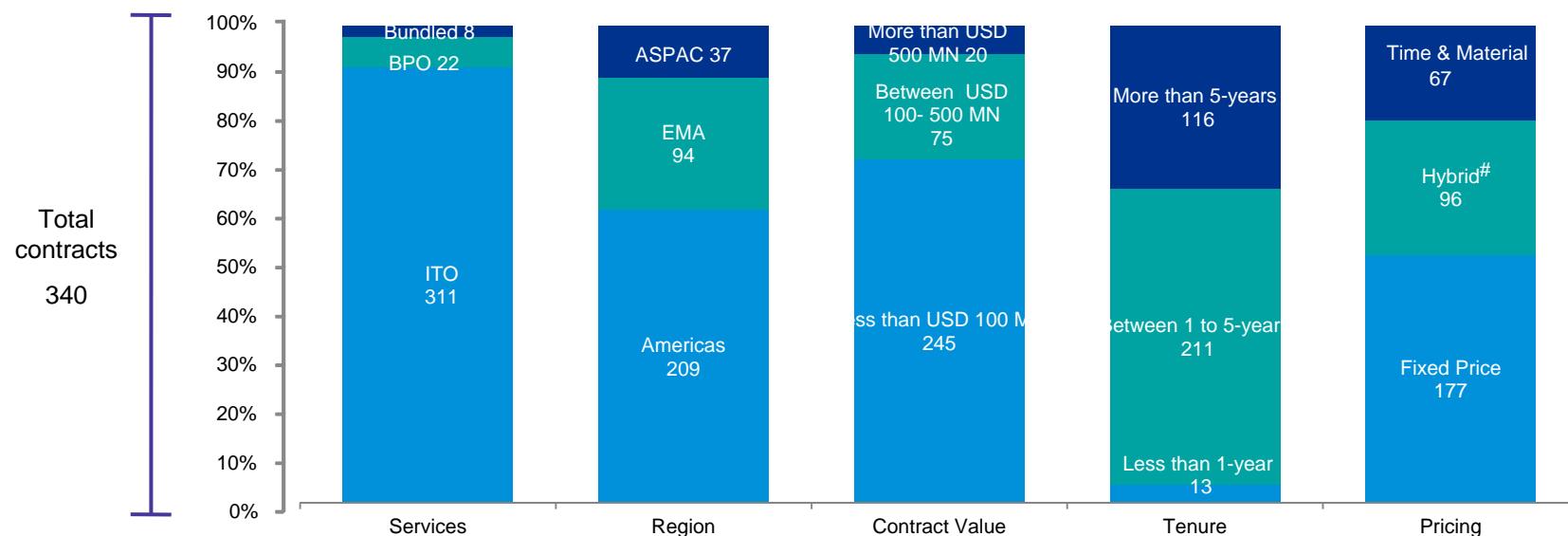
Hybrid pricing includes a combination of various pricing mechanisms

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

- ITO deals continue to dominate the outsourcing space with a contribution of 97 per cent to the total deal value signed in 2Q16
- AMERICAS continues to be the major outsourcing region contributing 74 per cent of the total deal value in 2Q16. EMA and ASPAC contribute 16 per cent and 9 per cent respectively
- 2Q16 saw a significantly high number of hybrid pricing deals – the highest witnessed since 2013

Number of deals

IT-BPO deals* signed in 2Q16 (Total number of contracts: 340)



* 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

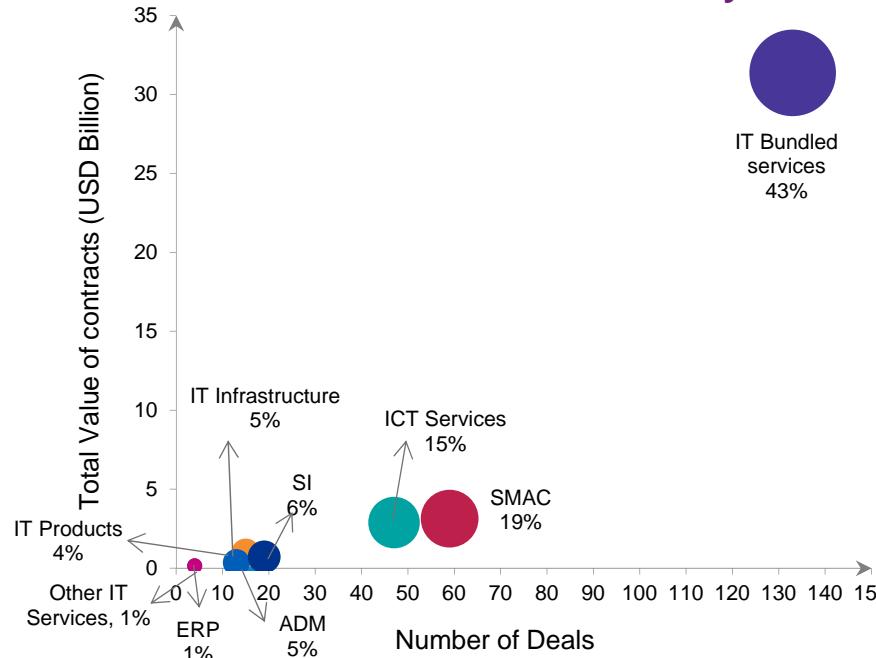
Hybrid pricing includes a combination of various pricing mechanisms

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

- ITO deals and BPO deals contribute to 91 per cent and 6 per cent respectively in terms of number of deals signed in 2Q16
- 72 per cent of the deals, in terms of number of deals signed in 2Q16, were of value less than USD100 million
- Deals with tenure between one to five years were largest in number, comprising 61 per cent to the deals signed in 2Q16

Services segmentation

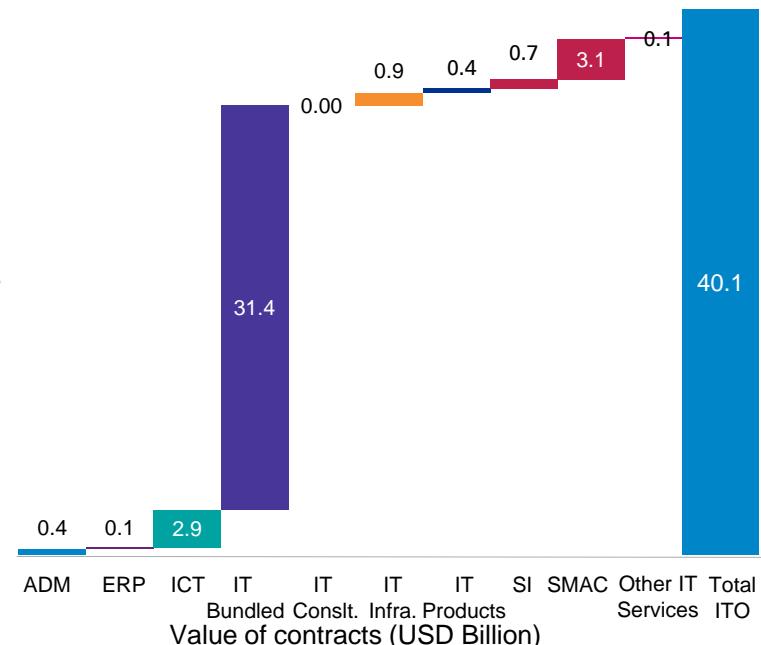
Analysis of ITO deals 2Q16



Note: Size of bubble indicates per centage 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 2016, KPMG member firms research & analysis based on the IDC contract database



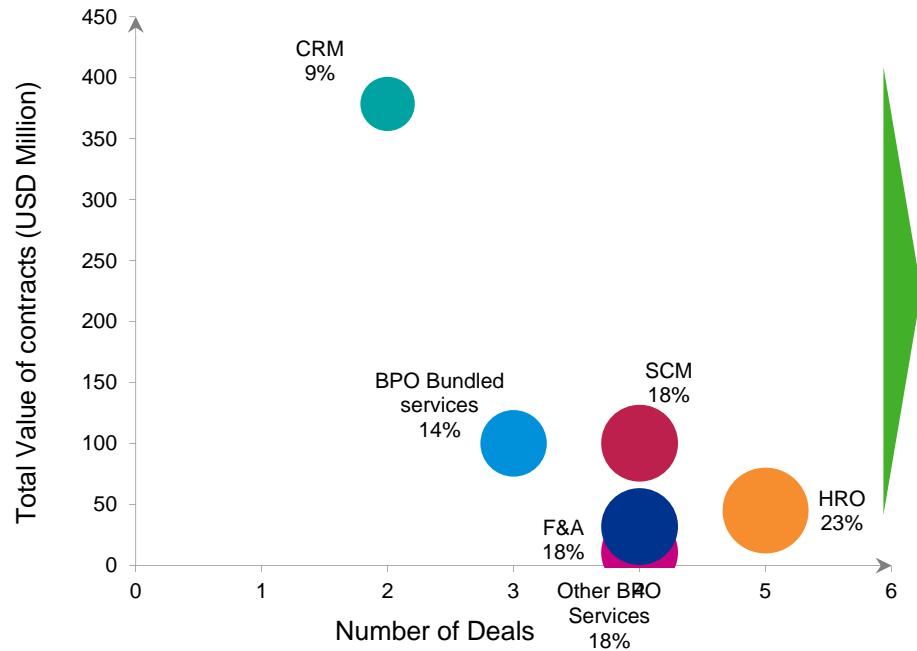
Note: All values in USD billion. Scale of graph is just representative to illustrate the division across different parameters. Figures may not add up to 100 per cent due to rounding off. Refer L.H.S. figure for legend

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

- There have been many large IT Bundled Deals because of which though this service segment contributes to only 43 per cent in terms of deal numbers, it contributes to 73 per cent of all ITO deals in terms of value
- SMAC and ICT Services are other key contributors to the ITO deals in 2Q16

Services segmentation

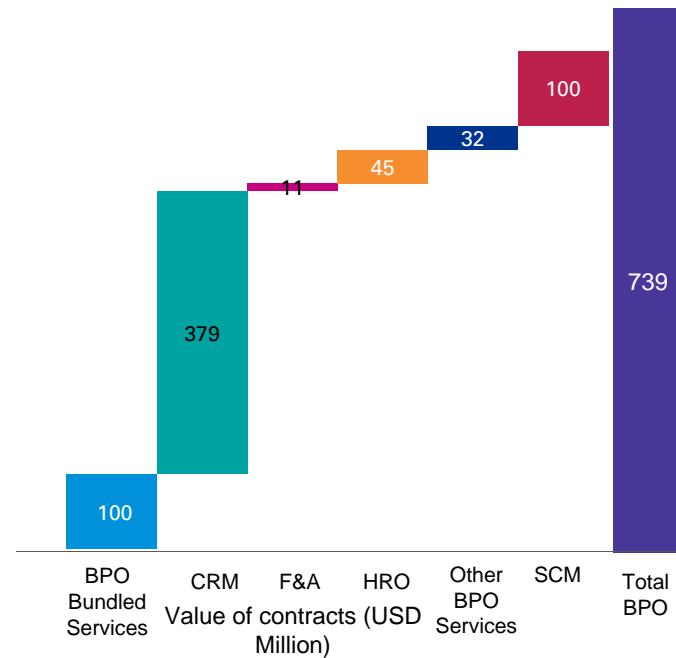
Analysis of BPO deals 2Q16



Note: Size of bubble indicates per centage share of the total number of BPO deals

Other BPO services – Data management, logistics etc.

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

- CRM deals contributed to the most deal activity amongst BPO deals - more than 50 per cent of all BPO deals in terms of value and 29 per cent both consolidated in terms of number of deals during 2Q16



Section 3

IT-BPO outsourcing outlook

Global outsourcing industry Outlook

- 2Q16 also showed a deal activity similar to 1Q16 – while over the years we have seen that the second quarter is always the strongest quarter of the year
- IT outsourcing clearly dominated 2Q16 deal activity with BPO deals and Bundled deals having very minimal activity
- 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 – after a slump in 4Q15, the sector has shown quite an improvement over 1Q16 and 2Q16
- Unlike previous quarters where traditional pricing models were relatively highly prevalent as compared to a hybrid model, 2Q16 showed organizations exploring hybrid pricing more than fixed pricing
- While EMA is continuing to gain outsourcing momentum, 2Q16 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

KPMG Shared Services and Outsourcing Advisory (SSOA) research

Latest from the KPMG Shared Services and Outsourcing Institute

- GBS 2020 Webcast: A vision for the future of Global Business Services
- KPMG Global Insights Pulse: The need for GBS maturity
- Global IT-BPO outsourcing deals analysis: 1Q16 analysis - January to March



The screenshot shows the homepage of the KPMG Shared Services and Outsourcing Institute. The top navigation bar includes links for 'Institutes', 'Webcasts', 'Podcasts', 'Events', and 'Contact Us'. A search bar with a 'Search' button is also present. The main content area features a banner for the 'Global Business Services Journey to Excellence' webcast, which discusses the keys to a successful journey toward maturity. Below this, there is a section for 'Upcoming Webcast' featuring a 'Global Insights Pulse Webcast' on digital disruption and digitalization. A bio for David J. Brown, Global Lead of Shared Services and Outsourcing Advisory, is also displayed.

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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
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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