



Global IT-BPO outsourcing deals analysis

1Q17 analysis



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.

For more information on this market research, please get in touch with Kartik Ramakrishnan (kartikramakrishnan@kpmg.com).

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A stack of books with a red cover and a silver pen are visible on the right side of the image, resting on a wooden desk. The background is a blurred office setting.

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Section 1

Global deals: An overview

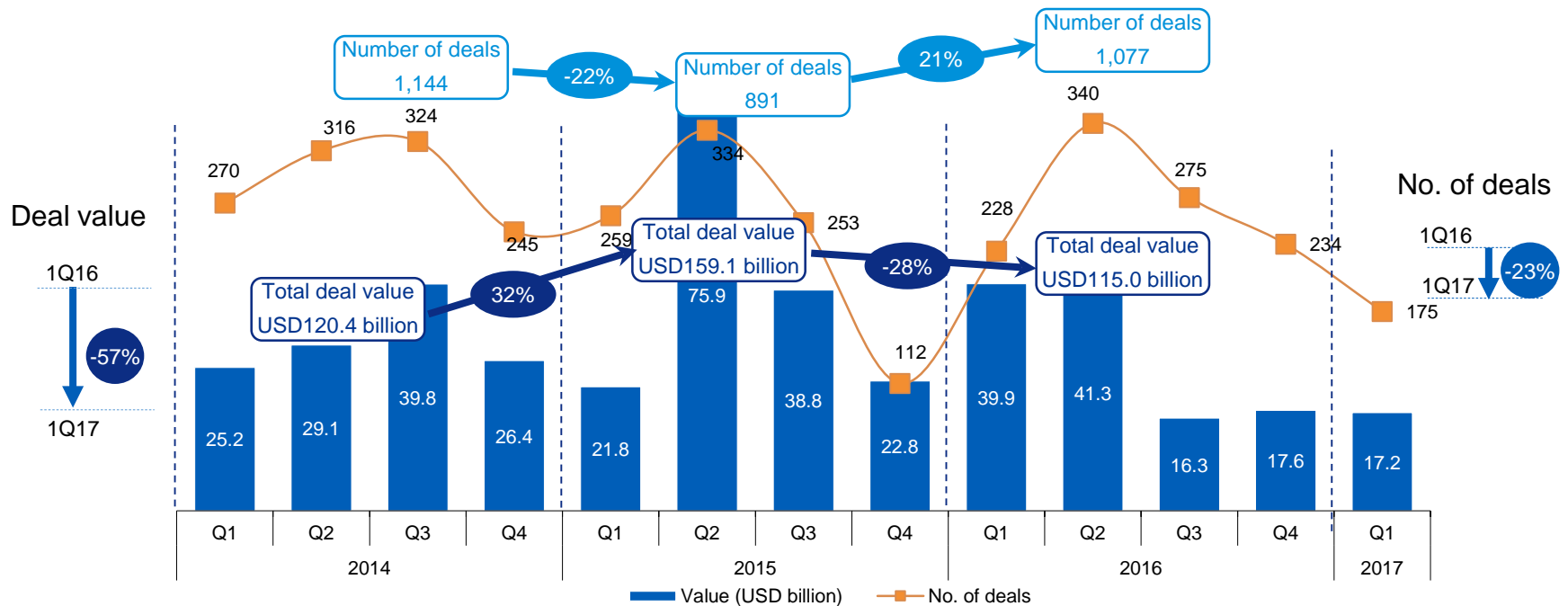
A summary

- ▶ In 1Q17, **143 ITO contracts** worth **USD14.3 billion** and **23 BPO contracts** worth **USD2.4 billion** were signed, worldwide
- ▶ Globally **9 IT-BPO bundled** deals were signed in 1Q17 with contract value worth **USD600 million**
- ▶ In terms of value, approximately **41.5 percent of deals** originated from the **United States** followed by **United Kingdom** at **22.07 percent**. Australia and India were two other key outsourcing markets
- ▶ The **average deal tenure** increased to **4 years 8 months** in 1Q17 from 3 years 8 months in 4Q16
- ▶ **Defense and Government** sectors were the top consumers of IT-BPO services contributing to **35 percent** and **25 percent** in terms of value of outsourcing deals signed in 1Q17. **Telecom** sector was the next big contributor in terms of deal value
- ▶ **IT infrastructure** and **CRM** contributed approximately **USD5.1 billion** and **USD1.8 billion** respectively and were the largest procured services globally within ITO and BPO services, respectively
- ▶ **Average annualized contract value** in 1Q17 was **USD20.40 million** as compared to **USD18.71 million** in 4Q16 showing an increase of **9 percent** between the two quarters

Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

Snapshot Quarterly deal movements

Quarterly movements of global IT-BPO deals*

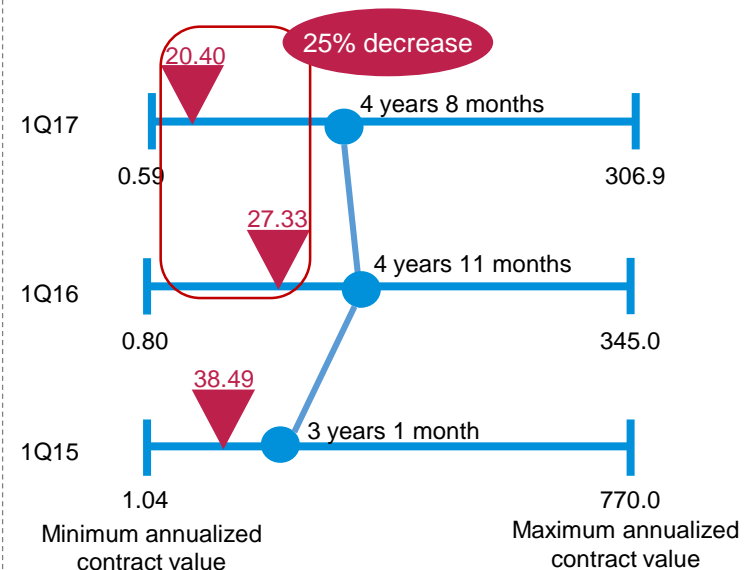
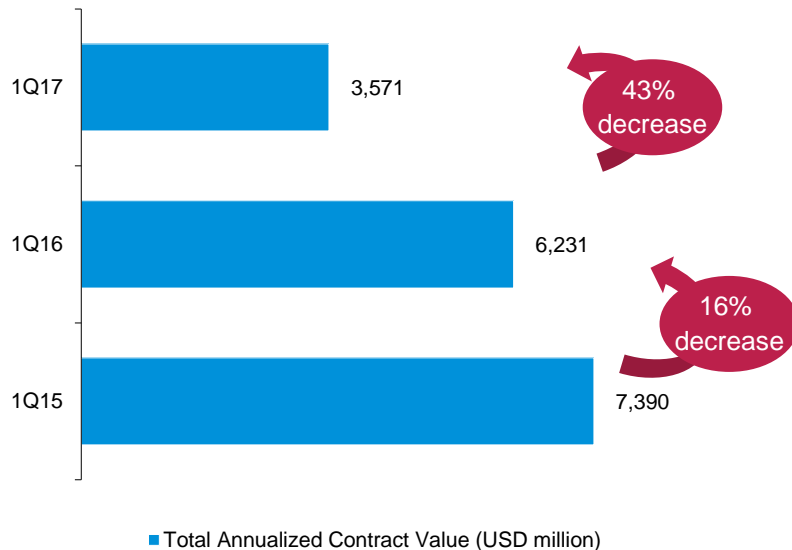


*The term deals is interchangeably used with contracts throughout the analysis unless otherwise specified. Deals analyzed are global sourcing contracts of size USD5.0 million and above only. Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

- 1Q17 witnessed a slight drop in deal activity as compared to 4Q16. There was a decrease of 2 percent in total contract value and 25 percent decrease in total number of deals in 1Q17 as compared to 4Q16
- The average contract value increased by 31 percent in 1Q17 as compared to 4Q16

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

Annualized* contract value comparison per quarter



* 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: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

Note: All values in USD million unless otherwise specified

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

- Total annualized contract value in 1Q17 decreased by 43 percent as compared to 1Q16. The average annualized contract value also decreased by 25 percent during the same period
- The average contract tenure decreased by 3 months to 4 years and 8 months in 1Q17 as compared to 1Q16

Q-o-Q comparison Deals analysis by sector

Trends in deal movement from 1Q16 to 1Q17

Sector	Total contract value				Total number of contracts				Average contract value			
	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17
Automotive & Aerospace	Green	Red	Red	Red	Green	Orange	Red	Red	Green	Red	Green	Red
Banking & Financial Services	Red	Green	Red	Red	Green	Green	Red	Green	Red	Red	Green	Red
Defense	Red	Green	Green	Green	Red	Green	Red	Green	Red	Green	Green	Orange
Energy & Utilities	Green	Red	Green	Red	Green	Red	Yellow	Red	Green	Red	Green	Red
Government	Green	Red	Green	Red	Green	Red	Orange	Orange	Red	Red	Green	Red
Insurance	Red	Green	Red	Red	Green	Red	Red	Red	Red	Green	Orange	Red
Manufacturing	Green	Orange	Orange	Green	Green	Red	Red	Red	Orange	Green	Green	Green
Pharma & Healthcare	Green	Green	Red	Red	Green	Orange	Red	Yellow	Green	Red	Red	Green
Publishing, Media & Entertainment	Red	Green	Red	Red	Green	Red	Yellow	Red	Red	Red	Green	Red
Retail	Green	Red	Green	Orange	Green	Red	Red	Red	Green	Red	Green	Green
Telecom	Green	Orange	Red	Green	Green	Green	Orange	Red	Green	Orange	Red	Green
Travel & Logistics	Green	Red	Red	Red	Green	Red	Green	Red	Red	Green	Red	Red
Others*	Green	Red	Green	Red	Green	Red	Green	Red	Green	Red	Red	Green

*Others: Construction, Consumer and Recreational Services, Education, Professional services, Securities and investment services, Social services, Trade unions, Technology, Wholesale
Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

Red Decrease >=25% Orange Decrease <25% Yellow No change Green Increase <25% Dark Green Increase >=25%

- In 1Q17, Defense, Telecom and Pharma & Healthcare sectors have shown an increase in total contract value of more than 25 percent as compared to 4Q16. Most other sectors have had a decrease in total contract value during the same period
- Banking & Financial services and Defense sectors have shown an increase in total number of contracts. All other sectors have had a reduced number of contracts signed in the quarter as compared to 4Q16

Q-o-Q comparison Deals analysis by category

Trends in deal movement from 1Q16 to 1Q17

Deal type	Total contract value				Total number of contracts				Average contract value			
	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17	1Q16 -> 2Q16	2Q16 -> 3Q16	3Q16 -> 4Q16	4Q16 -> 1Q17
	ITO	Green	Red	Green	Green	Green	Orange	Orange	Red	Red	Red	Green
BPO	Red	Green	Green	Red	Orange	Red	Green	Orange	Red	Green	Green	Red
Bundled	Orange	Green	Red	Green	Red	Green	Red	Green	Green	Green	Red	Orange
Less than USD100 mn	Green	Orange	Orange	Orange	Green	Orange	Orange	Red	Orange	Orange	Orange	Green
Between USD100-500 mn	Green	Red	Red	Green	Green	Red	Red	Green	Orange	Green	Orange	Green
More than USD500 mn	Orange	Red	Green	Orange	Yellow	Red	Green	Red	Orange	Orange	Green	Green
Less than 1-year	Green	Green	Orange	Orange	Green	Green	Red	Orange	Red	Green	Green	Orange
Between 1 to 5-years	Orange	Orange	Orange	Orange	Green	Green	Orange	Red	Red	Orange	Orange	Green
More than 5-years	Green	Red	Green	Green	Green	Red	Red	Green	Red	Red	Green	Red

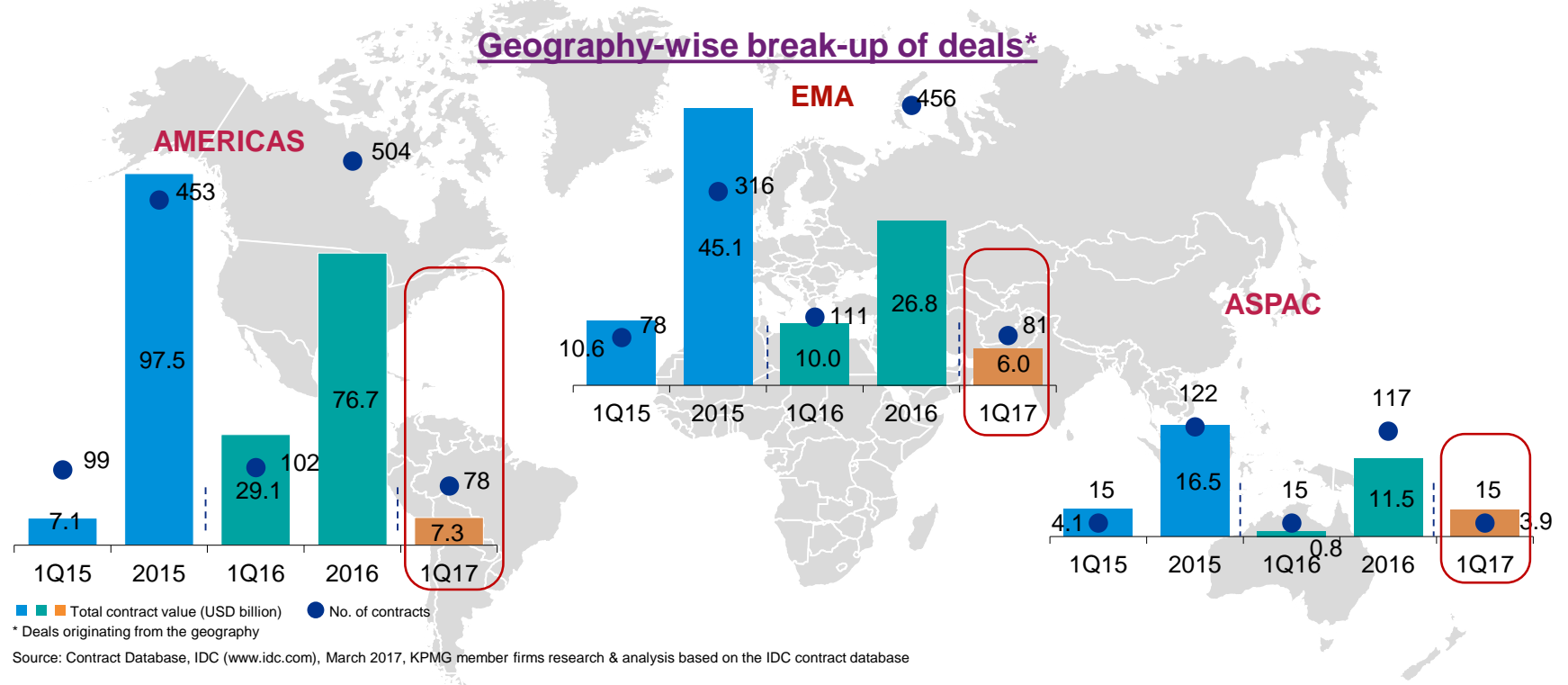
Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

Red Decrease >=25% Orange Decrease <25% Yellow No change Green Increase <25% Dark Green Increase >=25%

- Whilst BPO deals showed over 25 percent decrease in total contract value, both ITO and bundled deals increased under 25 percent in 1Q17 over 4Q16
- Continuous decrease in the last two quarters in terms of both number and total contact value was observed in shorter tenure deals (deals with tenure less than one year)
- The average contract value of long tenure (more than five years) deals has decreased consistently by over 25 percent in the last quarter

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

Geography analysis



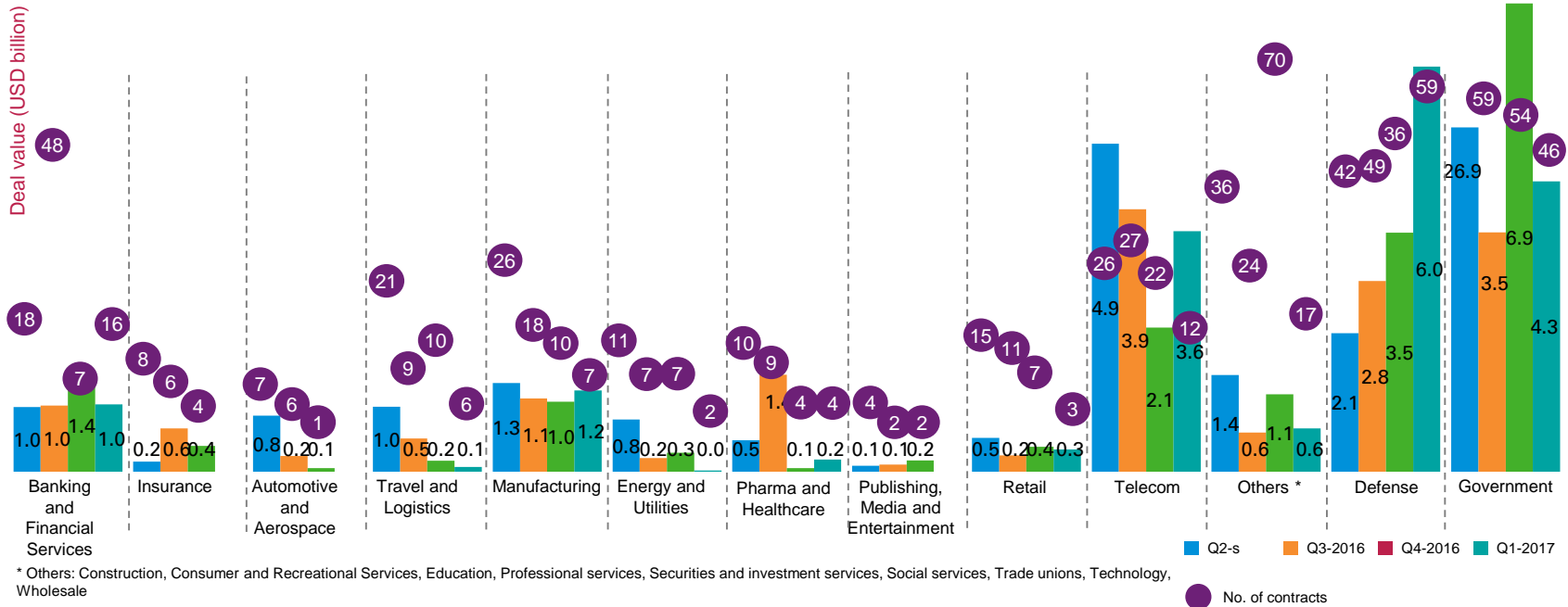
- AMERICAS continue to be the major outsourcing region contributing 42 percent of the total deal value in 1Q17
- Share of EMA and ASPAC regions has increased in terms of deal value from 27 percent to 35 percent and from 16 percent to 23 percent respectively as compared to 4Q16
- AMERICAS experienced a drop of 26 percent in total contract value as compared to 4Q16. The total contract value for EMA decreased by 24 percent during the same period

IT-BPO deals across sectors by value and numbers

Sector analysis

Sector-wise break-up of deals (2Q16 to 1Q17)

TCV : USD17.2 billion
No. of contracts: 175



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

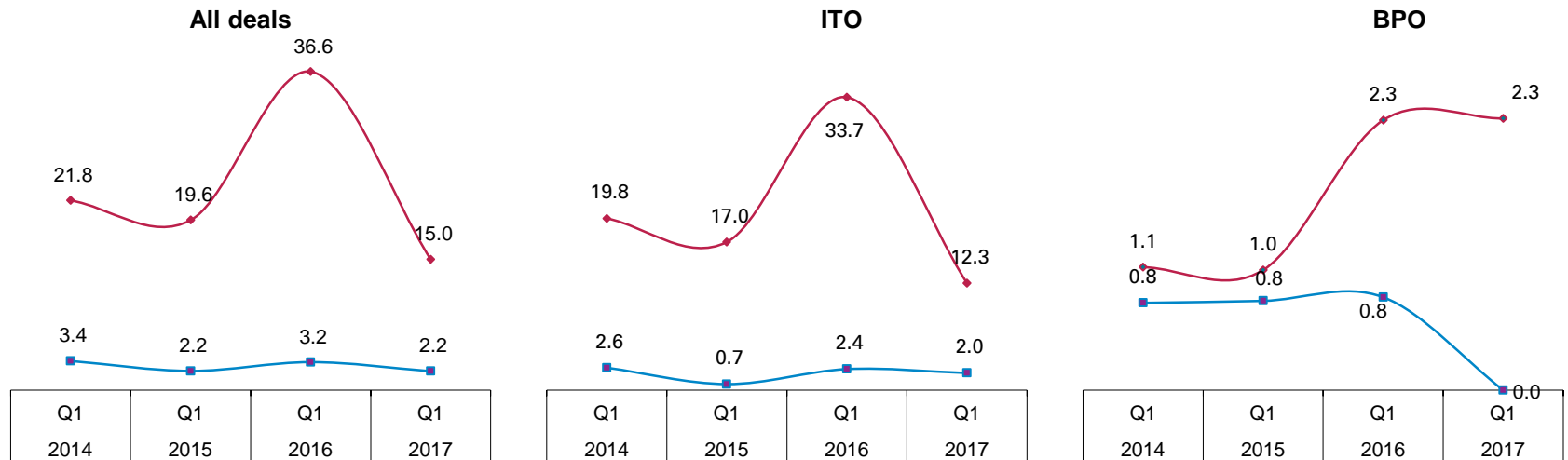
Graph is not to scale and only represents the division across different parameters. Figures may not add up to 100 percent due to rounding off

Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

- The Defense and Government sector lead deal activity, contributing to 35 percent and 25 percent in terms of value of outsourcing deals signed in 1Q17
- Telecom sector is the next big contributor in terms of deal value, with a contribution of 21 percent to the total value of deals signed in 1Q17

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: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

Total contract value (in USD bn)
■ New ■ Renewal

- An analysis of new deals vs renewed deals show that the drop in deal activity in 1Q17 is majorly due to fewer new deals signed
- Total contract value of all deals in 1Q17 has decreased compared to the previous quarter
- New deals for ITO in 1Q17 has witnessed a steep drop of 64 percentage points

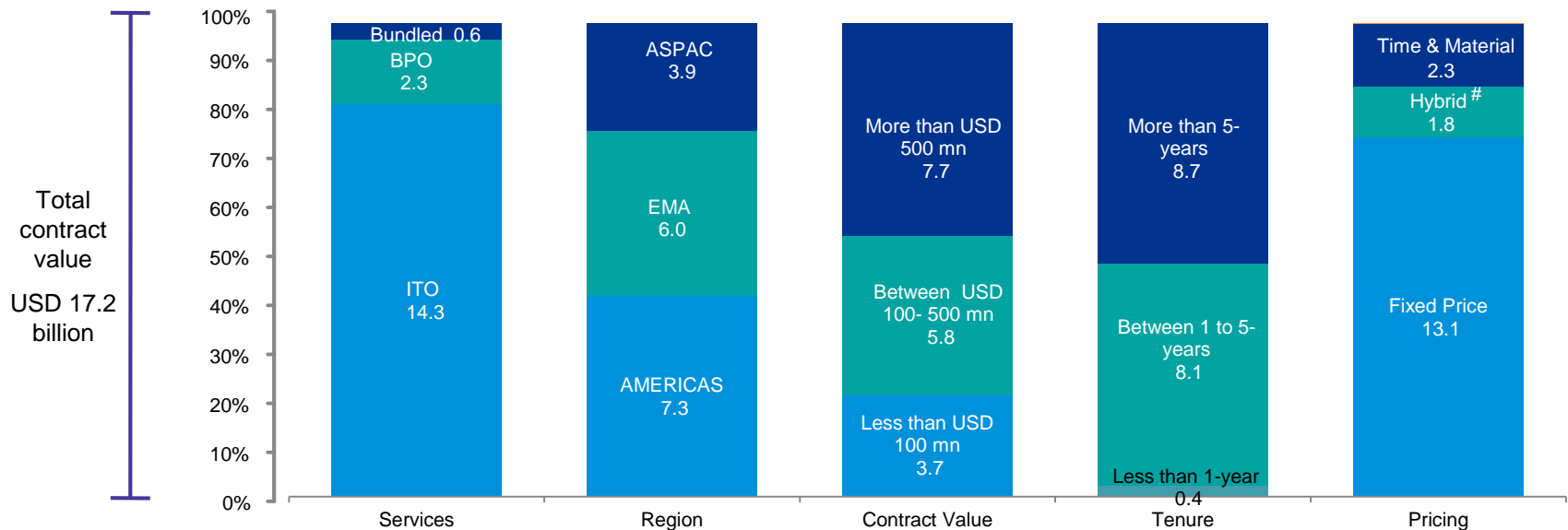


Section 2

1Q17 deal analysis

Deal value

IT-BPO deals* signed in 1Q17 (Total contract value: USD17.2 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 percent due to rounding off

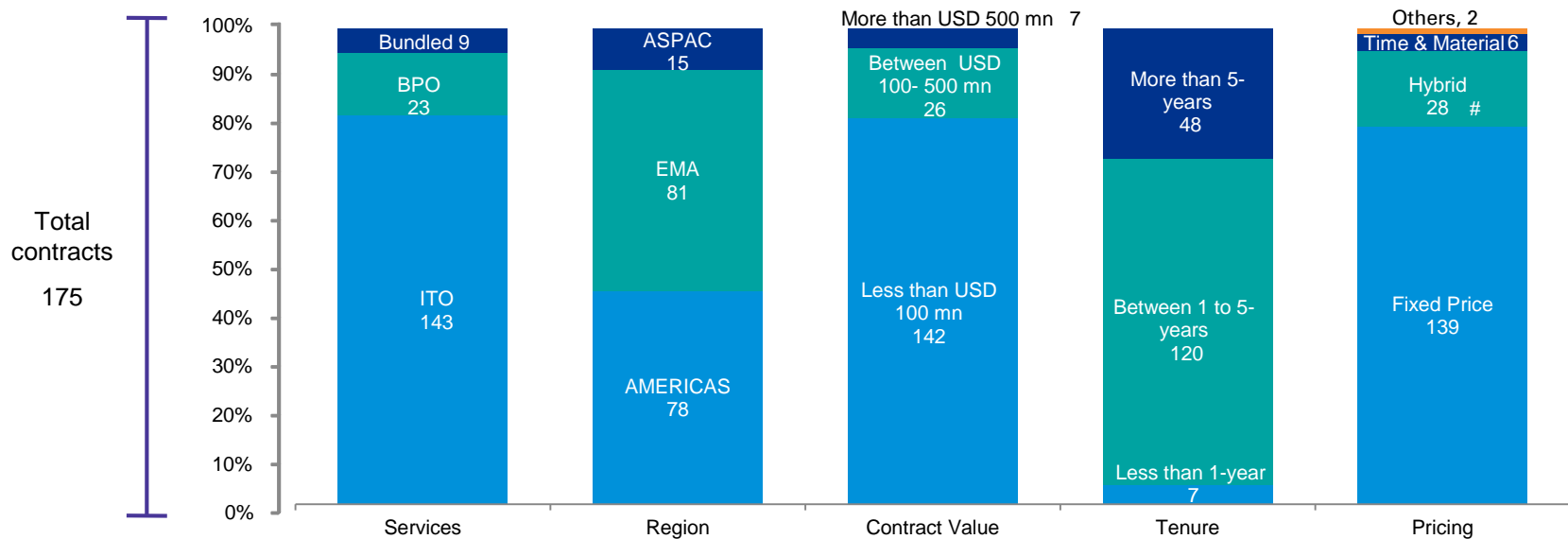
Hybrid pricing includes a combination of various pricing mechanisms

Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

- ITO deals continue to dominate the outsourcing space with a contribution of 83 percent to the total deal value signed in 1Q17
- AMERICAS continue to be the major outsourcing region contributing 42 percent of the total deal value signed in 1Q17. EMA and ASPAC contribute 35 percent and 23 percent respectively
- Fixed price contracting model showed dominance, contributing over 76 percent of the deal value in 1Q17

Number of deals

IT-BPO deals* signed in 1Q17 (Total number of contracts: 175)



* 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

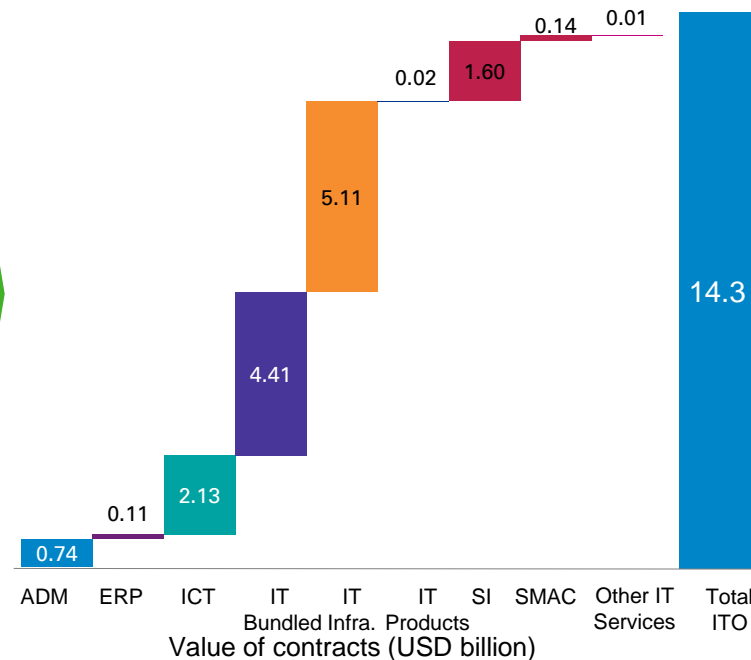
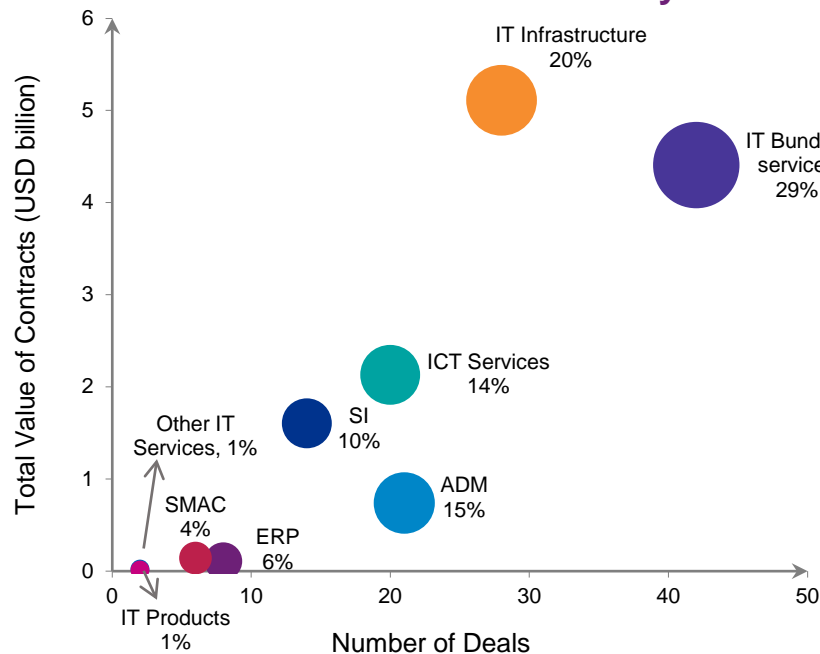
Hybrid pricing includes a combination of various pricing mechanisms

Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

- ITO deals and BPO deals contribute to 82 percent and 13 percent respectively in terms of number of deals signed in 1Q17
- Clients preferred mid tenure deals of length between one to five years, which contributed to 69 percent of the total number of deals signed in 1Q17
- 81 percent of the deals, in terms of number of deals signed in 1Q17, were of value less than USD100 million. Only seven of the deals signed in 1Q17, were of value more than USD500 million

Services segmentation

Analysis of ITO deals 1Q17



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
 Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

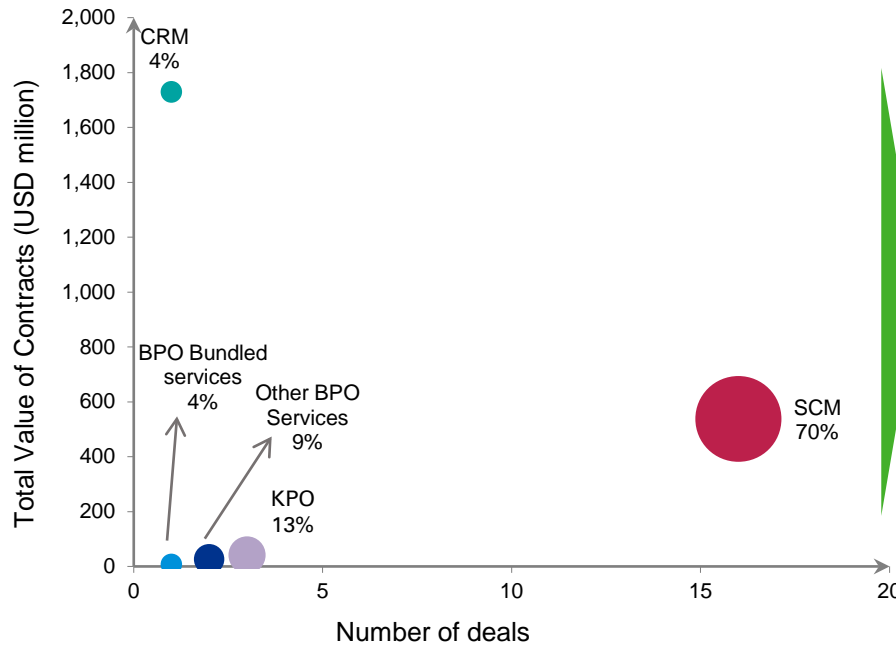
Note: All values in USD billion. Scale of graph is just representative to illustrate the division across different parameters. Figures may not add up to 100 percent due to rounding off. Refer L.H.S. figure for legend

Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

- IT Bundled and IT Infra together contributed to 67 percent of all ITO deals in terms of value and 49 percent in terms of number of deals during 1Q17
- ICT and System Integration services are other key contributors to the ITO deals in 1Q17

Services segmentation

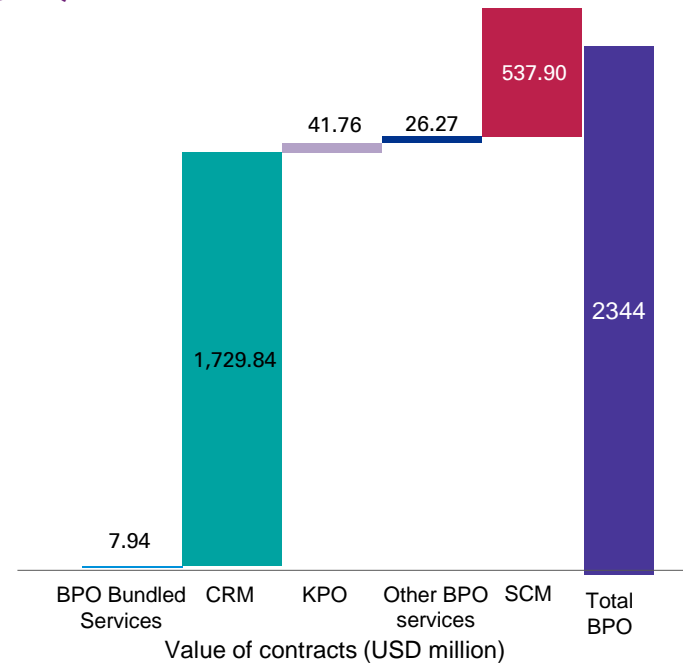
Analysis of BPO deals 1Q17



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

Other BPO services – Data management, etc.

Source: Contract Database, IDC (www.idc.com), March 2017, 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 percent due to rounding off. Refer L.H.S. figure for legend

Source: Contract Database, IDC (www.idc.com), March 2017, KPMG member firms research & analysis based on the IDC contract database

- CRM deals contributed to the most deal activity amongst BPO deals – 74 percent of all BPO deals in terms of value and 4 percent in terms of number of deals during 1Q17
- SCM contributes to 70 percent in terms of number of deals signed in 1Q17



Section 3

IT-BPO outsourcing outlook

Global outsourcing industry Outlook

- 1Q17 witnessed a drop in deal activity as compared to 4Q16. There was a slight decrease of 2 percent in total contract value and a 25 percent decrease in total number of deals in 1Q17 as compared to 4Q16
- Organizations are moving from a traditional silo-based and transactional outsourcing services, to more of a holistic end-to-end approach through bundled deals
- 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 42 percent of the total deal value in 1Q17. ASPAC is gaining momentum gradually while EMA is fast catching up with AMERICAS
- Telecom sector is continuously featuring amongst the top contributors to the outsourcing industry for the last four quarters. It is increasingly leveraging ICT and SMAC services from service providers and is expected to continue so
- 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. There is an increasing propensity for fixed price contracts from the supply side due to cost and margin pressures which may be better managed through increased automation and resource control
- Organizations are continuing to outsource with the objective to leapfrog to cognitive solutions to realize the benefits of automation - reduce costs, improve customer service and address talent shortages. But rapid adoption needs to be complemented by a comprehensive strategic road map to guide technology adoption¹.

1. KPMG Global Pulse Survey 4Q16

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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, Cybersecurity)
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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