Global IT-BPO Outsourcing Deals Analysis

1Q14 Analysis January – March 2014

April 2014
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 every quarter.

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).
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Section 1

Global Deals – An overview
1Q14 KPMG Global Business Services Pulse Survey
Market Overview

Macro trends
While economic growth levels are tepid in most major industrialized markets and slowing in the BRICs, **skills shortages and access to qualified talent** remains a predominant driver as well as challenge for global sourcing efforts.

Global business services (GBS), integrating on an end-to-end scale, onshore, near, and offshore shared services and outsourcing, is the **predominant means through which organizations address management of global operations**.

Most organizations’ GBS capabilities are immature in areas such as process management, governance, talent management, and the use of data and analytics. **Explicit efforts to drive GBS maturity** are the norm, though primarily among more experienced and sophisticated GBS users.

Traditional **generic and transactional outsourcing continues to commoditize**. Cloud and client maturity are major drivers for this, especially in IT. Buyers are seeking more platform solutions tailored to specific industry, geographic, and regulatory needs.

There is a **growing bifurcation between “leaders” and “laggards”** in the service provider market based on industry and business process experience and diversity of services mix, including cloud and analytics.

Current market trends
Organizations are continuing to **expand the scale and scope of their GBS efforts** geographically, cross-functionally, from a more end-to-end process standpoint, and with the inclusion of more diverse and strategic activities such as data analytics.

Organizations face challenges expanding their GBS efforts due to **immaturity in capabilities to manage these efforts**. This is especially the case when it comes to data and analytics and talent management. Organizations also face challenges with end-to-end process ownership, governance between collective shared services and outsourcing efforts globally, and with the quality of talent and talent management across GBS operations.

There is optimism on buyer demand for third party services in the short term, but demand is expected to **weaken the second half of 2014**. Outsourcing demand is still being negatively impacted by factors such as more focus on shared services, near saturation in certain market segments, and the use of cloud alternatives.

**Robotic automation** is the flavor of the month when it comes to pundits’ advice on how to drive GBS maturity and take outsourcing, especially BPO, to the next level, but the reality is that overall process automation and interconnectedness (“Internet of things”) will have a much greater impact on how organizations perform core activities going forward.

The Summary
Key Messages

In 1Q14 (January – March 2014), **233 ITO contracts** worth **USD 22.3 billion** and **17* BPO contracts** worth **USD 1.8 billion** were signed worldwide.

Globally **9 IT-BPO bundled** deals were signed in 1Q14 with contract value worth **USD 1.0 billion**.

In terms of value, approximately **26 percent of deals** by value originated from the **United Kingdom**. Total contribution from **the United States** stands at **16 percent** of TCV.

The trend of decrease in **average deal tenure** can be seen in last three quarters: 3Q13 (4 years 9 months), 4Q13 (4 years 1 month) and 1Q14 (3 years 10 months).

**Telecom sector** emerged as the top consumer of IT-BPO services contributing to **44 percent** of all outsourcing deals in terms of value.

**ICT Services** and **Transactional Services** contributed **USD 12.6 billion** and **USD 492 million** respectively and were the largest procured services globally within ITO and BPO outsourced services respectively.

**Average annualized contract value in 1Q14** was **USD 27.0 million** as compared to **USD 14.3 million** during 1Q13 showing a **steep rise in deal value per annum** between the two quarters.

* KPMG believes there may be additional pure play BPO deals. However, to maintain source data consistency to analyze deals across the quarters additional data sources have not been included.

Global Quarterly Deal Movements
Snapshot

Quarterly movements of global IT-BPO deals*

- **1Q14** witnessed 24 percent increase in total value of deals as compared to 1Q13 while the number of deals decreased by 13 percent over same period
- The average deal value increased by 43 percent compared to 1Q13, an increase driven by 85 percent of deals in value terms being of tenure less than 5 years

*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, Apr 2014, Research & Analysis based on the IDC contract database
**Annualized Contract Value (ACV) Q-o-Q Comparison**

**Annualized* contract value comparison per quarter**

- **1Q14**: 6,995 USD million (63% increase from 1Q13)
- **1Q13**: 4,279 USD million
- **1Q12**: 5,003 USD million (14% decrease from 1Q13)
- **1Q11**: 6,033 USD million (17% decrease from 1Q13)

- **Maximum annualized contract value**:
  - 1Q14: 27.01 USD million
  - 1Q13: 14.31 USD million
  - 1Q12: 17.13 USD million
  - 1Q11: 14.03 USD million

- **Minimum annualized contract value**:
  - 1Q14: 0.99 USD million
  - 1Q13: 0.88 USD million
  - 1Q12: 1.05 USD million
  - 1Q11: 1.40 USD million

- **Average annualized contract value (USD million)**:
  - 1Q14: 3 years 10 months
  - 1Q13: 4 years 9 months
  - 1Q12: 4 years 2 months
  - 1Q11: 4 years 7 months

**Note:** All values in USD million unless otherwise specified.

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

- **Total ACV** has increased by 63 percent as compared to 1Q13 owning to two large deals of ACV’s USD 1,023 million and USD 1,211 million. Without these, the total ACV would be USD 4,760 million indicating a growth of ~11 percent only.

- **Similarly**, the average ACV seems to have increased by 89 percent as against 1Q13, however, excluding the two mega deals it has grown by ~29 percent to reach USD 18.52 million.
### Sector Analysis

#### Q-o-Q Comparison

#### Trends in deal movement from 1Q13 to 1Q14

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total Contract Value</th>
<th>Total Number of Contracts</th>
<th>Average Contract Value</th>
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<tbody>
<tr>
<td></td>
<td>1Q13-&gt;2Q13 2Q13-&gt;3Q13 3Q13-&gt;4Q13 4Q13-&gt;1Q14</td>
<td>1Q13-&gt;2Q13 2Q13-&gt;3Q13 3Q13-&gt;4Q13 4Q13-&gt;1Q14</td>
<td>1Q13-&gt;2Q13 2Q13-&gt;3Q13 3Q13-&gt;4Q13 4Q13-&gt;1Q14</td>
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<tr>
<td>Automotive &amp; Aerospace</td>
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<td>Banking &amp; Financial Services</td>
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<td>Defense</td>
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<td>Energy &amp; Utilities</td>
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<td>Government</td>
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<td>Insurance</td>
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<tr>
<td>Manufacturing</td>
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<tr>
<td>Pharma &amp; Healthcare</td>
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<tr>
<td>Publishing, Media &amp; Entertainment</td>
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<tr>
<td>Retail</td>
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<tr>
<td>Telecom</td>
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<tr>
<td>Travel &amp; Logistics</td>
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<tr>
<td>Others*</td>
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</tbody>
</table>

*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, Apr 2014, Research & Analysis based on the IDC contract database

**• Energy & Utilities, Pharma & Healthcare, Retail, Telecom and Travel & Logistics exhibited > 25 percent growth in terms of value over 4Q13 while Automotive & Aerospace, Banking & Financial Services, Defense, Government, Insurance and Publishing, Media & Entertainment sectors had a >25 percent decrease in total contract value**

**• Pharma & Healthcare and Travel & Logistics displayed >25 percent increase in number of contracts in 1Q14 over 4Q13**
### Deal Analysis

**Q-o-Q Comparison**

#### Trends in deal movement from 1Q13 to 1Q14

<table>
<thead>
<tr>
<th>Deal Type</th>
<th>Total Contract Value</th>
<th>Total Number of Contracts</th>
<th>Average Contract Value</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1Q13-&gt;2Q13 2Q13-&gt;3Q13 3Q13-&gt;4Q13 4Q13-&gt;1Q14</td>
<td>1Q13-&gt;2Q13 2Q13-&gt;3Q13 3Q13-&gt;4Q13 4Q13-&gt;1Q14</td>
<td>1Q13-&gt;2Q13 2Q13-&gt;3Q13 3Q13-&gt;4Q13 4Q13-&gt;1Q14</td>
</tr>
<tr>
<td>ITO</td>
<td></td>
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<td></td>
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<tr>
<td>BPO</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Bundled</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than USD 100 MN</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Between USD 100-500 MN</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>More than USD 500 MN</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Less than 1-year</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Between 1 to 5-years</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>More than 5-years</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

- **BPO and bundled deals** have decreased in terms of both TCV and number of contracts over 4Q13. **ITO deals** grew in TCV in 1Q14 but declined in terms of numbers over previous quarter with change in both cases being < 25 percent.

- While deals with TCV between USD 100-500 MN and deals less than USD 100 MN continue to decrease over last 2 quarters, deals more than USD 500 MN had a >25 percent increase in TCV in 1Q14 as compared to 4Q13.

- Both deals more than 5-years long and less than 1-year long declined in TCV by > 25 percent but deals with tenure between 1 to 5-years have increased >25 percent in TCV in 1Q14 over 4Q13.

- There has been a decrease in number of contracts across all but one of the deal types in 1Q14 over 4Q13.
Unlike past quarters, EMA has emerged as the major outsourcing region replacing AMERICAS. The sudden increase in deals, contributing 69 percent of the total deal value in 1Q14, is attributed to strong demand from the Telecom sector in the region.

AMERICAS witnessed an unexpected fall of 56 percent in deal value as compared to 1Q13. Total contribution of AMERICAS in 1Q14 was 21 percent.

Total contract value of deals in ASPAC also decreased, by 15 percent over 1Q13.
Sector Analysis
IT-BPO deals across sectors by value and numbers

Sector-wise break-up of deals (2Q13 to 1Q14)

TCV : USD 25.2 billion
No. of contracts: 259

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

*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, Apr 2014, Research & Analysis based on the IDC contract database

- Telecom sector emerged as the top consumer of IT-BPO services contributing to 44 percent of all outsourcing deals in terms of value. The increase in deal activity in the sector is attributed to 2 Mega-deals: one deal with value >6 billion and another with value >1 billion
- Both the Travel & Logistics and Pharma & Healthcare witnessed a multi-fold increase in value of the deals as compared to 4Q13
Section 2
1Q14 Deal Analysis
IT-BPO deals* signed in 1Q14 (Total Contract Value = USD 25.2 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, Apr 2014, Research & Analysis based on the IDC contract database

- While ITO deals continue to dominate the outsourcing space, contributing 89 percent of the total deal value in 1Q14, both BPO deals and bundled deals have exhibited a decline >70% and >45% respectively in 1Q14 over 4Q13.
- EMA has emerged as the major outsourcing region replacing AMERICAS, contributing 69 percent of the total deal value in 1Q14. While TCV of deals in EMA increased by 80 percent, TCV of deals in AMERICAS decreased by 67 percent over 4Q13.
- Deals of size >USD 500 million have increased by 66 percent in 1Q14 over 4Q13 contributing 43 percent to the TCV.
Number of Deals
Global sourcing snapshot – January to March 2014

IT-BPO deals* signed in 1Q14 (Total Number of Contracts = 259)

<table>
<thead>
<tr>
<th>Services</th>
<th>Region</th>
<th>Contract Value</th>
<th>Tenure</th>
<th>Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ITO</strong></td>
<td><strong>233</strong></td>
<td><strong>Less than USD 100 MN</strong></td>
<td><strong>207</strong></td>
<td><strong>Fixed Price</strong></td>
</tr>
<tr>
<td><strong>BPO</strong></td>
<td><strong>47</strong></td>
<td><strong>Between USD 100-500 MN</strong></td>
<td><strong>44</strong></td>
<td><strong>Hybrid</strong></td>
</tr>
<tr>
<td><strong>AS PAC</strong></td>
<td><strong>26</strong></td>
<td><strong>More than USD 500 MN</strong></td>
<td><strong>8</strong></td>
<td><strong>4 Others</strong></td>
</tr>
<tr>
<td><strong>EMA</strong></td>
<td><strong>132</strong></td>
<td><strong>Between 1 to 5-years</strong></td>
<td><strong>199</strong></td>
<td><strong>2 Fixed Price</strong></td>
</tr>
<tr>
<td><strong>Americas</strong></td>
<td><strong>101</strong></td>
<td><strong>Less than 1-year</strong></td>
<td><strong>34</strong></td>
<td><strong># Hybrid pricing includes a combination of various pricing mechanisms</strong></td>
</tr>
</tbody>
</table>

* 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

- Contracts under USD 100 million in size that usually contribute the maximum have decreased by 19 percent in volume in 1Q14 over 4Q13 but their proportion to the total number of contracts remains similar
- While both longer tenure deals (tenure >5 years and between 1 to 5 years) continued to exhibit substantial decrease in deal count over past 2 quarters, count of shorter deals with tenure less than 1 year remained constant in 1Q14 as compared to 4Q13
- 1Q14 saw the continued dominance of Fixed Price contracting model, contributing 81 percent of the deal value, followed by Hybrid model, contributing 16 percent
**Services Segmentation**

**ITO Services**

### Analysis of ITO deals 1Q14

- **Total Value of contracts (USD Billion)**
  - ADM
  - ERP
  - ICT
  - IT Bundled
  - IT Infra.
  - IT Products
  - SI
  - Other IT Services
  - Total ITO
  - 22.3

- **Number of Deals**
  - ICT Services 24.9%
  - ADM 32.2%
  - IT Bundled services 15.0%
  - IT Infrastructure 16.7%
  - IT Products 3.0%
  - ERP 4.7%
  - SI 2.1%
  - Other IT Services 1.3%

### Notes
- Size of bubble indicates percentage share of the total number of ITO deals
- 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, Apr 2014, Research & Analysis based on the IDC contract database

### Observations
- **TCV of ITO deals increased by 14 percent in 1Q14 as compared to 4Q13, though total count of the deals decreased by 11 percent over same period**
- **ADM, ICT Services, IT Bundled and IT Infrastructure services together contributed 97 percent of all ITO deals in terms of value during 1Q14**
- **ICT services exhibited multifold increase of 168 percent in deal value in 1Q14 over 4Q13**
Analysis of BPO deals 1Q14

- 1Q14 experienced poor market activity in terms of BPO deals with a decline of 72 percent in TCV and 65 percent in deal count over 4Q13
- Transactional services, F&A, Other BPO services and CRM together contributed 79 percent of all BPO deals in terms of value during 1Q14
- Despite poor deal activity, CRM, F&A and HRO services witnessed multifold increase in TCV

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

Note: Size of bubble indicates percentage share of the total number of BPO deals
Other BPO services – Service desk monitoring services, Procurement

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: IDC (www.idc.com), Contract Database, Apr 2014, Research & Analysis based on the IDC contract database
Section 3
IT-BPO Outsourcing Outlook
Outlook
Global Outsourcing Industry

- GBS combining onshore, nearshore, and offshore shared services and outsourcing, has become the predominant means through which organizations support global operations. The emphasis today is on driving greater GBS maturity via better integration operations across functions and geographies, and better supporting wide-ranging business processes.

- Buyers are expanding the scope of their collective GBS efforts to often include more strategic and client-facing activities such as customer care, supplier management and relations, and data analytics.

- Buyers are also undertaking a variety of initiatives in response to current market conditions, including reopening contracts to renegotiate price, scope and services levels, as well as performing more thorough base-lining and benchmarking efforts. The level of aggressiveness in these efforts, however, has not increased in recent quarters.

- Pricing pressure on deals increased a bit over the past quarter as buyers place renewed focus cost savings goals. Providers continue to progress efforts to improve pricing via more standardized and platform-based offerings, but success in this is very mixed across providers.

- On the supply side, with the rapid growth in disruptive technologies and SMAC (Social media, Mobility, Analytics, and Cloud) in particular, there will remain an increasing pressure to attract and retain ‘right-skilled’ talent.

Source: KPMG’s Global Business Pulse Survey, KPMG Research & Analysis
Latest from the KPMG Shared Services and Outsourcing Institute

- Being Selective and Seeking Third-Party Advice Can Be Key to Renegotiating Outsourcing Contracts
- Strong Outsourcing Governance Helps Banks Emerge With Powerful Provider Network
- The Three Options When an Outsourcing Contract Ends -- Extend, Divide or Terminate

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