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# Global IT-BPO Outsourcing Deals Analysis

2Q14 Analysis  
April – June 2014

July 2014



# About Global IT-BPO Outsourcing Deals Analysis

**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](mailto:snarwaiye@kpmg.com)).

# Contents

**Section 1: Global Deals – An overview**

**Section 2: 2Q14 Deal Analysis**

**Section 3: IT-BPO Outsourcing Outlook**



Section 1

# Global Deals – An overview



# 2Q14 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.

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

Demand for third-party business and IT services, including outsourcing, remained solid in the quarter. Many service providers, however, **cite weakness in demand expectations for the balance of 2014 concerns around maintaining targeted profitability levels** in existing accounts and contracts.

Drivers for GBS efforts continue to **expand beyond just cost reduction efforts** to focus more on the delivering of **meaningful and differentiated business benefits** such as enabling more efficient M&A efforts, driving new market penetration, or enabling process improvement efforts.

Organizations have many priorities in their GBS and service delivery improvement efforts. These include enabling more **end-to-end process ownership, integration of GBS efforts across functions,** and better **integration of shared services and outsourcing efforts** under the GBS umbrella. Achieving these priorities is key to driving GBS maturity and capturing sought-after business benefits.

More **standardized IT applications and systems** can enable an **integrated IT environment** that is critical to creating more integrated and end-to-end GBS operations across functions, geographies, and business units. Key to enabling this standardization is **greater integration of IT operations into the GBS organization** as well as formalized joint governance structures.

Download KPMG's Global Business Pulse Survey at:

<http://www.kpmginstitutes.com/shared-services-outsourcing-institute/insights/active/2Q14-sourcing-advisory-global-pulse-report.aspx>

# The Summary

## Key Messages

In 2Q14 (April – June 2014), **262 ITO contracts** worth **USD 25.6 billion** and **41 BPO contracts** worth **USD 2.3 billion** were signed worldwide

Globally **13 IT-BPO bundled** deals were signed in 2Q14 with contract value worth **USD 1.2 billion**

In terms of value, approximately **58 percent of deals** by value originated from the **United States**, followed by **Italy** at **10 percent**. The United Kingdom, France and Germany were the other key outsourcers

After a slight decrease in the **average deal tenure** in 1Q14 as compared to 4Q13, the tenure had an increase from **3 years and 10 months** in 1Q14 to **4 years 6 months** in 2Q14

**Government and Defense sectors** continue to be the top consumer of IT-BPO services contributing to **34 percent** and **18 percent** respectively in terms of value of all outsourcing deals signed in 2Q14

**IT Bundled Services** and **Other BPO Services** contributed **USD 13.7 billion** and **USD 977 million** respectively and were the largest procured services globally within ITO and BPO outsourced services respectively

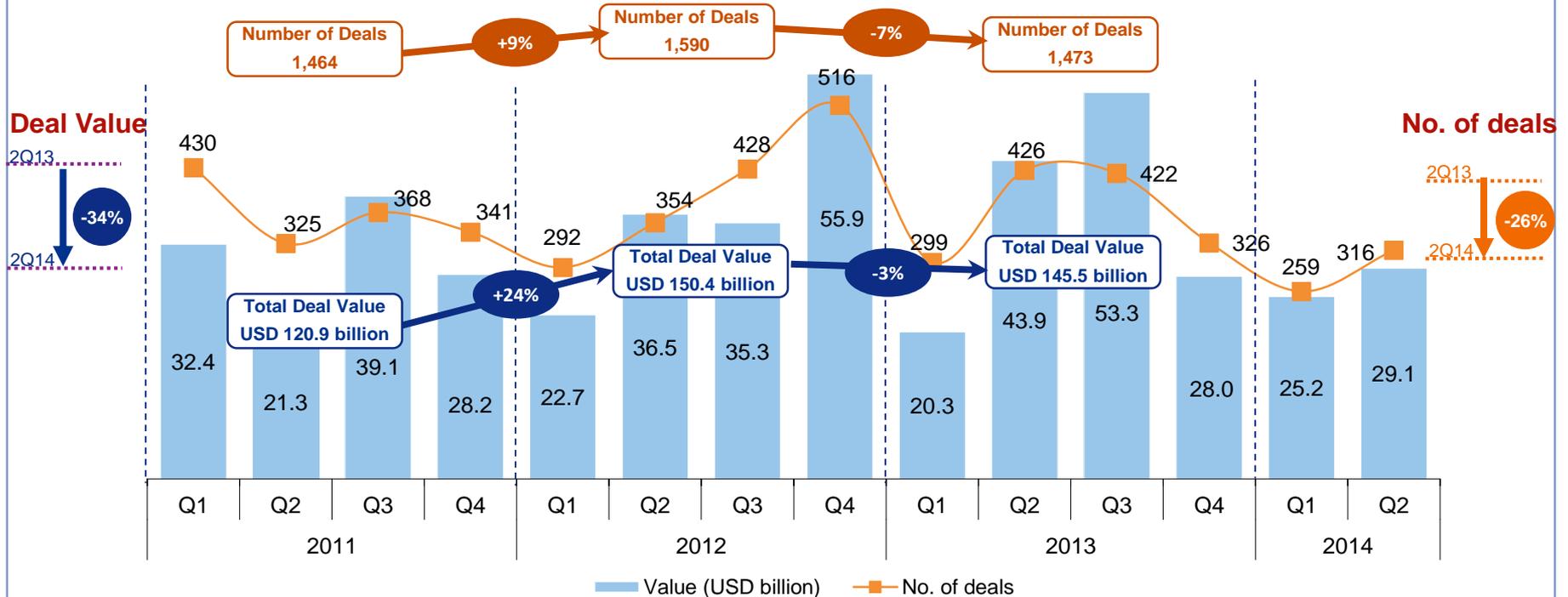
**Average annualized contract value** in 2Q14 was **USD 20.2 million** as compared to **USD 20.1 million** during 2Q13 showing **negligible growth** between the two quarters

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

# Global 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 analyzed are global sourcing contracts of size USD 5.0 million and above only.

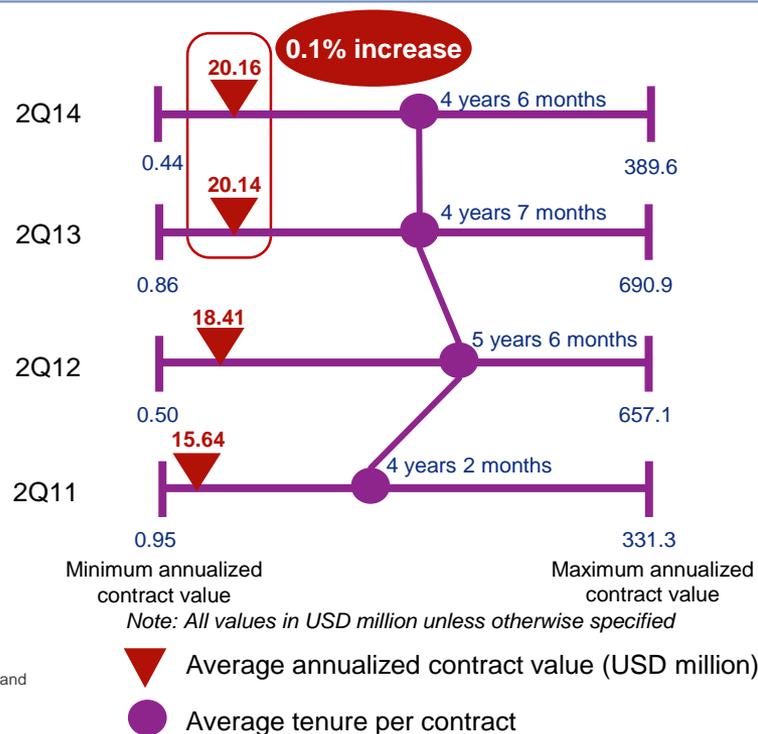
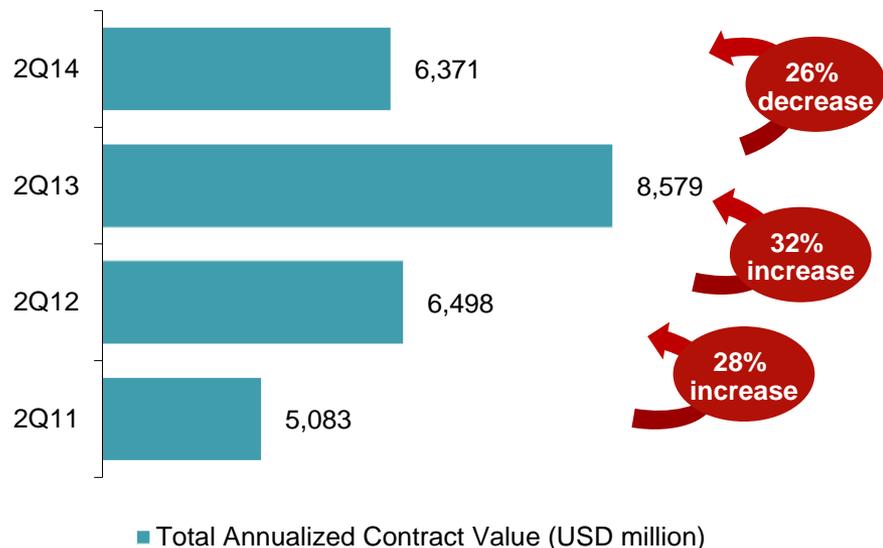
Source: IDC (www.idc.com), Contract Database, Jul 2014, Research & Analysis based on the IDC contract database

- 2Q14 witnessed an overall growth compared to past two quarters, however, as compared to 2Q13 there is a 34 percent decrease in total value of deals while the number of deals decreased by 26 percent over same period
- The average deal value decreased by 11 percent compared to 2Q13, a change driven by very few deals of size more than USD 500 million

# Annualized Contract Value (ACV)

## Q-o-Q Comparison

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

- **Total annualized contract value has decreased by 26 percent as compared to 2Q13. However, average annualized contract value remained nearly same over the same period**
- **There was a nominal change in average deal tenure with tenure being 4 years 6 months in 2Q14 as compared to 4 years 7 months in 2Q13**

### Trends in deal movement from 2Q13 to 2Q14

Sector	Total Contract Value				Total Number of Contracts				Average Contract Value			
	2Q13->3Q13	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q13->3Q13	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q13->3Q13	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14
Automotive & Aerospace	Green	Green	Red	Green	Yellow	Green	Red	Green	Green	Green	Red	Green
Banking & Financial Services	Green	Red	Red	Orange	Green	Red	Green	Orange	Green	Orange	Red	Green
Defense	Orange	Red	Red	Green	Red	Red	Red	Green	Green	Red	Orange	Orange
Energy & Utilities	Red	Green	Green	Green	Green	Orange	Red	Yellow	Red	Green	Green	Green
Government	Green	Red	Red	Green	Green	Red	Orange	Green	Green	Red	Red	Green
Insurance	Red	Green	Red	Green	Red	Green	Green	Red	Red	Green	Red	Green
Manufacturing	Red	Green	Green	Green	Red	Green	Red	Green	Orange	Orange	Green	Green
Pharma & Healthcare	Green	Red	Green	Red	Green	Red	Green	Red	Orange	Red	Green	Green
Publishing, Media & Entertainment	Red	Green	Green	Green	Red	Red	Red	Green	Red	Green	Red	Green
Retail	Green	Red	Green	Red	Green	Red	Yellow	Green	Green	Red	Green	Red
Telecom	Orange	Green	Green	Red	Orange	Green	Orange	Red	Green	Red	Green	Red
Travel & Logistics	Red	Orange	Green	Red	Red	Green	Green	Red	Red	Orange	Green	Red
Others*	Red	Red	Green	Red	Orange	Orange	Green	Orange	Red	Red	Green	Red

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

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

- **Automotive & Aerospace, Defense, Energy & Utilities, Government, Insurance and Publishing, Media & Entertainment sectors exhibited > 25 percent growth in terms of value over 1Q14 while Pharma & Healthcare, Retail, Telecom and Travel & Logistics had a >25 percent decrease in total contract value**
- **Over past 3 quarters, while Energy & Utilities and Manufacturing sectors have been continuously growing in terms of total contract value, Banking & Financial Services sector has displayed continuous decline**
- **Automotive & Aerospace, Defense, Government, Publishing, Media & Entertainment and Retail displayed >25 percent increase in number of contracts in 2Q14 over 1Q14**

# Deal Analysis

## Q-o-Q Comparison

### Trends in deal movement from 2Q13 to 2Q14

Deal Type	Total Contract Value				Total Number of Contracts				Average Contract Value			
	2Q13->3Q13	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q13->3Q13	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14	2Q13->3Q13	3Q13->4Q13	4Q13->1Q14	1Q14->2Q14
ITO	Green	Red	Light Green	Light Green	Light Green	Orange	Orange	Light Green	Green	Red	Green	Light Green
BPO	Orange	Green	Red	Light Green	Green	Red	Red	Green	Red	Green	Orange	Red
Bundled	Red	Green	Red	Light Green	Red	Green	Red	Green	Green	Orange	Light Green	Orange
Less than USD 100 MN	Orange	Orange	Orange	Green	Orange	Orange	Orange	Light Green	Orange	Light Green	Orange	Green
Between USD 100- 500 MN	Green	Red	Red	Light Green	Green	Red	Red	Green	Green	Orange	Orange	Orange
More than USD 500 MN	Orange	Red	Green	Red	Light Green	Red	Orange	Red	Orange	Red	Green	Light Green
Less than 1-year	Green	Green	Red	Red	Light Green	Green	Light Green	Orange	Green	Green	Red	Orange
Between 1 to 5-years	Light Green	Red	Green	Red	Orange	Orange	Orange	Orange	Light Green	Orange	Green	Orange
More than 5-years	Green	Red	Red	Green	Light Green	Red	Red	Green	Light Green	Orange	Red	Orange

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

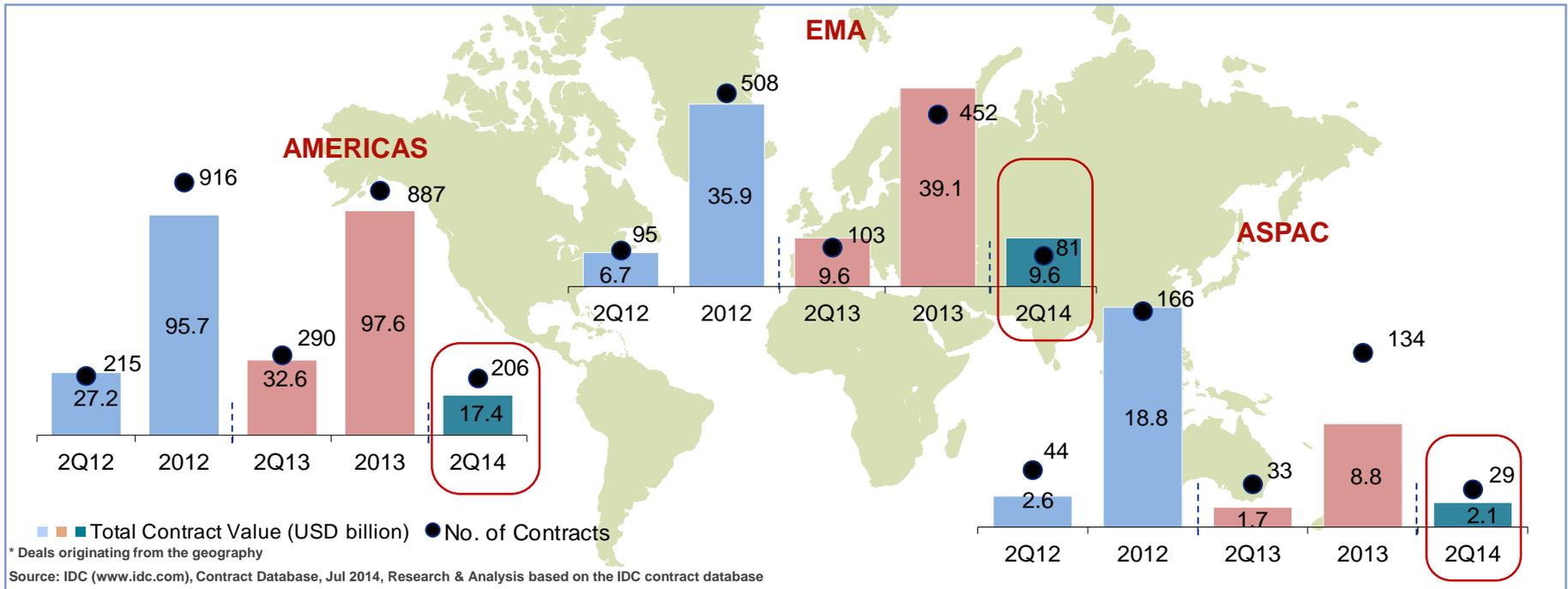
■ Decrease >=25%  
 ■ Decrease <25%  
 ■ No change  
 ■ Increase <25%  
 ■ Increase >=25%

- ***There has been an increase in TCV across all deal types- ITO, BPO and Bundled in 2Q14 over 1Q14***
- ***BPO and bundled deals have had >25 percent increase in terms of number of contracts over 1Q14. ITO deals also grew in volume but with change being < 25 percent***
- ***In past few quarters, where deals with TCV between USD 100-500 MN and deals less than USD 100 MN decreased in terms of TCV, in 2Q14 they have grown by >25 percent as compared to 1Q14***
- ***Both deals with tenure between 1 to 5-years and less than 1-year long declined in TCV by > 25 percent but deals more than 5-years long have increased >25 percent in TCV in 2Q14 over 1Q14***
- ***Average contract value declined with <25 percent decrease across all deal tenures in 2Q14 over 1Q14***

# Geography Analysis

## IT-BPO deals across geographies: Q-o-Q Comparison

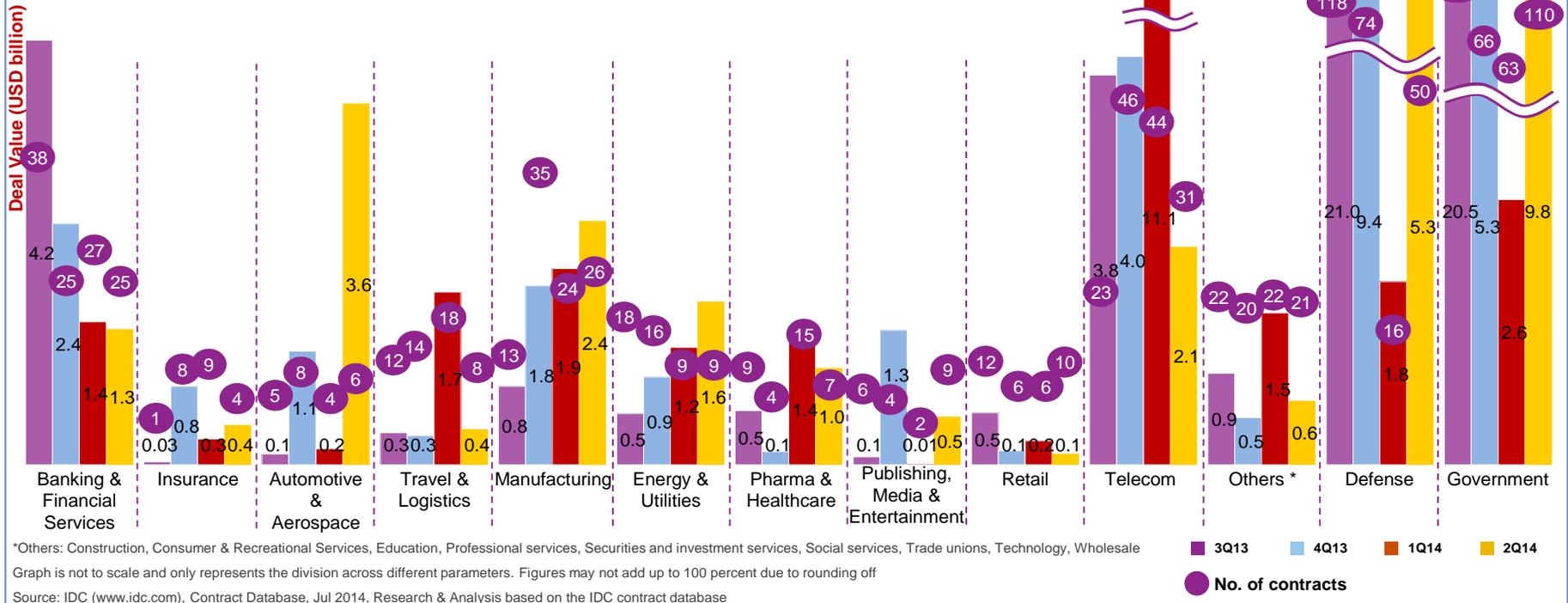
### Geography-wise break-up of deals\*



- **AMERICAS** continues to be the major outsourcing region contributing 60 percent of the total deal value in 2Q14. However, the value of deals in the quarter has decreased by 47 percent as compared to 2Q13
- **EMA** has displayed a consistent growth in terms of market share by value, with a 33 percent share in 2Q14 as compared to 22 percent and 18 percent in 2Q13 and 2Q12 respectively
- **ASPAC** has witnessed a growth of 23 percent in total deal value as compared to 2Q13, though the number of deals decreased by 12 percent, indicating high value deals being signed in the region

### Sector-wise break-up of deals (3Q13 to 2Q14)

TCV : USD 29.1 billion  
No. of contracts: 316



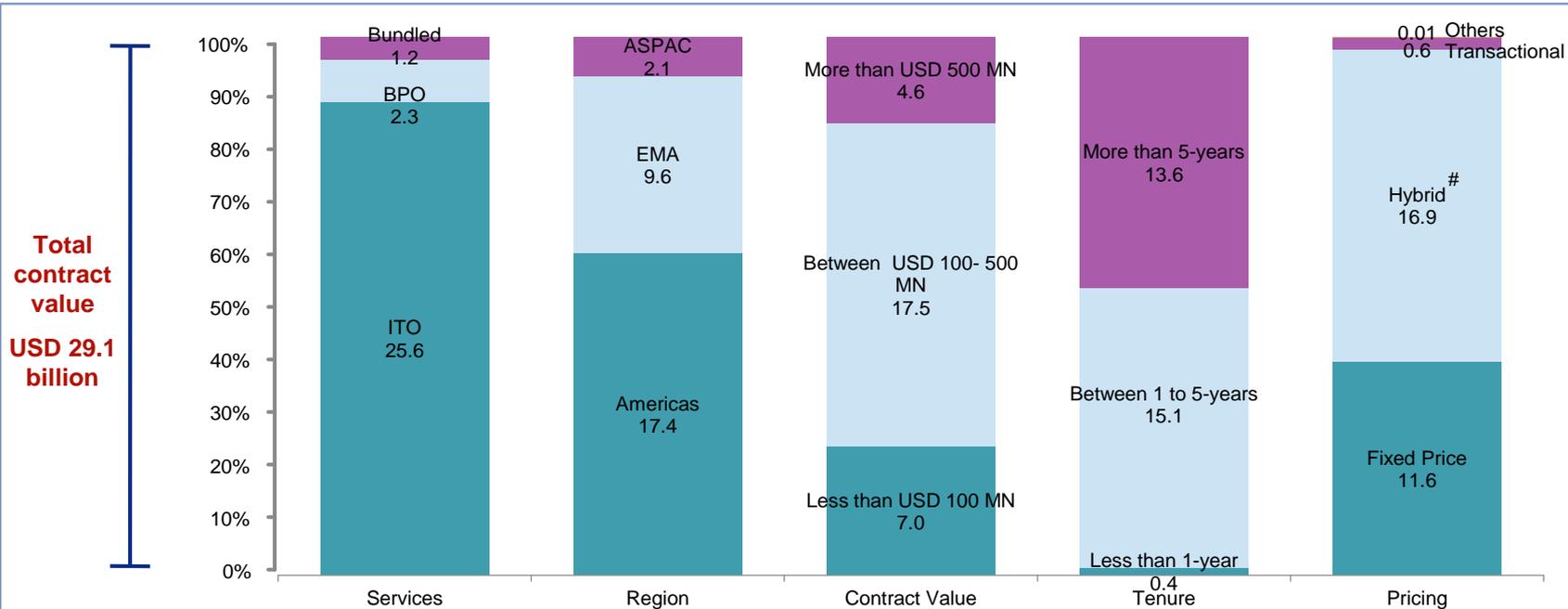
- After showing a sharp drop in deal activity in 1Q14, the Government and Defense sectors have bounced back to lead the deal activity again, contributing to 52 percent of the TCV in 2Q14
- Automotive & Aerospace and Publishing, Media & Entertainment sectors have also exhibited multifold growth in TCV in 2Q14 as compared to 1Q14

Section 2

# 2Q14 Deal Analysis



### IT-BPO deals\* signed in 2Q14 (Total Contract Value = USD 29.1 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

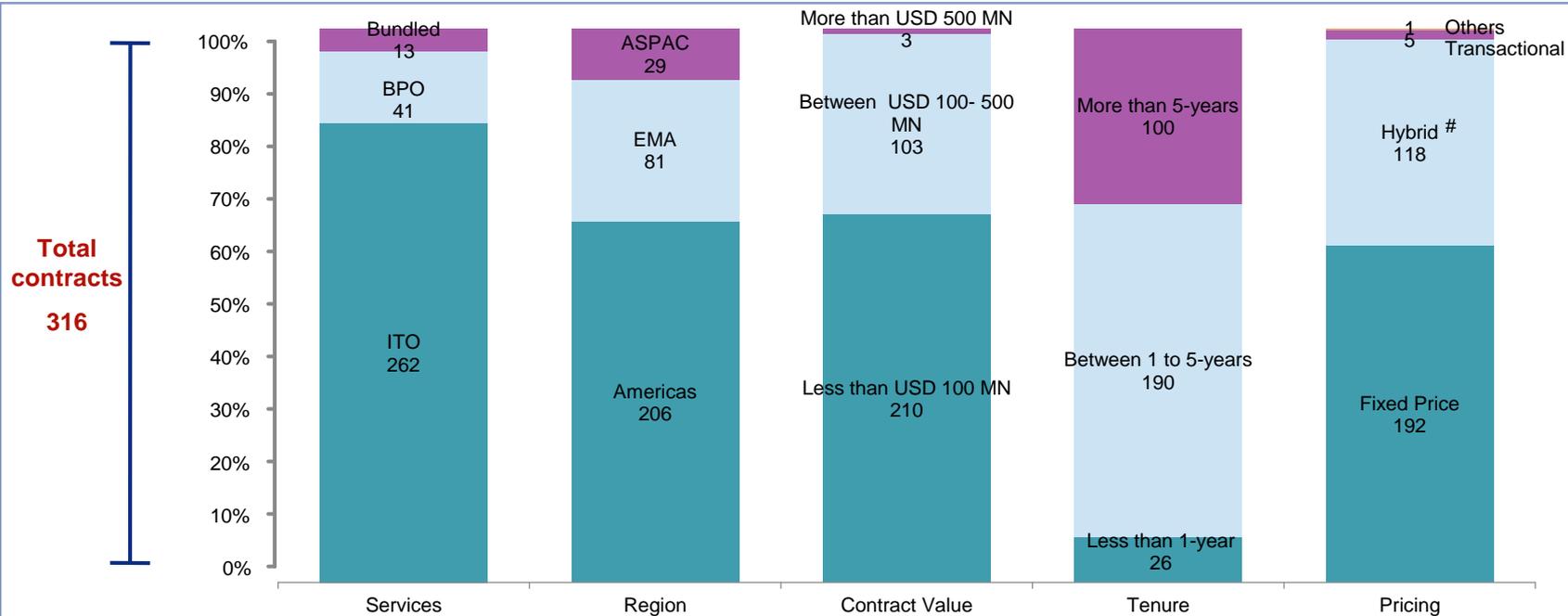
Source: IDC (www.idc.com), Contract Database, Jul 2014, Research & Analysis based on the IDC contract database

- **While ITO deals continue to dominate the outsourcing space, contributing 88 percent of the total deal value in 2Q14, BPO deals and Bundled deals contribute 8 percent and 4 percent respectively**
- **AMERICAS is the largest outsourcing region contributing 60 percent of the total deal value in 2Q14, followed by EMA with 33 percent contribution to total deal value**
- **Deals of size >USD 500 million have decreased by 58 percent in 2Q14 over 1Q14, whereas deals of size between USD 100- 500 MN have grown to double its value in 2Q14 from that in 1Q14**

# Number of Deals

## Global sourcing snapshot – April to June 2014

### IT-BPO deals\* signed in 2Q14 (Total Number of Contracts = 316)



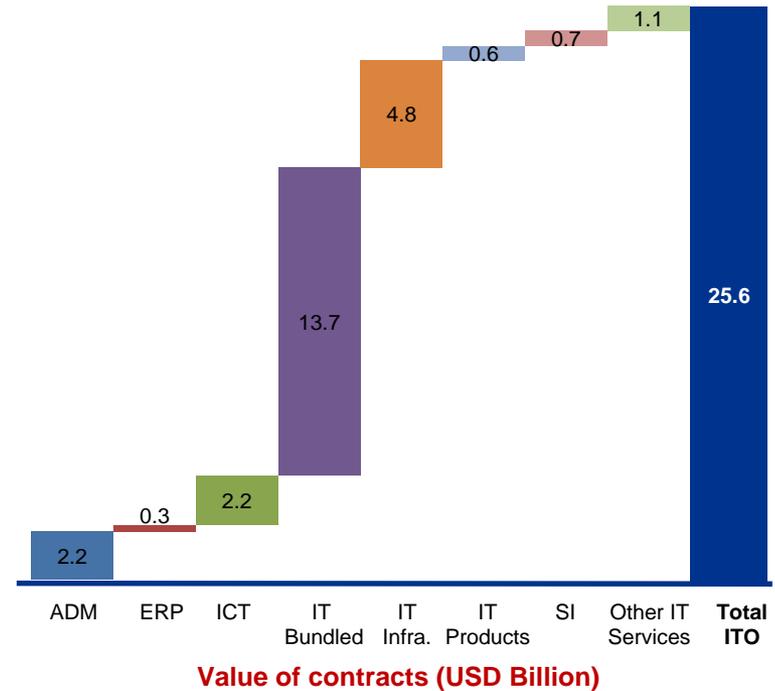
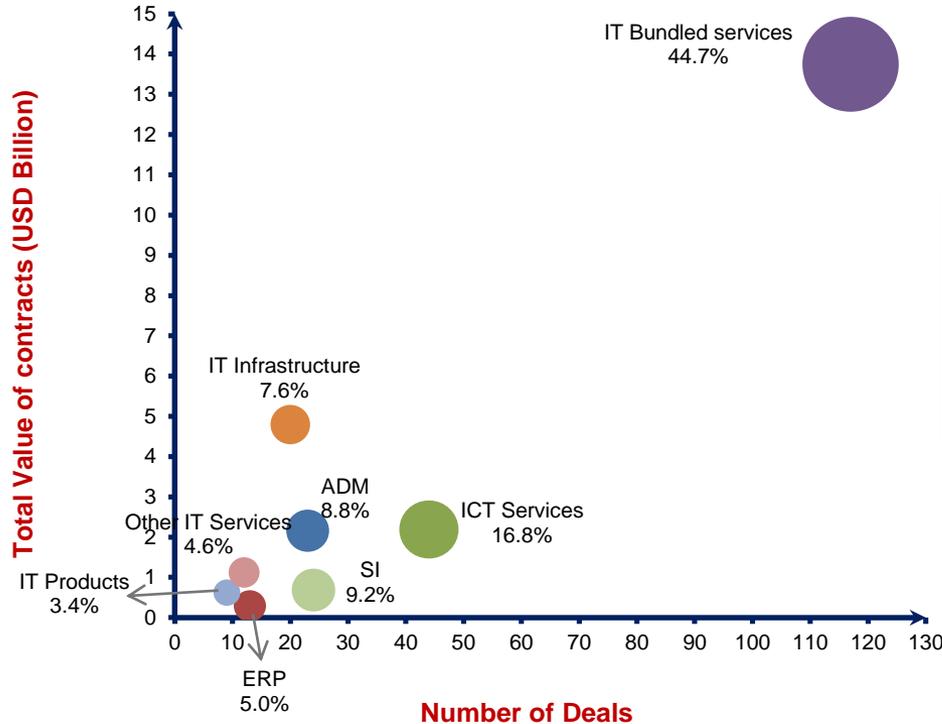
\* Deals analyzed are USD 5.0 million and above only, throughout the analysis. Graph is not to scale and only represents the division across different parameters. Figures may not add up to 100 percent due to rounding off

# Hybrid pricing includes a combination of various pricing mechanisms

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

- **2Q14 saw dramatic increase of 181 percent in use of a Hybrid model for Pricing of deals. However, Fixed Price contracting model continued to dominate, contributing 61 percent of the deal volume**
- **While deals with tenure >5 years have increased multi-fold in number, count of shorter deals with tenure less than 1 year has decreased by 24 percent in 2Q14 as compared to 1Q14. Deals with tenure between 1 to 5 years have also decreased marginally by 5 percent in number**
- **Count of BPO deals has increased by 141 percent in 2Q14 as compared 1Q14. ITO and Bundled deals have also increased in number by 12 and 44 percent respectively**

### Analysis of ITO deals 2Q14



Note: Size of bubble indicates percentage share of the total number of ITO deals

SI – System Integration, Other IT services – Software testing, IT helpdesk support services, Cyber security

Source: IDC (www.idc.com), Contract Database, Jul 2014, 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

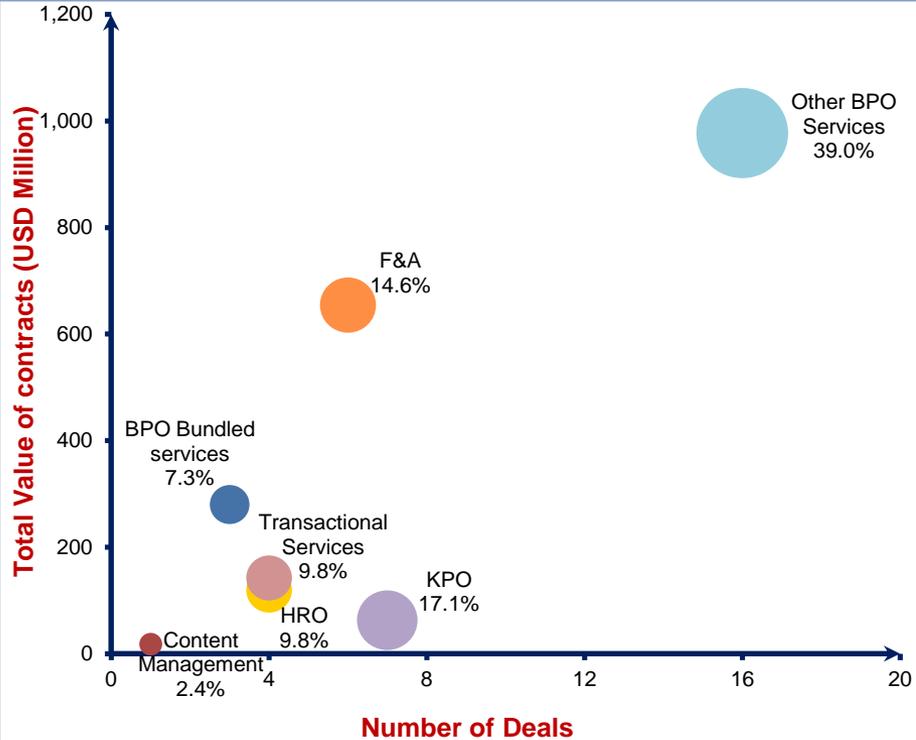
Source: IDC (www.idc.com), Contract Database, Jul 2014, Research & Analysis based on the IDC contract database

- **TCV of ITO deals increased by 15 percent in 2Q14 as compared to 1Q14, and total count of the deals increased by 12 percent over same period**
- **ADM, ICT Services, IT Bundled and IT Infrastructure services together contributed 89 percent of all ITO deals in terms of value during 2Q14**
- **The TCV of IT Bundled services multiplied by nearly 5 times in 2Q14 of its value in 1Q14**

# Services Segmentation

## BPO Services

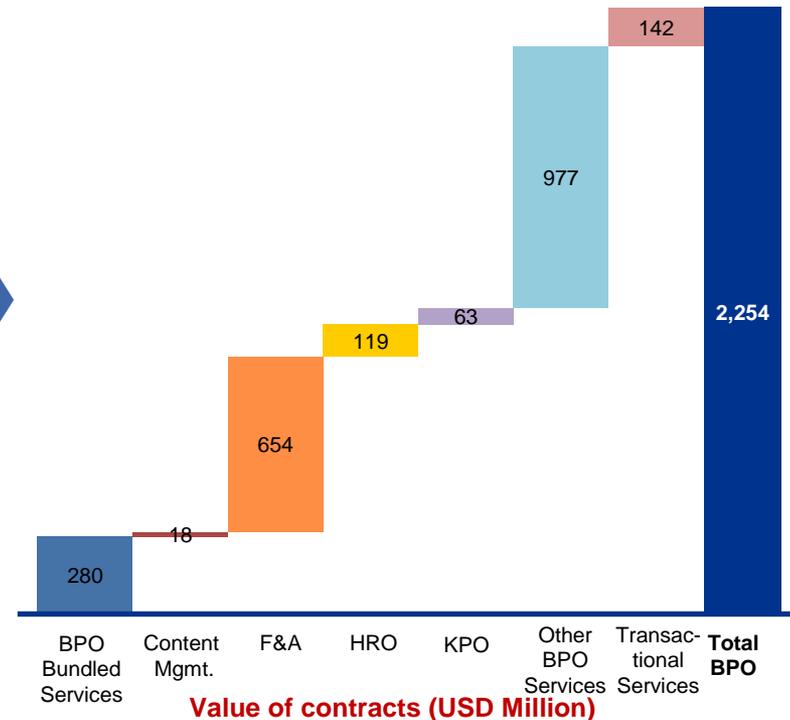
### Analysis of BPO deals 2Q14



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

Other BPO services – Service desk monitoring services, Procurement

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

- 2Q14 experienced improved market activity in terms of BPO deals with total deal value increasing by 24 and deal count by 141 percent as compared to 1Q14
- F&A, Other BPO services and BPO Bundled services together contributed 85 percent of all BPO deals in terms of value during 2Q14

Section 3  
**IT-BPO Outsourcing Outlook**



- *Driving cost savings from global business services efforts has become a baseline requirement and goal, with greater emphasis being placed on improving global delivery capabilities, improving process performance, and supporting global growth efforts. Supporting and enabling organizational growth has emerged as a critical GBS value-add and strategic driver for investment and expansion*
- *Top priorities in GBS and service delivery improvement efforts are enabling end-to-end process ownership and better integrating GBS efforts across functions, geographies, and business units to create a more holistic and portfolio-based approach to managing service delivery.*
- *More standardized global IT platforms can enable more standardized, and hence more integrated and consistent GBS operations. The capabilities to exploit emerging IT capabilities with cloud and data analytics can further GBS capabilities, especially beyond core transactional activities.*
- *Pricing pressure on deals increased a bit over the past quarter as buyers place renewed focus on 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.*
- *Providers continue to push hard to expand business in existing accounts, especially when profitability gains exist, but for many providers margins are being squeezed and buyers are pushing back against some higher margin offerings that do not have a very strong business case*

Source: KPMG's Global Business Pulse Survey, KPMG Research & Analysis

# KPMG Shared Services and Outsourcing Advisory (SSOA) Research

## Latest from the KPMG Shared Services and Outsourcing Institute

- *Extending the Honeymoon Period: Five Recommendations to Help Create A Successful Transition to Real Estate and Facilities Management Outsourcing*
- *Creating the Right Team to Select a Facilities Management Service Provider*
- *South African Sourcing Pulse Survey: 1<sup>st</sup> Quarter 2014*

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**Extending the Honeymoon Period: Five Recommendations to Help Create A Successful Transition to Real Estate and Facilities Management Outsourcing**  
Shared Services and Outsourcing Institute | June 09, 2014 | Shared Services and Outsourcing  
Transition projects often seem to be about minimizing problems and accelerating the transition efforts as much as possible instead of realizing high expectations.

**Creating the Right Team to Select a Facilities Management Service Provider**  
Shared Services and Outsourcing Institute | May 29, 2014 | Shared Services and Outsourcing  
When selecting a facilities management (FM) service provider, consideration should be given to who should participate in the selection, how the team should be organized and what selection considerations will help ensure the right choice. This article

#### Subtopics

- Cloud Computing
- Finance & Accounting Service Delivery
- Human Resources Service Delivery
- Information Technology
- Outsourcing
- Outsourcing Contract Negotiations
- Service Delivery Strategies
- Service Provider Governance
- Shared Services

#### Recent Whitepapers

South African Sourcing Pulse Survey: 1st Quarter 2014  
Shared Services and Outsourcing Institute | May 05, 2014

#### Upcoming Webcast

**Webcast: KPMG's Sourcing Advisory 2Q 2014 Pulse Survey Results**  
Shared Services and Outsourcing Institute  
July 24, 2014 | 11:00am ET  
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1. Webcast: KPMG's Sourcing Advisory 1Q 2014 Pulse Survey Results

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