

Entering the European market for software development services

Software development is one of the most outsourced IT services in Europe. Outsourcing of software development is accelerating as an increasing number of European companies choose this road towards efficient, cost-effective, quick and successful software development projects.

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1. What requirements must software development services comply with to be allowed on the European market?

There are many different markets and segments within the software development services market, each with very different requirements. Requirements vary per industry, per segment and even per country. Different standards, rules and regulations exist for the automotive industry, education, healthcare and so on. New legislation is always in the making. This makes it impossible to list (or to know about) all possible requirements.

In this chapter, we talk about the most general requirements and specify the most popular and/or promising product/market combinations. We advise each company to research their own (target) market.

What are mandatory requirements?

Mandatory outsourcing requirements for the European software development services market can be divided into legal and non-legal mandatory requirements. Although non-legal requirements are not obligatory by law, they are considered minimum requirements to enter the European market.

Legal mandatory requirements

Legal mandatory requirements are requirements that are both legal and mandatory for companies entering the European outsourcing market for software development services. Legal requirements include legislation about copyright, personal data protection, the General Data Protection Regulation and the ePrivacy Directive.

Copyright

Copyright refers to legal protection of computer programs. The European Union has established specific rules to protect computer programs by means of copyright. According to the [Directive on the legal protection of computer programs](#), you have to make sure not to breach any copyright when placing your computer program on the market. At the same time, your products are also protected against unauthorised reproduction under this directive (law).

Tips:

Read more about the [legal protection of computer programs](#) on the website of the European Commission.

Check the exact regulations in your European target market. All European Union Member States have implemented the European Directive into national legislation. Although they are generally the same, there could be minor differences.

Pay attention to copyright and infringement (the act of breaking or disobeying the contract) clauses in the contracts you sign with European buyers.

General Data Protection Regulation

The new [General Data Protection Regulation](#) (GDPR) came into effect on 25 May 2018. This regulation was designed to protect individuals in Europe from privacy and data breaches. It has since then also been incorporated into the European Economic Area ([EEA](#)) [Agreement](#), which brings three of the European Free Trade Association (EFTA) states into the European single market. This means the new GDPR is also enforced in Iceland, Liechtenstein and Norway.

These new rules were introduced to give people more control over their personal data and let businesses benefit from a level playing field where the laws and regulations are the same in every country. The GDPR applies to all companies processing the personal data of individuals in Europe, regardless of the company's location. This means it also applies to you directly.

Under the old directive, the protection of any data by which an individual can be identified was the sole responsibility of the data controller (owner). However, under the GDPR, any company or individual that processes data is also responsible for its protection. Examples of personal data that are protected by this regulation are names, email addresses, bank details, social media content, photos and IP addresses.

Some key consumer rights you must comply with include, but are not limited to:

Consent – consumers must explicitly consent by opting in, consent must be easy to withdraw and requests must be specific and in plain language.

Right to access – consumers are entitled to know whether companies process their personal data, where they do so and for what purpose.

Right to be forgotten – consumers are entitled to have their personal data erased and have processing and further dissemination halted.

Privacy by design – data protection should be included from the onset of designing systems. Data should be minimised and access limited.

The General Data Protection Regulation is relevant for many players in the software development industry. To find out if your company needs to be GDPR compliant, read this article that provides a [seven-step guide to GDPR-compliant software development](#) and look at the flow chart to see if you need to be GDPR compliant.

You can use IDC's GDPR Readiness Assessment to determine how compliant you are and what you may need to improve. Audit your current data to determine whether they are GDPR compliant. What data do you have, where and why? Did you or your client obtain explicit consent to use the data for this specific purpose? Make sure your staff are aware of your policy, so they do not unintentionally violate GDPR regulations.

Tips:

Make sure you comply with the GDPR if you process data of European citizens (or sensitive information of any kind). Read [this article](#) about specific software development-related GDPR information. Study the GDPR's new [European data protection rules](#) and [principles](#) if you are dealing with personal data. This will give you a good understanding of what is allowed and what is not.

Set up clear consent request forms and privacy policies that inform your and your client's customers of how you process their personal data. For more information, see the [GDPR consent guidance](#) from the United Kingdom's Information Commissioner's Office and Econsultancy's [GDPR: How to create best practice privacy notices](#) (with examples).

Check the [ePing](#) website for an overview of country-specific measures that affect trade and differ from the international standards, as well as for the contact persons per country that the World Trade Organisation (WTO) has appointed. You can also subscribe to receive alerts (called ePing alerts) that might be relevant for your product or service.

Personal data protection

Privacy is highly protected in Europe. The European Union has several directives in place for this purpose, which are mentioned below. Providers that do not respect these directives may be subject to enforcement actions and/or possible claims – even if they are located outside Europe.

While not all software development projects concern personal data, many of them do. And this is becoming increasingly important as the personal data aspect in software development is expected to grow very fast in the upcoming years.

ePrivacy regulation is important in software development services. The [ePrivacy Directive](#) (2002/58/EC), commonly known as the “cookie law”, contains specific regulations for data protection in the electronic communications sector. For example, sending unsolicited commercial electronic messages (“spam”) is now controlled by the ePrivacy Directive and is no longer allowed. There are strict rules on the use of cookies and contact details may only be published with the subject’s consent.

A [new ePrivacy Regulation](#) was originally scheduled to enter into force along with the GDPR, but its implementation has since been delayed. [The latest draft](#) dates from February 2019 and was expected to enter into force at the end of 2019, but it is still waiting for approval at the beginning of 2020. The regulation is intended to safeguard the confidentiality of electronic communications through stronger privacy rules. Unlike the current directive, it includes Internet-based voice and messaging technologies such as Skype, WhatsApp and Facebook Messenger.

The ePrivacy regulation also mentions software development. It says: “This Regulation should apply to providers of electronic communications services, to providers of publicly available directories, and to software providers of software permitting electronic communications, including the retrieval and presentation of information on the internet.”

Tips:

Be aware of what data you store and where, to be able to comply with potential consumer requests. Also, note that the legislation on data protection is only relevant if your services involve personal data. Also, keep records of your obtained consent. See the advice from the Information Commissioner’s Office (ICO) on how to record consent.

Read more about [digital privacy](#) on the website of the European Commission to keep up to date on the reforms of the European ePrivacy rules.

Keep tracking the latest legal requirements drawn up by the European Commission. They have dedicated a [section of their website](#) to their policy on the market for software development. Contact [Open Trade Gate Sweden](#) if you have specific questions regarding rules and requirements in Sweden and the European Union.

Non-legal mandatory requirements

There are also non-legal requirements that are considered mandatory by many European buyers of outsourcing services. Although these non-legal requirements are not obligatory by law, they are minimum requirements to enter the European market. Without fulfilling these requirements, your services will likely not be considered by European buyers.

Security

Data security is one of the main challenges for IT outsourcing service providers. This includes both data protection and recovery systems. Many European buyers expect you to implement an information security and management system, especially in industries in which security is essential, such as finance and banking, healthcare or mobile applications. The [ISO 27000-series](#) contains common standards and guidelines for information security.

ISO 27001 is an internationally recognised standard that provides requirements for an information security management system. Companies can become ISO 27001 certified if they comply with the standard. ISO 27002 is a supporting document to ISO 27001 that gives guidance and advice on the implementation of information security controls. Other supporting guideline documents in the ISO 27000-family are ISO 27003 and ISO 27004. ISO/IEC 27701:2019 is a certifiable privacy extension of ISO 27001, supporting the GDPR.

Tips:

Make sure you have effective security processes and systems in place, from business continuity and disaster recovery to virus protection.

Ask your buyer to what extent they require you to implement a security management system like the ISO 27001 standard.

Consider obtaining the ISO/IEC 27701:2019 certification. To do so, you will need to either have an existing ISO 27001 certification or implement ISO 27001 and ISO 27701 together as a single implementation audit.

What additional requirements do buyers often have?

European buyers of software development services often have additional requirements that are important to them when choosing an outsourcing provider. These refer to quality, privacy, security and corporate social responsibility (CSR). There has always been a debate within the sector on whether quality certification is important. If anything, it can show your commitment to your product or service and proves that you are a serious service provider focusing on your clients' needs, quality and continuous improvements.

Quality management

Many European buyers only do business with companies that have a quality management system in place. Such a system shows that you are well organised and able to deliver the required service quality. They include, for example, backup and recovery schemes, network and infrastructure security, communication plans and relocation options. Acknowledged and common quality management systems are ISO 9001:2015 and the Capability Maturity Model Integration.

ISO 9001:2015

One of the best-known quality management standards is [ISO 9001:2015](#). If you comply with ISO 9001:2015, you can obtain [certification](#), but this is not a requirement.

Achieving ISO 9001:2015 certification or complying with it means that an organisation (or part of it) has demonstrated the following:

- It follows the guidelines of the ISO 9001 standard.
- It fulfils its own requirements.
- It consistently meets customer requirements and statutory and regulatory requirements.
- It maintains documentation.

Tip:

Look at [ISO/IEC/IEEE 90003:2018](#). This is a guideline (checklist) on how to apply ISO 9001:2005 for software development.

Capability Maturity Model Integration

Another option is the [Capability Maturity Model Integration](#) (CMMI), which has been adopted worldwide. You can achieve a rating (ranging from 1 – 5) based on your level of maturity. This rating indicates your improvement in multiple process areas. [CMMI Services](#) helps you to improve your capability to provide your customers with quality services.

Tips:

Show that you are a professional company, by having good references, obtaining relevant industry certification, responding quickly, communicating regularly, offering constant quality, complying with contractual agreements and having a good and stable management team to lead the outsourcing project.

Invest in implementing and using a quality management system in your company. Even though these do not automatically guarantee "good-quality (I)IoT solutions", having one implemented and used consistently really helps to produce good-quality solutions.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) refers to companies taking responsibility for their impact on the world. Not only in the products or services they offer, but also concerning consumer rights, education and training of staff, human rights, health, innovation, the environment and working conditions. For the IT and IT-related services outsourcing industry, its importance is debated, as its impact from small companies is often marginal.

CSR is becoming especially important to large companies and governments in Northern and Western Europe. Many European companies involve their suppliers in their CSR policies. In the future, CSR may well become a direct selection criterion. Having a well-documented CSR policy may therefore give you a competitive advantage over companies without one.

The [ISO 26000](#) standard provides guidance on CSR. For small software companies, labour practices, fair operating practices and community involvement are the most relevant and practical aspects of the ISO 26000 standard.

There are some new trends and initiatives to extend CSR into small IT businesses. Fairtrade software is an example of such an initiative. It means software that is developed for better prices, under decent working

conditions, supporting local sustainability and with fair terms of trade.

Impact sourcing is another example. It is described as the integration of disadvantaged workers from low-employment areas into the processes of businesses from more economically advanced countries, either through outsourcing or by setting up remote or virtual teams using digital technology. Impact sourcing has good potential for companies that wish to make their business more socially responsible.

Tips:

Look at [examples](#) of small [software companies](#) engaging in CSR. For example, TELIT has a [Modern Slavery Statement](#) at the bottom of their website, which means that you can see it on every page. Read more about CSR in practice on the website of the [European Commission](#).

Clearly communicate your commitment to CSR in your marketing activities. Also, show that you care about your impact on society and the environment by implementing your own CSR policy. It can be a unique selling point (USP) when your buyer has to select a provider.

Consult the [ITC Sustainability Map](#) for a full overview of certification schemes addressing sustainability in the IT outsourcing sector.

Knowledge about the latest software development technologies, platforms, frameworks and innovation

As a software development service provider, you continually have to stay on top of the developments in the market. European buyers expect you to be able to offer them the possibility to work with the latest technology. It is therefore very important to stay informed about the latest technologies, platforms, frameworks and innovation.

European buyers use a great variety of software development methodologies. These buyers often require service providers to practice and follow these methodologies in their software development practice. A popular and widely-used group of such methodologies is called “Agile software development”.

Agile software development is an umbrella term for a set of frameworks and practices based on the [Manifesto for Agile Software Development](#). Agile software focuses on the people doing the work and how they work together. In Agile software, solutions evolve through collaboration between self-organising and cross-functional teams. They can use the software for their specific goals. Agile software development advocates adaptive planning, visualisation, evolutionary development, early delivery and continual improvement, and it encourages rapid and flexible response to change. An Agile methodology called Scrum is the most widely-used worldwide.

About [56% of all companies using Agile methodologies use Scrum](#). The Scrum framework was designed to address two critical pain points of software development; speed and changing client requirements. Other popular Agile frameworks are Kanban, Extreme Programming (XP), Dynamic Systems Development Method (DSDM) and Lean Startup. Sometimes, companies use hybrid methodologies; this results in terms like ScrumBan. About [70% of companies](#) that use Agile methodologies use Scrum or hybrid methodologies like ScrumBan or Scrum/XP.

Tips:

If you specialise or aim to specialise in offering software development services for particular sectors, find out which certifications are relevant. When considering a particular quality certification, ask yourself three questions before working out the details: is it good for my company? Is it good for my

clients? Does it have marketing value?

Check if resources are available that might provide your company with financial support to achieve quality certification. Contact your national IT association (for example, [TAG Georgia](#) or [BPESA](#) from South Africa) or one of the business support organisations in your country responsible for (IT) export promotion. If you are an African software development service provider, take a look at the [#FastTrackTech Africa Initiative](#) by Intracen.

Stay up to date on the [latest software technologies](#) in the market. If you want to know more about Agile methodologies, one of the longest-running reports is called [The State of Agile](#). Learn and practice Scrum. High-quality training programmes as well as internationally accepted personal Scrum certifications are available. Scrum experience can be a valuable addition to your offer.

What are the requirements for niche markets?

European buyers often require you to comply with a sector-specific and/or industry-specific standard or code of practice (if available). There are also many technologies, technical standards, protocols and frameworks related to software development. They are developed and maintained by a large number of organisations and they can differ significantly between niche markets.

In healthcare, for instance, Health Level 7 ([HL7](#)) and the Health Insurance Portability and Accountability Act ([HIPAA](#)) are important. In the automotive industry, [MISRA](#) and [AUTOSAR](#) are the two main coding standards used, but [ISO 26262](#) and [ISO 15504](#) are also applicable.

Keep in mind that we have only mentioned some examples. The requirements for niche markets vary greatly because the software development market is very diverse. There is an immense amount of technology and companies often focus on horizontal and/or vertical markets. So you have to research your own situation, market and requirements yourself.

Tips:

Other sources that might be helpful in your research are [PCI Security Standards](#), the [ISO](#) website, the [SAP website](#) and the website of the [European Commission](#).

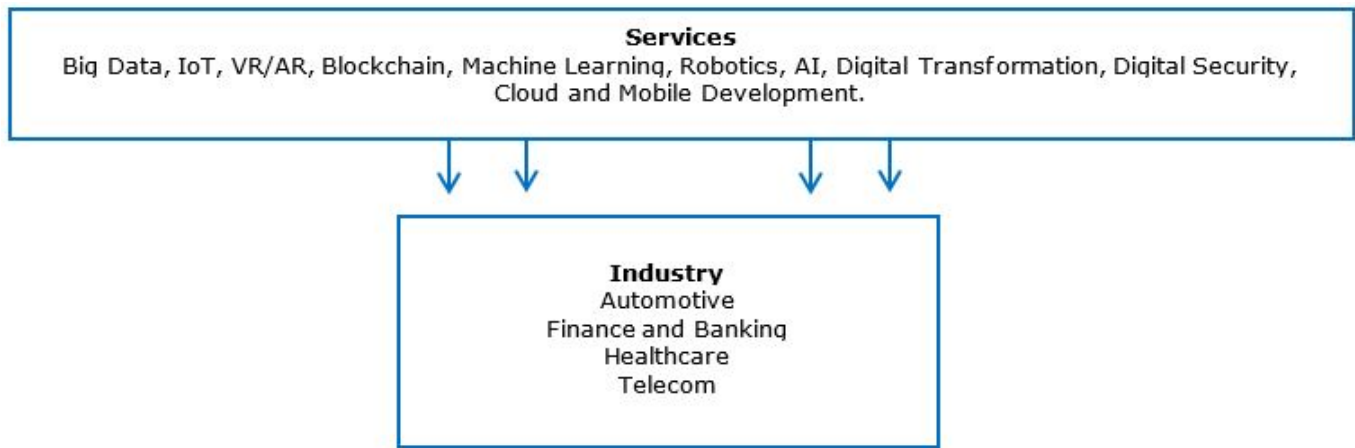
Look at our [Buyer Requirements](#) study for more information on the IT outsourcing sector in general.

2. Through what channels can you get software development services on the European market?

How is the end market segmented?

The market for software development services can be segmented by vertical market (type of industry) and by horizontal market (type of service).

Figure 1: Horizontal and vertical market segments with opportunities for service providers



At this moment (beginning of 2020), the most promising segments are big data, (I)IoT, VR/AR, blockchain, machine learning, robotics, AI, digital transformation, digital security, cloud and mobile development. Of all abovementioned segments, only cloud and mobile development are currently regarded as commodities.

On the service provider side, there are generalists and specialist. Generalists are software development service providers without any specific and considerable focus on or experience in a particular vertical or horizontal market segment. Specialists in the software development services market do have a focus on or a lot of experience in a particular vertical or horizontal market.

It is difficult to say which segment provides the best opportunities for software development service providers from developing countries. In general, SaaS/cloud development could be considered an interesting segment, because many European companies need it. However, the European market is quite saturated with SaaS/cloud service providers (onshore, offshore and nearshore), so the competition is very strong. The same applies to the market for mobile application development. These are basically a commodity services.

Tips:

Monitor market developments within the European consumer software development market that are relevant for your company by conducting [Google](#) searches that combine your software product with a particular niche market.

Research the end market segment that you want to focus on. This allows you to effectively market your company.

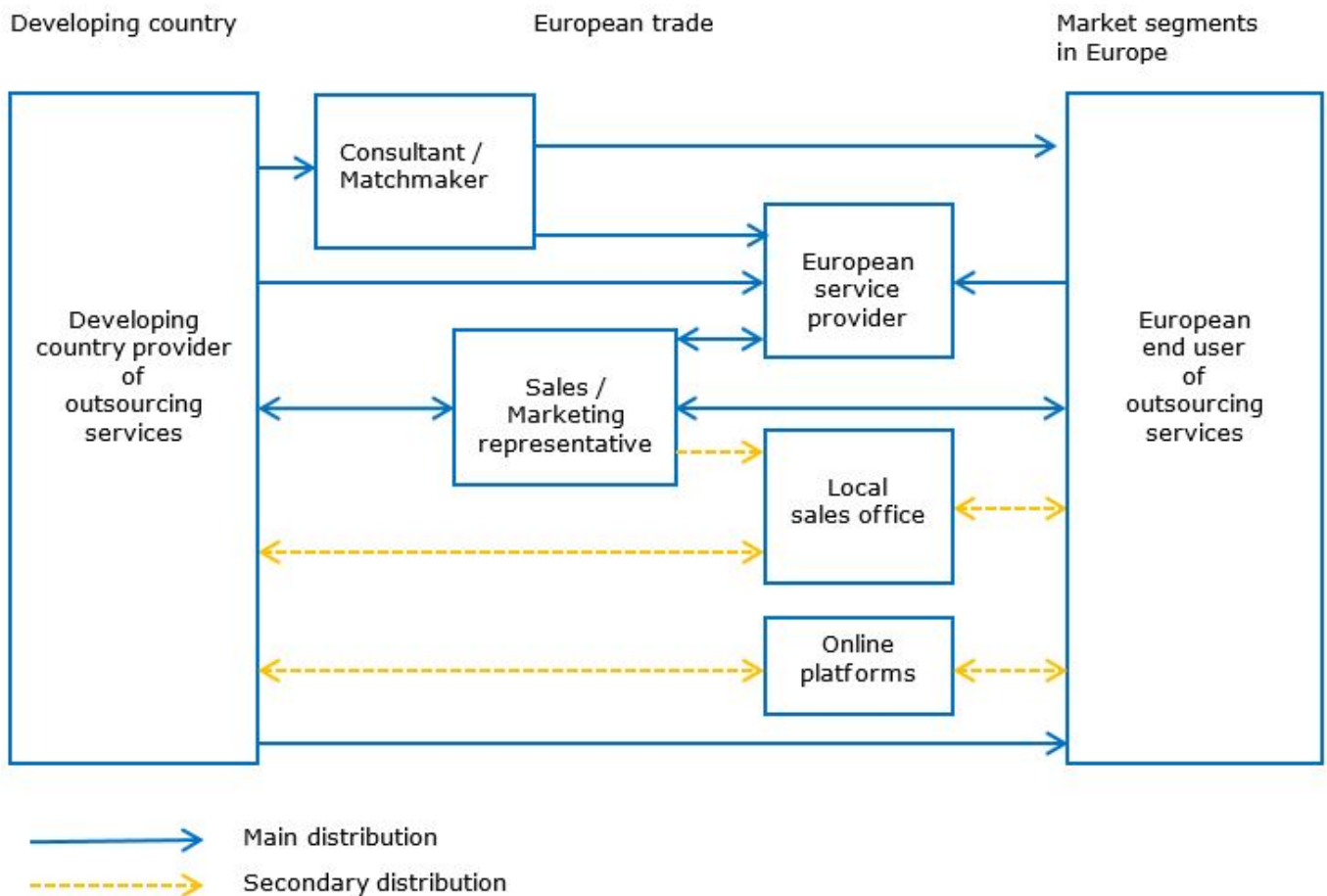
If your software development service is a relative commodity, entering the European market can still be interesting. In that case, you should combine your service with a niche market focus, especially if you can find a niche market that is underserved with your type of software.

Through what channels do software development services end up on the end market?

As a service provider in a developing country, you can use several trade channels to enter the European market. Figure 2 provides an overview of the trade structure for outsourcing. This structure is more or less the same in every European country.

How is the end market segmented?

Figure 2: Trade structure for outsourcing software development services in the European market



What is the most interesting channel for you?

The most common and most promising market entry channel for software development services companies from developing countries is to find and work together with a European service provider. Other channels are working with a consultant/matchmaker, a sales/marketing representative, a local sales office or direct sales (possibly through online platforms).

Selecting a channel depends on your type of company, the nature of your product or service, your target market and the available resources for market entry. You must understand that, regardless of the channel you choose, marketing and promotion is a vital part of your market entry strategy. And you are responsible for your own marketing and promotion strategy.

European service provider

Software development service providers in developing countries find a European service provider either directly or by working together with a matchmaker and/or a sales representative. According to industry experts, subcontracting for European service providers is the most realistic market entry channel. You can try to find a suitable partner on your own or work with an intermediary. Because many European companies prefer to deal with a local contact person, an intermediary is a good option.

A European service provider that is similar to your company would be your most suitable subcontractor. Ideally, this company should design, develop, market, sell and maintain software developing services that are similar to yours.

Tip:

Approaching European service providers directly is only recommended if you have experience in the target market. Otherwise, you should consider working with a consultant/matchmaker.

Consultant/matchmaker

Consultants/matchmakers (just like sales and marketing representatives) usually work based on a retainer + success fee basis. This has a number of consequences related to marketing and contracting issues. A matchmaker is a person or a company with existing, relevant and ideally a large number of contacts in a specific market segment or industry. A good consultant/matchmaker is therefore a “door opener” and not an agent to make cold calls or send cold emails. Matchmakers make appointments with prospects for you. However, the presentation and sales process remains in your own hands.

Consider working with a consultant or matchmaker if you feel comfortable about taking care of the presentation and sales process yourself. Examples of software development consultancy companies that outsource to developing countries, among others, are [Daxx](#) and [Vigil 365](#) (from the Netherlands) and [Cross Workers](#) (from Denmark).

It is also very important to consider the exit strategy in the contract. It is in the absolute interest of the service providers to clearly define a (shorter) period after which the contract can be terminated without any further consequences. This period is usually not longer than three or four months (after which the contract will be evaluated and can be terminated – for non-delivery for instance – or prolonged for another period). For this period, there should be clearly-defined delivery expectations and targets (number of relevant meetings, projects brought in, etc.). Negotiating a trial period can also be the interest of the service provider.

Tips:

When signing a contract with a consultant/matchmaker, ensure the remuneration is very clear for all parties. The retainer and the success fee together must provide a strong motivation for the matchmakers/sales representatives to deliver (the retainer should be high enough to cover some of the costs, but low enough to encourage delivery).

Make sure your contract does not limit the marketing coverage and activities of the service providers in any way or form.

Some food for thought: your uncle who is living in Germany might not be the best matchmaker or sales representative for your company.

Sales/marketing representative

A sales representative also does the sales and is sometimes also involved in the high-level management of the projects. Marketing and sales representatives (just like consultants and matchmakers) often work based on a retainer + success fee basis. The retainer must be paid even if there is no delivery by the matchmaker or sales representative. The success fee depends on what the matchmaker/sales representative has delivered. A properly drafted contract, by a lawyer, is a must!

In the contracting process, determining the exactly level of the retainer as well as the success fee is very important. In case of sales representatives, determining the success fee is usually easier, because it is often a certain % of the projects they bring in. In IT outsourcing, there are no “off-the-shelf” sales representatives.

Sales/marketing representatives often work based on a retainer (a sum you have to pay regardless of the work of the intermediary – usually a fixed monthly payment) plus a certain percentage of the total project value they deliver. When working with intermediaries, aim for a retainer + success fee type of payment scheme. This combination should provide motivation for the intermediary to deliver.

Check the size and value (quality) of your potential sales/marketing representatives' existing network. A good sales/marketing representative does not make cold calls in order to provide services for you. A good sales/marketing representative has a large, existing contact base. Your expenses will rise by having to pay a sales/marketing representative, but you will be free to concentrate on your service or product and search for other markets yourself.

Make sure you properly inform them about your company. Consultants, for example, speak with many potential customers and are often involved in creating long lists of potential outsourcing providers. The more information they have on your company and the better they understand your capabilities, the more they can spread the word about you.

Tips:

Limit your risk by defining a trial period of a few months with concrete goals and deliverables. The sales/marketing representative should come up with a certain number of leads within the trial period. If this objective is not met, the contract can be ended. Be especially cautious if an intermediary works only based on a retainer or success fee, if an intermediary wants to work for you part-time besides their regular job or if they do not have an existing network of professional contacts.

When contracting a sales/marketing representative, involve a good lawyer who knows the applicable law of the country where the sales/marketing representative resides and has previous experience with this type of contracting. Pay special attention to exit clauses (how and when the contract can be ended), success criteria, deliverables and payments.

Local sales office

Ideally, you should establish a local sales office in your European target market. A local presence makes it easier to build up long-term relationships with customers through personal contact. It also increases your credibility and builds trust. However, this is very difficult in practice, as it requires a lot of experience and large investments. Most companies in developing countries are simply too small and do not have the financial strength for this.

Tips:

Establishing a local sales office is only recommended if you have experience in the target market and have built a steady clientele and reputation in the European market.

Be aware that establishing a local sales office will be very costly and you will need to have a strong financial position.

Direct sales (possibly through online market places)

You can also try to sell your software development services directly (even to European end users). Many European companies are looking for cost reduction and delivery capacity, which developing countries can often provide. This is one of your unique selling points.

The existence of electronic marketplaces may make direct sales easier. These marketplaces are a cheap marketing tool. They are expected to lead to lower transaction costs for searching, evaluating, integrating and

monitoring cloud services. Although they mainly contain smaller projects for freelancers, they could lead to pilot projects for companies. However, you would need excellent end market knowledge.

For most suppliers from developing countries, it is very challenging to sell software development services directly. Sometimes, software development service providers team up with other service providers to make an offer for direct sales to European customers. Having one or more customers in Europe will help you find a suitable European customer, as references are a must when you want to enter this market through direct sales.

The main characteristics of direct sales to end users are as follows:

- There must be a direct relationship between the service provider and the end customer.
- You must have a lot of exporting experience.

Direct sales to end users can be interesting if you:

- have experience in the European market;
- are a large company;
- want to target large European end users;
- focus on a small, underserved niche market.

Tips:

Look for potential leads in the field of software development on online outsourcing marketplaces. [UpWork](#) and [Freelancer](#) are interesting for freelancers or really small companies. The platform [LinkedIn](#) can be very useful for making initial contacts and for conducting market research.

Combine offline and online promotion channels to develop as many contacts as possible. This maximises your chances of finding suitable partners/customers. Use social media as a marketing tool to reach potential customers, especially professional platforms like LinkedIn.

Have a professional, high-quality company website. You can present full, accurate and up-to-date details of your product/service offering at low cost. Make it compatible with mobile devices such as smartphones and tablets, as these are increasingly popular in Europe. Also, invest in Search Engine Marketing and Search Engine Optimisation, so potential customers can find you online.

3. What competition do you face on the European software development services outsourcing market?

Which countries are you competing with?

The competitiveness of an outsourcing destination can be measured by various factors: financial attractiveness, people skills and availability, business environment and digital resonance. For software developing services, we have selected six countries that can be considered your strongest competition. It is important to note that, in general, European companies prefer to outsource services to providers within the same country (homesourcing). When they do outsource to companies abroad, they generally prefer nearshore locations, because of proximity, language, cultural similarities and the minimal time difference. For more information on nearshoring versus offshoring, please read [our Market Analysis study](#).

Eastern Europe: Poland, Ukraine and Russia

Eastern Europe is a region where you can hire high-quality software developers for a relatively low rate, without compromising the quality of the product. The region is well known for its density of software developers with an impressive 1.3 developers per 100 people. The rapid growth of the IT industry in the region has resulted in

about one million [software developers in Eastern Europe](#), making it a lucrative software development outsourcing destination. Ukraine, Russia and Poland are three examples of Eastern European countries that are considered to be your strongest competition.

Poland

Poland is the largest IT nation in Eastern Europe, with 255 thousand software developers. It is an example of a Member State of the European Union that still manages to offer good rates for software development. However, with rates between €36 and €50 per hour, it is one of the most expensive outsourcing destinations in the region.

Ukraine

Ukraine has many technical universities, good business conditions and a convenient time zone for European companies. This stimulates the [industry's prosperity](#). Ukraine is among the fastest-developing countries in the region. By the end of 2020, the Ukrainian tech market is expected to have [200 thousand](#) software specialists.

This makes Ukraine one of the biggest IT nations in Eastern Europe, second only to Poland. Outsourcing rates in Ukraine range between €23 and €39, which is considerably lower than in Poland, where you will be charged €36 – €50 per hour.

Russia

Software developers in Russia have advanced programming abilities, university degrees and the ability to speak Intermediate and Upper-Intermediate English. Because of these factors, the demand for Russian developers continues to increase.

Asia: China and India

Offshore development rates in Asia are lower than the average developer rates in Eastern Europe. If you are thinking about contracting a software development agency, outsourcing rates will reach about €16 for a junior software engineer and €23 for a senior developer. However, offshore development rates in large Asian tech hubs keep increasing and can reach €27 – €36 per hour.

China and India are the main Asian tech hubs with a [large number of software engineers](#) — there are nearly five million developers in each country. Other countries in Asia, such as Vietnam, Malaysia and Indonesia, are also gaining ground and offer similar software development services.

Low offshore software development rates in Asian countries often come at the cost of poorer [project quality](#). Adverse working conditions, cultural differences and differences in time zones have a negative cumulative effect on correspondence and result in decreased quality.

Africa: Egypt

Hiring a junior offshore software developer in Africa can cost you about €18 or less per hour. The comparatively high junior offshore developer rates are because of a small talent pool of software engineers in African countries. The hourly offshore developer rate of a senior software developer in Egypt, Morocco or Kenya fluctuates around €36 on average.

Tips:

Specialise in specific horizontal and or vertical markets, specialise in emerging technology or focus on developing innovative products or services.

Find [more information on the countries you are competing with](#), on the DAXX website.

Visit websites of national or regional IT outsourcing associations in general, or of software development associations in particular, to get a better understanding of supplying countries.

Examples are the [Central and Eastern European Outsourcing Association](#) and the Ghana Export Promotion Authority ([GEPA](#)).

Which companies are you competing with?

There are many software development services companies in the world. It is impossible to mention all relevant companies from all the most competitive source countries, because the software development market is so diverse. Examples of software development companies from the most competitive countries are:

[HQ Software Lab](#) – software development company based in the United States of America and Estonia. The company's core domains include IoT (Industrial, Healthcare, Automotive, Smart City and more), Augmented and Virtual Reality, E-learning, Finance and Banking. They work with PHP, Java, .Net, Python, Node.js, JavaScript, ReactJS, Angular, Knockout, Bootstrap, Vue, Backbone, iOS, Android, React Native, Apache Cordova, Ionic, Xamarin and Meteor. They specialise in IoT solutions development, AR/VR applications, custom software, web/mobile development, quality assurance, prototyping and maintenance.

[Eastern Peak](#) – Eastern Peak is a custom hardware and software development company that focuses on helping start-ups, mid-size businesses and large enterprises reach their full potential by building technology platforms, good-quality websites and intuitive mobile apps. They are based in Israel, but they also have offices in the United Kingdom, Cyprus and Ukraine.

They employ experienced software developers, designers and project managers along with top product experts. They claim to provide reliable software solutions to clients on time and on budget. Famous companies like DPD, Western Union, Gett and Fly rely on their custom development solutions.

[La'Quest](#) – this India-based company offers solutions for bridging the gap between old-fashioned technology systems and the latest technology trends. It aims to do so by updating existing business platforms using reliable business back-end support and helping traditional business systems transform to the digital world. Their website clearly states their vision, their offers, the technology they use and the possibility for student training.

Tips:

Regularly visit leading European trade fairs to meet competitors and potential customers. Do your homework and select the events very carefully. Only attend events that fit your profile well. Many trade events directories are available online, such as [10Times](#), [Expo Database](#) and [UK Exhibitions](#). Create a list of relevant events and update this list regularly.

Use the services of your national export promotion agency and actively participate in the creation of export strategies.

Search company databases to find more competing companies. These databases can be free, like [company.info](#), or paid, via chambers of commerce (for example, the [Kamer van Koophandel](#) in the Netherlands) or commercial databases like [Bold Data](#). Identify which databases will benefit your search and use them to create a list of potential customers to target.

Which products are you competing with?

In the software development services industry, the product is the service. This means that the real question here is: what makes one service provider different from another? The answer is: technical knowledge, available

capacity, references, domain knowledge, flexibility, scalability, reliability, communication and language capabilities, quality management, security infrastructure, vertical and/or horizontal market focus and niche market orientation, among other things. The location (country) of the service provider is also an important factor.

Tips:

Invest in country branding. Look at our [Doing Business](#) study for more information on this topic.

Find out how you can get a competitive advantage. Think about cost, quality, technology or product characteristics. Look at this website by [HackerRank](#), which presents its Developer Skills Report every year. You can find, among other things, the most popular programming languages, the most popular frameworks, the kind of frameworks hiring managers want versus the frameworks developers know (so you can see where there is more demand than supply) and much more.

4. What are the prices for software development services outsourcing?

When trying to make a sale in Europe, it is very important to offer the right price. The price for software development services is influenced by factors such as technology requirements, skill levels, complexity of the project, length of the contract and other requirements written in the Service Level Agreement (SLA).

For software development services, price is often not the most important selection criterion, but the price has to be right and competitive. When you make your prospect an offer, include the price. Be transparent about the number of hours you expect to work on the project and the hourly tariffs.

You must also choose a price model for your product or service. There are three popular working models: Fixed-Price Contract, Time and Material Approach and Dedicated Team. The Fixed-Price Contract is the most common price model for software development services. A Fixed-Priced Contract is an all-inclusive offer. Clients are billed based on pre-defined (in the SLA) milestones.

Table 1: Offshore software development costs by region

Region	Price range in €
Africa	18 – 36
Asia	16 – 36
Eastern Europe	23 – 45
Latin America	27 – 45

Source: DAXX

Price development

It is difficult to give an analysis of the price developments in the various software development segments.

However, it is clear that prices have been going up year over year. It is relatively easy to find the costs of software development services per country and quite often also per segment and/or end product. You can determine the average prices by looking at the country or region as well as people's position. Look at the average prices on the blogs of [Yalantis](#), [Cleveroad](#) or [Social Shorthand](#). The websites of [Qubit Labs](#) and [SourceSeek](#) can also be good sources, particularly on the topic of offshore software development prices.

You can also research the average salaries in your European target country via [Payscale](#) or [Glassdoor](#). The website of DAXX gives you an [overview of the price developments](#) in offshore software development in various countries around the world. You can also collect pricing information about your competitors. Market reports are available online to give you an idea of the pricing situation in your product/market combination.

In any case, if you can focus on a niche market, or a non-commodity market, European buyers are often less price-sensitive.

Tips:


Create the "ideal" client persona. This will help you tailor your offer. An example of a buyer persona: "a software development company with fewer than 200 staff in the Munich area, specialised in ERP development/customisation using Microsoft Dynamics AX".


Choose a type of [price model](#) for your outsourcing contract. For more information on pricing models in outsourcing, please read [this document](#). Go beyond setting the right price. You should work out your pricing strategy, including your and your clients' preferred pricing model, payment terms/expectations, how and when you provide discounts and so on.


This study has been carried out on behalf of CBI by Globally Cool.

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