

Which trends offer opportunities on the European outsourcing market?

Last updated:
02 March 2022

There are many promising trends in the European outsourcing market. Big Data, 5G and Artificial Intelligence have served as triggers and enablers for several other trends and innovations. The COVID-19 pandemic is also accelerating most existing trends, led by the digital transformation. The main opportunities can be found in big data, mobile and cloud application development, the (Industrial) Internet of Things, virtual and augmented reality, and machine learning, as well as in the mastering of technologies related to these trends. The skills shortage in Europe and increased demand for added value/specialised service providers also offer opportunities.

Contents of this page

1. [Digital transformation accelerated by COVID-19](#)
2. [IT skills shortage drives outsourcing](#)
3. [Demand for artificial intelligence and machine services outsourcing accelerated by COVID-19](#)
4. [Big data revolution](#)
5. [Digital Resonance influences location attractiveness](#)
6. [Cybersecurity and privacy are growing in relevance](#)
7. [Booming demand for mobile application development](#)
8. [\(Industrial\) Internet of Things on the rise](#)
9. [Virtual and Augmented Reality widely available and increasingly used](#)
10. [Value over price](#)
11. [Increasing interest in impact sourcing offers opportunities](#)
12. [Geopolitical instability influences the selection of service providers](#)

1. Digital transformation accelerated by COVID-19

Digital transformation (also known as DT or DX) is the use of technology to solve problems. Non-digital or manual processes are digitalised, and existing digital processes are improved. The techniques used for these processes are constantly changing to keep up with the new needs of users and new technological possibilities.

The European market has been slower in adopting digital transformation than some other parts of the world. It had become a priority for many European companies and the European governments before 2020, but when the COVID-19 pandemic hit, the transformation was accelerated.

According to data from the first months of the pandemic, [digital adoption made 5 years' worth of progress in just 8 weeks](#) during the crisis. European companies had to face the challenges of staff working from home. They had to deal with processes they wished they had automated before most of their employees had to work from home. These circumstances gave many European companies the final push to be more open towards digitalisation and automation of their work processes, lowering the threshold for outsourcing in the future.

In the European healthcare sector, more than 26% of the organisations said they [increased their adoption of digital technologies](#) to a great extent in response to the COVID-19 pandemic. Another 38% said 'to some extent'. Portugal, the United Kingdom and Norway reported the biggest change in digital transformation. Germany reported the smallest change (9.5% 'to a great extent' and almost 30% 'to some extent').

This means that there will be an increase in demand for IT solutions. If you combine this with the increasing skills shortage in Europe (see also the next trend: IT skills shortage drives outsourcing) and the lowered threshold for outsourcing in general, it is very likely that the demand for ITO and BPO from European companies will grow significantly in the upcoming years.

Tips:

For more information on how the pandemic may increase digital transformation, see for example McKinsey's article on how [the COVID-19 recovery will be digital](#) and UNIDO's [COVID-19 implications and responses –digital transformation and industrial recovery](#).

For more information on the effects of the COVID-19 pandemic and other developments, see our Market Insights and Outlook studies about the [demand for IT Outsourcing](#), and the [demand for Business Process Outsourcing](#).

2. IT skills shortage drives outsourcing

There is a considerable shortage of Information Technology (IT) skills on the European market. In 2014, the European Commission predicted a shortage of 900,000 IT professionals for 2020. In 2017, they adjusted this prediction to a [shortage of 500,000](#). Although it may be smaller than initially estimated, the shortage is real: [more than half of European companies that recruited or tried to recruit ICT specialists had difficulties in filling these vacancies](#). This percentage increased year over year for the 5 years leading up to 2018 and is expected to continue to increase. The COVID-19 pandemic has only increased the demand for IT specialists.

This trend is also visible in the European job advertisements. [In the first quarter of 2021, jobs for tech positions accounted for around 13% of all hiring advertisements in Europe. This is a 2% increase compared to 2020.](#)

This offers interesting opportunities for you, as an IT outsourcing provider. As it drives the demand for IT outsourcing from Europe. However, these skill shortages are also found in emerging and traditional outsourcing destinations. This means that companies have difficulty providing the expected skills and capacity.

*of enterprises that recruited or tried to recruit ICT specialists

Source: Eurostat

Not only is new IT staff scarce, but the ever-developing IT landscape also requires different IT skills. [European IT buyers are looking for talent with both hard and soft skills](#). Skill shortage in the European IT sector is due to the increase in IT jobs, the decrease of the number of IT graduates and quick IT developments that caused a [mismatch between available skills and required skills](#).

You might be dealing with an IT skills shortage in your own country as well. You can counter this by training new or existing staff, by innovating and developing your own product in one of the trend areas and/or trying to find a niche, specialised market segment to offer your skills and experience with less pressure to provide ever-increasing capacity. It is also very important to keep your current staff happy, by offering a positive working environment.

Skill shortage is found through all parts of the IT sector but there is a particular shortage of IT architects, programmers and professionals in big data, mobile computing, and cloud computing.

Tips:

Closely follow IT developments and build capacity in relevant technologies. For medium- and long-term technology trends, check Gartner's 2021 edition of their [emerging technology hype cycle](#).

Make sure your employees' skills match the current needs of the European market, for example by offering them courses and workshops.

Emphasise the professional skills of your employees in your marketing. Combine this with other advantages of outsourcing to you, such as the availability of your people to scale operations, geographical location and/or references.

Check the largest job sites in your target country, to judge the demand level of specific skills.

3. Demand for artificial intelligence and machine services outsourcing accelerated by COVID-19

Related to digital transformation and automation is the trend of increasing artificial intelligence (AI) and machine learning (ML) adoption. AI is the concept of machines being able to carry out tasks in a way that we would consider smart, intelligent, and autonomous. ML is an application of artificial intelligence, based on the idea that we should give machines access to data and let them learn for themselves. The outcomes will then improve through experience. Machine learning is just one way we aim to achieve artificial intelligence.

AI-based software mimics human behaviour, allowing it to adapt to different situations rather than following a single repetitive motion. Machine learning is a branch of AI in which machines are given access to data and learn to use it themselves. These 'smart' machines can improve their performance and accuracy through experience.

AI technology can offer tremendous benefits in terms of efficiency, accuracy, convenience, and so on. Because of this, AI is expected to become a staple of all business software. Its use is becoming increasingly common in various sectors such as healthcare, banking and education. For example, [the market for conversational AI \(chatbots\) is projected to surge from €35 million in 2018 to €384 million in 2027](#).

With the great potential of AI also comes a concern for the potential bias in these types of systems. Issues such as incomplete data sets and limitations of the machine learning technology itself could lead to biased outcomes of AI-based processes. To prevent this, humans should stay involved in key decision-making processes. Another area where human involvement is needed is creativity. This also applies to software development, where human creativity and interpretation are required for complex tasks.

European companies and governmental organisations increasingly understand that (custom) machine learning and artificial intelligence solutions give their company a competitive edge. However, they usually do not have in-house development skills, as this requires specific knowledge, expertise, and tools. This often leads them to outsource the development of their machine learning and artificial intelligence.

According to the European Commission, [the main barriers that European enterprises face when adopting AI are difficulties in hiring skilled staff \(57%\) and the cost of adopting AI technology \(52%\)](#). These are areas in which outsourcing can offer a good solution.

The global AI market is expected to be [worth more than €430 billion](#) by 2024. China and the USA are the leading countries in AI patents. However, as a region, Western Europe is also quite strong. European leaders have recognised the importance of not lagging behind on AI and are raising their ambitions. The European Commission has made [AI a top priority for the next 5 years](#). Actions include rolling out devoted national and EU-level AI strategy documents, boosting research and innovation and exploring new regulatory approaches for managing the development and use of AI.

The appearance of COVID-19 enhanced the importance of AI and machine learning even more. Across industries and geographies, AI and ML have [enabled leaders to more effectively handle](#) the challenges presented by these unprecedented times, from supporting and protecting workers to engaging increasingly digital customers and managing fragile supply chains. An example of a recent scientific breakthrough achieved using AI in healthcare is [protein folding](#).

However, the COVID-19 pandemic also brought some problems to the surface. Machine learning relies on the principle that patterns and behaviours from the past will likely repeat in the future. However, recent data inputs show significant changes in human behaviour. Examples are physical distancing in daily life, less travel, and altered spending habits. For models built before the pandemic (ones that relied on historical data), new input might severely reduce predictive capabilities. And new and lasting patterns, such as higher consumer spending on digital channels, will likely emerge, which will also invalidate or reduce the predictive power of pre-COVID-19 data.

Tips:

For more information on [the state of AI in 2021](#), please read the report by Nathan Benaich and Ian Hogarth.

Attend specialised (online) AI events in Europe, such as [CogX](#) in London. CogX also provides [on-demand recordings](#).

For more information on this topic, see our study on [machine learning and AI](#).

4. Big data revolution

The amount of data produced in Europe every day is continuously growing. This data can be linked and analysed to create new knowledge and innovative solutions for the economy and society. An increasing number of European companies and governments are aware of the benefits that big data solutions can offer them.

To maximise the benefits of big data, data should be properly collected, structured, stored, analysed, and visualised. Big data has the potential to provide companies with real business opportunities, for example in business intelligence, sales/marketing insights and brand reputation management. However, doing this effectively takes time and resources. Outsourcing this work – or parts of it – allows companies to stay focused on their core business while receiving new insights.

The shortage of big data scientists pushes European companies towards outsourcing their big data projects. The combination of increased demand with a shortage in supply of big data professionals means there are opportunities for service providers offering big data-related services.

Hyper-scale cloud services that provide massive storage, analysis tools and algorithms have particularly fuelled the big data development. Examples include [Amazon \(AWS\)](#) and [Microsoft Azure](#).

In 2020, the [global big data market was valued at €113 billion](#), and it is expected to reach a size of €203 billion by 2026, growing at a Compound Annual Growth Rate (CAGR) of more than 10%. [The USA is the biggest market for Big Data solutions, followed by China and Europe](#). Within Europe, Germany is a noteworthy market with a forecasted CAGR of 13.4% from 2020 to 2027.

Globally, approximately [90% of the currently generated data is unstructured](#). This unstructured data has enormous potential for European companies, highlighting the need for analytical tools operated by skilled personnel to extract valuable insights. Nevertheless, it must be remembered that privacy and security will remain important issues.

Although European companies prefer to perform the analysis of their data in-house, data collection services and tools, both cloud-based and otherwise, offer opportunities. Not only are data collection services and tools in high demand but data collection procedures are also relatively standardised and do not require extensive analytical skills. This makes it a relatively easy service for you to offer.

Data volumes will likely continue to increase as a growing number of people and consumers use the internet and online services/devices. Further enhancement of machine learning technologies will also increase the potential of big data. As such, the future appears promising for services and tools that can collect, process, and analyse data.

Tips:

See our study on [the market for Big Data solutions and services](#) to read more about the opportunities and requirements in the market.

Take note that the demand for big data is not limited to large or small enterprises but is applicable for organisations of all shapes and sizes.

Stay up to date with the latest developments in Big Data in Europe through industry associations such as the European [Big Data Value Association](#).

Look at [Offshore India Data Entry](#) for an example of a company in India that processes data on behalf of companies across the globe, including the United Kingdom. And [ZenTech](#), a company that offers (among other things) big data solutions from their office in Ghana.

5. Digital Resonance influences location attractiveness

Your level of digital resonance has become an important decision factor for companies that are looking for an IT outsourcing provider. Digital resonance looks at how companies handle the effects of digital transformation. They particularly look at how you handle automation and cybersecurity.

The digital resonance level of your company is so important because European companies are increasingly relying on outsourcing and automation. This makes the systems more vulnerable. Many companies outsource vital functions or share sensitive information with their service providers. Yet, they do not understand the process enough to understand the risks.

The global management consulting firm [Kearney](#) also recognises the importance of digital resonance. In their biannual [Global Service Location Index \(GSLI\)](#), they added Digital Resonance as one of the factors to measure the competitiveness of an outsourcing destination. The 4 factors are: how financially attractive your destination is, its people skills and availability, the business environment and digital resonance.

Digital resonance is defined by a combination of:

- digital skills of a country's workforce
- legal and cybersecurity
- corporate investment in start-ups
- digital innovation outputs

Tips:

Check out how your country scores on the [GSLI](#) and see where you might need some improvement.

Improve your digital resonance. Make sure your employees have the skills to manage automation and cybersecurity. Also, invest in solid data security and privacy (see trend below).

6. Cybersecurity and privacy are growing in relevance

With Europe's digital transformation and the accompanying move into the cloud, cybersecurity has become a main priority. With cybercrime on the rise, cybersecurity needs to be proactive – preventing breaches and attacks rather than reacting to them.

The European [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 and to simplify the regulatory environment for international business. Since then, it has also been incorporated into the European Economic Area ([EEA-Agreement](#)) so 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 this regulation protects are name, email address, bank details, social media content, photo or IP address.

Tips:

Make sure you comply with the GDPR if you process data of European citizens (or sensitive information of any kind).

Study the GDPR's [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.

See our study about [buyer requirements on the European outsourcing market](#) for more information on the GDPR (as well as additional European legislation) and other requirements in the sector.

Take a look at [Piper's Global Privacy and Data Protection Resource](#) to see how certain individual countries in Europe are applying additional privacy regulations.

The United Kingdom has left the European Union, the most recent developments regarding GDPR in the United Kingdom can be found on the website of [IT Governance](#).

Stay up to date on trends in cybercrime and software security risks.

For more information, see our study on [cybersecurity](#).

For more information on [cyber security and privacy for software development services](#), also read or study on this subject.

7. Booming demand for mobile application development

Smartphones are a common good in Europe. Among the top 10 countries with the [highest smartphone penetration in 2021](#), 6 countries are European; the UK, Germany, France, Italy, Spain, and Sweden (each more than 72%). Bulgaria and Greece (63 and 62% respectively) have the lowest smartphone penetration in Europe.

The European demand for mobile applications has reached its peak growth, but it is still growing and large. COVID-19 has not really changed the overall demand for mobile applications. However, some industries currently invest more in mobile application development than others. For example, the healthcare industry and European governments invest highly in mobile application development. Mobile application development for the travel and event industry have been less in demand in 2020 and 2021.

Most growth can be found in the gaming sector, [specifically in the wearable app segment](#). There are so many generic applications available that it becomes difficult to generate substantial revenue. Your most promising strategy would therefore be to develop tailor-made mobile applications, focusing on niche market segments or company and industry-specific solutions, like healthcare. Combining mobile applications with AI and ML can also offer good opportunities.

The enterprise market can be interesting because enterprise apps generate greater revenue than consumer apps. Also, most developers target the consumer market, making the enterprise market less competitive. Mobile applications that allow companies to simplify work processes, facilitate remote working, and/or increase efficiency are the most promising. The applications have to be available anytime, anywhere and on any device and [they have to be very secure](#).

Outsourcing mobile application development is very common for most European companies. The main reasons for that are the lack of well-educated, experienced personnel, lower costs and the ability to focus on core competencies instead. This gives you interesting opportunities. As a provider from a developing country with competitive salaries, you can provide such services at a lower cost than local or nearshore service providers in Europe.

Tips:

Distinguish yourself from competitors. Competition in this market is fierce as there are many providers offering similar services. Offer technology expertise combined with specialised domain knowledge.

Compare yourself with international and local mobile app competitors on [Appfutura](#).

See our study about [mobile application services](#) for more information.

8. (Industrial) Internet of Things on the rise

The Internet of Things is on the rise, both with consumers (often referred to as IoT) and businesses (also called

Industrial Internet of Things, or IIoT). IoT and IIoT refer to objects being connected and interconnected to the internet. These 'things' are embedded with electronics, sensors, software, actuators and network connectivity. This allows them to collect, send and receive data, making these devices 'smart'. By collecting and analysing data from a wide range of sensors, broader applications like smart buildings become possible.

The technology behind IoT is advancing rapidly, becoming faster, cheaper, and more efficient. For example, smartwatches have evolved considerably since their debut. Their processors now have more than double the capacity, while using a fraction of the power. Technological developments are expected to drive demand for IoT devices in the coming years.

Consumer areas of the IoT include examples from travel, everyday life and healthcare. Specific examples of IoT in consumer travel are smart parking and personalised travel experience. Examples from IoT in everyday life are security and surveillance (home automation) systems and services and smart clothes.

Examples of IIoT include smart farming (like soil preparation and livestock monitoring) and smart travel (like fleet management and payment and ticketing solutions).

As the IoT market is booming, before the pandemic, [the European IoT market was projected to increase from €144 million in 2019 to more than €200 million in 2022](#). For 2021-2024, [double-digit growth in IoT spending](#) has been predicted, boosted by the COVID-19 pandemic. [The pandemic had vastly different impacts on the different IoT segments](#). For example, spending on IoT hardware grew only 5.4% in 2020, whereas IoT cloud/infrastructure services grew by almost 35%.

Vodafone research showed that [84% of companies that had begun adopting IoT technologies found they had a positive impact on their ability to function during the pandemic](#), and more businesses are turning to IoT to help them grow and adapt in the face of unforeseen events.

[Consumer devices account for 63% of all IoT devices](#), with industrial devices accounting for the rest. This ratio is expected to remain the same in the coming years. This makes consumer IoT an interesting market for you. IoT also offers good opportunities, as the spending is much higher. Although consumer devices comprise almost two-thirds of all connected devices, they only make up 19% of Europe's IoT expenditure.

In the coming years, consumers are expected to purchase increasingly more expensive connected things. Therefore, the gap between the use of IoT by consumers and the industry will get smaller. Nevertheless, industries will remain the greater spenders, also because industrial IoT solutions are generally larger and more complex than consumer IoT solutions, which makes them more expensive.

An expected 60% of the connected (IoT) devices will be cross-industry devices and 40% will be vertical-specific devices. Cross-industry devices are devices that are used in multiple industries. They are mainly used to save costs. An example of a cross-industry device is a building management system. Vertical-specific devices are used in specific industries, such as healthcare and manufacturing, to improve efficiency and accuracy.

Within the IoT, cross-technological products are a trend in a trend. An example of a [cross-technology product is robotics](#). Robotics and IoT are considered two separate fields, but their technologies are intertwined and grow simultaneously. It is expected that the Internet of Robotic Things (IoRT) will be a growing value-added niche combining the 2. IoRT involves the combination of sensor data from a range of sources, processes and using it to control and manipulate objects in the physical world.

Tips:

[Eacomm Corporation](#) from the Philippines is an example of a company that has successfully built up an international customer base in IoT related services.

Visit specialised IoT/IIoT/loRT events in Europe to update your knowledge, observe the trends, find new, inspiring ideas, and talk with potential customers. Also keep an eye on the many start-up competitions, fairs, and events.

Take a look at our [study about the \(I\)IoT market](#), to learn more about this market.

9. Virtual and Augmented Reality widely available and increasingly used

Virtual Reality (VR) technology uses software to replicate a real or imaginary environment. It allows a user to interact with this environment by simulating their physical presence. Augmented Reality (AR) technology overlays computer-generated information onto a live view of a real environment. It enhances the view and allows the user to manipulate the information. Both VR and AR technologies are popular amongst consumers and businesses, in applications ranging from games to healthcare simulations.

The VR market is expected to be worth around [€73 billion by 2028](#), coming from only €4 billion in 2020. This is a compound annual growth rate (CAGR) of almost 45%. The main drivers behind this growth are 5G adoption and the availability of VR devices and other immersive technologies. The growth is further enhanced by the COVID-19 pandemic.

Technological developments that have led to widespread access to VR and AR include the availability of smaller (less bulky) hardware, less expensive hardware, highly developed graphics, and VR sensors in mobile devices. The access to reliable 5G networks will help the further development of VR and AR as they require large amounts of data processing which will be supported by 5G networks.

Applications of VR and AR can be found in gaming and entertainment, healthcare simulations, tourism destination marketing and virtual tours, educational tools, architectural design, and engineering support functions. European companies that use VR and AR technology usually do not have the necessary expertise to develop their own system and contents. This offers you interesting opportunities. Examples of European companies that use VR and AR applications are [LEGO](#), [IKEA](#) and [ZARA](#).

Opportunities can be found in the replacement of or added value to many parts of existing interfaces, such as shopping, education, real estate, and forms of live entertainment.

Tips:

Be curious and proactive in seeking out (or developing) innovative technology.

Look into offering content creation of visual effects. This is a promising service offering for outsourcing providers.

Take a look at the company [Bizarreality](#) from South Africa which offers VR and AR applications to international clients such as [Burger King](#) and [Adidas](#).

See our study about [virtual reality and augmented reality](#) for more information on this topic.

10. Value over price

Even though cost saving is still an important selection criterion when making the decision to outsource, when it comes to making the decision on who to outsource to, value is more important than price. Especially second-generation outsourcers are looking for added value to further develop their relationship with service providers. Second-generation outsourcing occurs when an outsourcing contract comes to an end and the buyer changes to a different service provider.

According to research conducted by the [Global Sourcing Association](#) (GSA), almost 90% of their members believe that both buyers and providers will be signing outsourcing contracts focused on outcomes and value, from 2020 onwards.

Experienced buyers have become more demanding with their requirements. Their required standards in terms of quality, communication, technical expertise, experience, domain knowledge and certification are generally higher than those of companies that are new to outsourcing.

Ideally, IT service providers should provide the necessary skills, capacity, and specialised domain knowledge. Thereby you have a better position if you also focus on value-added in a niche, specialised market segment. This also has additional advantages, such as easier profiling of potential customers, targeting and finding potential clients, more focused marketing, sales and promotion activities, less competition to worry about, higher and more stable prices and loyal customers.

Tips:

Present yourself as a professional company. Have good references, obtain relevant industry certification, respond quickly, communicate regularly, offer constant quality, comply with contractual agreements, and have a good and stable management team to lead the outsourcing project.

Often potential buyers are asking service providers to provide examples of the documents like a sample contract, [Service Level Agreement](#) (SLA) and [General Terms and Conditions](#) (GTaC) throughout the tendering or contracting phase). As the European outsourcing market reaches maturity, offering added value and being a professional partner will only increase in importance. Read more about this topic in our study about [organising your IT and IT-enabled services exports to Europe](#).

Focus on a vertical or horizontal market to become more of a specialised outsourcing provider.

11. Increasing interest in impact sourcing offers opportunities

Impact sourcing is a new business model. A sourcing model that aims to improve people's lives, families, and communities through meaningful employment in Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO). For buyers, it means prioritising suppliers who provide learning and career development opportunities to those who otherwise had limited prospects for long-term sustainable employment.

It goes beyond the idea of cheap labour. It is about making a [positive impact and investing in people](#). Impact sourcing is often a catalyst for continuous job creation and benefits the whole community. It also goes beyond the philanthropy of the buyers. Impact sourcing has proven benefits to them. Buyers can tap into a pool of high-potential people in a market that is dealing with significant skills shortages.

The benefits of impact sourcing include:

- low costs

- proven, reliable service delivery
- a large and untapped talent pool
- a stable and engaged workforce
- social impact

Outsourcing to companies in developing countries (like you) already offers European buyers most of these advantages. However, to qualify as an impact sourcing provider, you need to show buyers that you are actively hiring and training people who generally have limited employment opportunities.

As of 1 January 2021, the government of the United Kingdom attributes [10% of the points in its Requests for Proposals to social value](#). Similar arrangements are seen across Europe, in both governments and [companies](#) (including SMEs). It is expected that other countries and companies will follow. It can be a vital part of any company's corporate social responsibility policy. And it is therefore increasingly important as a [buyer requirement](#).

Of course, European companies can also qualify as impact sourcing providers. This could mean more competition and a less straining skills shortage on the market. Nevertheless, the trend towards impact sourcing offers good opportunities for BPO and ITO providers in developing countries.

Tips:

Start an impact sourcing pilot project to see how it can benefit your business and the community.

Ask business support organisations in your region how to realise such a pilot project. Examples are [Harambee](#) in South Africa, [Sama](#) in India, Pakistan, Kenya, South Africa and Uganda, [Alorica](#) in Latin America and the Caribbean, and the [Mandela Legacy Foundation](#) in South Africa.

12. Geopolitical instability influences the selection of service providers

European companies consider the risks of doing business in a particular country when selecting their service providers. Incidents relating to geopolitical instability make country risk an increasingly deciding factor in the services outsourcing market. Examples of such incidents include the Arab Spring, Sri Lankan terrorist attacks and international trade disputes. Another example is how your country handled the COVID-19 pandemic.

In 2019, [Gartner](#) predicted (in research done before the pandemic) that by 2023, 65% of large enterprises using offshore or nearshore services, will have adopted a multicountry sourcing strategy, because they want to minimise the risks of geopolitical instability issues.

Offshore investors have various areas of concern regarding potential geopolitical instability, such as project management, strategic planning, financial consequences, and the presence in the unstable market. Each of them has a negative impact on the local services outsourcing market.

Project management concerns include project delivery and workforce productivity, talent shortage and brain drain, staff turnover, data loss and security. Strategic planning concerns include preventative contract clauses, intellectual property protection risks and awareness (of the outsourcing provider) of political risks. Financial concerns include increased and hidden costs, unexpected transition costs, cancelled projects and loss of investment.

Regarding their presence in your potentially unstable market, offshore investors are concerned about foreign seizure and policy risk, and the loss of communication (for example if there is no internet available anymore).

Although geopolitical stability is generally out of your control, you can protect your business from potential negative effects. To (re)assure your existing and potential clients that you can provide continuity, you need to have contingency plans and transition strategies in place.

Include, for example:

- back-up and recovery schemes.
- network and infrastructure security.
- certifying for ISO 27001. It is a framework for managing IT security. It is relevant for all IT outsourcing service providers. The certification demonstrates that you have identified the risks, assessed the implications and have systemised controls to limit any damage to the outsourced work.
- communication plans.
- relocation options.

When you are already facing geopolitical instability in your location, emphasize to your buyers and potential buyers that they are doing business with a company (you) and not a country. Another positive way to sell your company is that outsourcing partners should be selected based on Return On Investment (ROI) and that you will be able to (continue to) provide attractive ROI for many companies.

Tips:

Identify possible geopolitical risks in your area. Look at the list of concerns offshore investors might have in your product-market combination and focus on minimising these risks by having the right contingency plans in place.

Develop contingency plans to minimise the effect of any possible incidents on your business and clearly communicate these plans to both your existing and potential clients.

Country selection is important! Have a good, convincing answer to the question 'Why should buyers consider your country and not another one?'

Read our document on [how to respond to COVID-19 in the IT and business process outsourcing sector](#). It gives you advice on how to be able to continue to deliver your contracts if you are faced with another lockdown in your area. You will also learn how to write a crisis plan that can convince a (potential) buyer you are able to overcome unstable circumstances in your area.

This study was carried out on behalf of CBI by [Globally Cool](#) in collaboration with Laszlo Klucs.

Please review our [market information disclaimer](#).

Follow us for the latest updates

(opens in a new tab)  Twitter

(opens in a new tab)  Facebook

(opens in a new tab)  LinkedIn



RSS