



What competition do you face on the European Outsourcing market?

The overall competitiveness on the European outsourcing market is moderate to strong. Existing service providers are expanding their range of services and new providers are entering the market. European buyers hold strong positions, as they can choose from a wide range of service providers. To compete, offer competitive prices and high quality (specialised) services. You must prove to buyers that you are a professional company, prepared to invest in long-term relationships.

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1 . For successful market entry you should be professional and specialised

Professionalism and trust are the key requirements for new entrants

Opportunities on the European outsourcing market are most promising if you:

- can prove you are a professional company
- are prepared to invest in building up a long-term relationship

The threat of new entrants is moderate to strong. As there are relatively few regulatory barriers —except for key legislation such as the new [General Data Protection Regulation](#) —, almost any company can start up. In addition, the emergence of online channels such as outsourcing market places and social media make it easier to come into contact with European buyers.

However, it is not easy to succeed on the European outsourcing market. This is due to for instance:

- distance
- language
- cultural differences
- lack of trust

Furthermore, European companies demand:

- high quality products and services
- clear communication and compliance
- professional, reliable partners

Many providers in new emerging outsourcing destinations are not ready yet for this level of

professionalism. This somewhat reduces the threat of new entrants, especially from developing countries.

Tips:

- Show that you are a professional company by: offering constant quality, obtaining relevant industry certification, communicating professionally, responding quickly and complying with contractual agreements.
- Gain the trust of European buyers by: proving your competence with good references, offering a pilot project to potential customers and joining relevant national and international industry associations.

Shorter contracts and specialisation create opportunities

Opportunities in the European outsourcing market are improving, now that:

- contract terms are becoming shorter
- European companies are increasingly working with several specialised service providers

Long-term contracts used to be quite common in the European outsourcing market. This made it costly and difficult to switch suppliers. As a result, many European companies focused on improving the relationship with and the performance of their existing service providers. However, outsourcing contracts are becoming shorter, making it easier to switch providers. This offers opportunities, if you can offer a competitive price and quality products/services.

Furthermore, an increasing number of European companies are adopting a multi-vendor model. This means they work with several service providers. They select the best vendors for specific services, instead of having one single provider who delivers all services. This increases opportunities for new entrants, especially if you are specialised in a specific area.

Tips:

- Become a preferred supplier to reduce the risk of being replaced by new entrants. You can do so by meeting the expectations of your customers in for instance: reliability, quality, cost savings, flexibility, innovation, technology and Corporate Social Responsibility.
- Specialise in a specific niche, horizontal and/or vertical market or emerging technology.

For more information, see our study about [buyer requirements in the European outsourcing market](#) and [ITC's Market Access Map](#).

2 . Automation is the main substitute for outsourcing

International substitutes are difficult to tackle

On an international level, entire destinations compete to become an established outsourcing destination. European companies choose a specific destination based on a mix of factors, such as:

- price
- talent pool
- language skills

- economic and political stability
- cultural and geographical proximity

For example: if salaries in a country are rising or the political situation is escalating, European buyers may switch to a cheaper or more stable destination. This is out of the control of individual service providers.

Tips:

- Research, compare and learn from competing outsourcing destinations in terms of product/service offer, price and quality.
- Check the [Tholons Services Globalization Index](#) and A.T. Kearney's [Global Services Location Index](#) for an overview of the top outsourcing destinations.
- Join forces with local companies, industry associations and other stakeholders to improve the quality and attractiveness of your country's outsourcing sector.
- Request governmental and/or institutional support to promote your outsourcing sector and increase awareness of your destination.

Substitution by automation, in-house departments, captive centres or back sourcing

The threat of substitutes on the European outsourcing market is moderate. Automation is the main substitute for outsourcing services, particularly for Business Processes. An increasing number of Business Processes are being automated to save costs. In the contact centre sector for example, computers increasingly handle calls.

The search for automation is expected to grow, meaning the threat of automation will increase. Opportunities are there if you can combine your services with some level of automation.

Other substitutes for service providers are:

- in-house departments (for example in-house Information Technology departments)
- captive centres
- back sourcing (moving outsourced services back home, often driven by automation).

Tips:

- Focus on services that are difficult to automate, or offer services/solutions that already contain some level of automation.
- Lower the threat of substitution by offering constant, high quality products/services, compliance and reliability.

Substitution by new service delivery models

New service delivery models can substitute traditional products/services. This means the use of a different technology, but not replacing the service itself.

For example:

- new technologies such as cloud applications can replace traditional licensed software
- web-based services can replace traditional Business Processes

New service delivery models offer opportunities for service providers, as they enable service delivery from a distance.

Tip:

- Follow developments in new technologies and service delivery models. Build capabilities in these areas to avoid being replaced by providers with newer technologies.

3 . Buyers are in control

The outsourcing market is a buyer's market, driven by demand. Buyers set the conditions, as they can choose from a wide range of service providers worldwide offering similar products/services. Furthermore, more countries are promoting outsourcing. This gives buyers even more options in outsourcing destinations and providers.

At the same time, as long as the costs and risks of switching providers are high this somewhat reduces the power of buyers who are already engaged with service providers.

Tips:

- Work together with other local companies to strengthen your bargaining position.
- Be flexible: adapt your products/services to the requirements and preferences of European buyers.
- Make sure European buyers are able to find you, by: having a professional, high quality, well maintained website, investing in online promotion such as Search Engine Optimisation, making sure you are listed in outsourcing and industry directories, making sure you are known with your countries' embassies and attending relevant industry trade events in your European target market(s)
- Invest in building long-term relationships with buyers to limit the risk that they switch suppliers.
- Target local and regional markets to increase business opportunities and decrease dependency on European buyers.

4 . Who are your rivals?

Specialisation lowers the degree of rivalry

The degree of rivalry on the European outsourcing market is moderate to strong. Not only are existing service providers expanding their range of services, new service providers are also entering the market. This means you face strong competition.

The degree of rivalry depends on the market segment and the European target market. Rivalry is especially strong for standardised (commodity) products/services. You can distinguish yourself from competitors and increase your opportunities by:

- specialising in a very specific market, for example embedded software for medical equipment
- offering a high degree of innovation

This makes it difficult for buyers to find another supplier with your specific expertise or degree of innovation. It is not easy for competitors to reach your level.

Tips:

- Specialise in a specific horizontal and/or vertical market or emerging technology or focus on developing innovative products/services.
- Emphasise your specific expertise in your marketing. This is especially important if you cannot provide economies of scale.
- Focus on languages, as similar language skills can increase your chances.
- Invest in continuous promotion. For example, repeatedly attend relevant industry events in your European target market(s), preferably with the same staff.

Strong competition from nearshore providers

You especially have to cope with strong competition from Eastern European service providers. These providers have the advantage of:

- being located close to the European market
- having similar cultures and work ethics
- having access to a skilled workforce
- having various European language capabilities

There is also a [shortage of available IT professionals in Central and Eastern European countries](#) such as Poland and the Czech Republic. This could give you a competitive advantage.

Tips:

- Establish a partnership with nearshore service providers, as Eastern European companies are looking for cheaper destinations and access to professionals
- Research, compare and learn from nearshore service providers. Where are they from? What are their strengths and weaknesses? What is their added value? Which trade channels do they use? Which marketing tools do they use?
- Think of ways to differentiate yourself from nearshore competitors and emphasise this in your marketing. Do not only focus on price difference, but also analyse what other advantages you can offer.

For more information, see our study about [market channels and segments in the European outsourcing market](#).

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