



[Through what channels can you get your outsourcing services onto the European market?](#)

Specialising in horizontal/vertical markets offers opportunities on the European outsourcing market. Subcontracting for European service providers is your most realistic market entry channel, especially if you are new in the market. It gives you access to local market knowledge and existing networks, without requiring high investments. However, finding a suitable partner and building a long-term relationship takes time. Intermediaries can help you find a partner.

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1 . Which market segments to target?

Business Process Outsourcing and Information Technology Outsourcing

The outsourcing market can roughly be divided into:

- Business Process Outsourcing (BPO)
- Information Technology Outsourcing (ITO)

Business Process Outsourcing

Business Process Outsourcing refers to companies contracting business processes that are not their core activities to external service providers.

This type of outsourcing includes:

- back-office processes - internal business functions related to running the company
- front-office processes - activities involving contact with customers

Information Technology Outsourcing

Information technology outsourcing covers the development and maintenance of application software that enables a business process. In business process outsourcing, the outsourcer performs the business activity itself, for instance, handling parts of the financial administration of a company.

Opportunities for specialists in horizontal or vertical markets

Within these categories, the market can be segmented in several ways. For example, by:

- horizontal market (type of service)
- vertical market (type of industry)
- technology
- company size
- geography
- openness to outsourcing

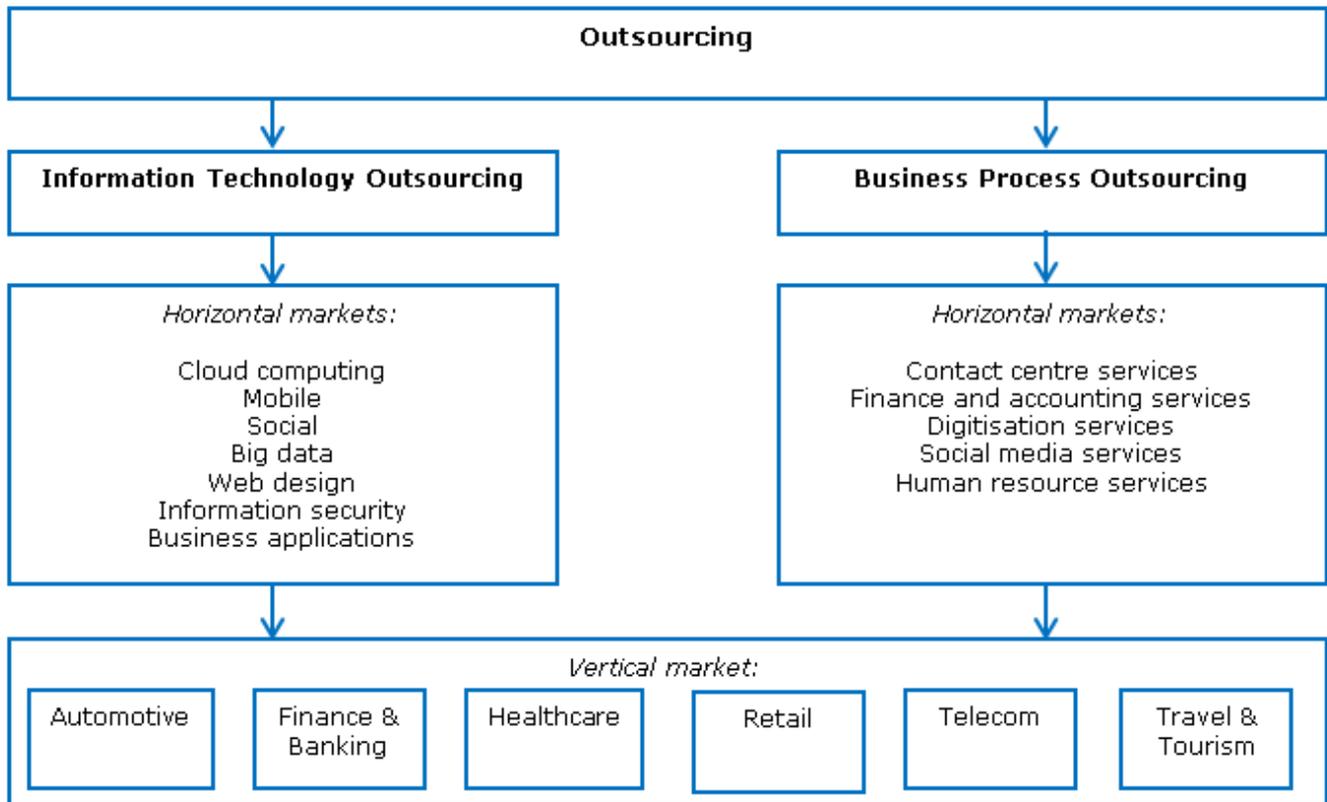
There are two types of service providers:

- generalists - service providers with no preferred horizontal or vertical market segments
- specialists - providers that specialise in a specific horizontal or vertical market segment

European companies increasingly look for service providers with expertise in a specific area. This makes horizontal and/or vertical market segmentation the most interesting.

According to industry experts, the horizontal and vertical outsourcing markets in Figure 1 are most promising for service providers in developing countries. However, this does not mean you have no opportunities in other markets.

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



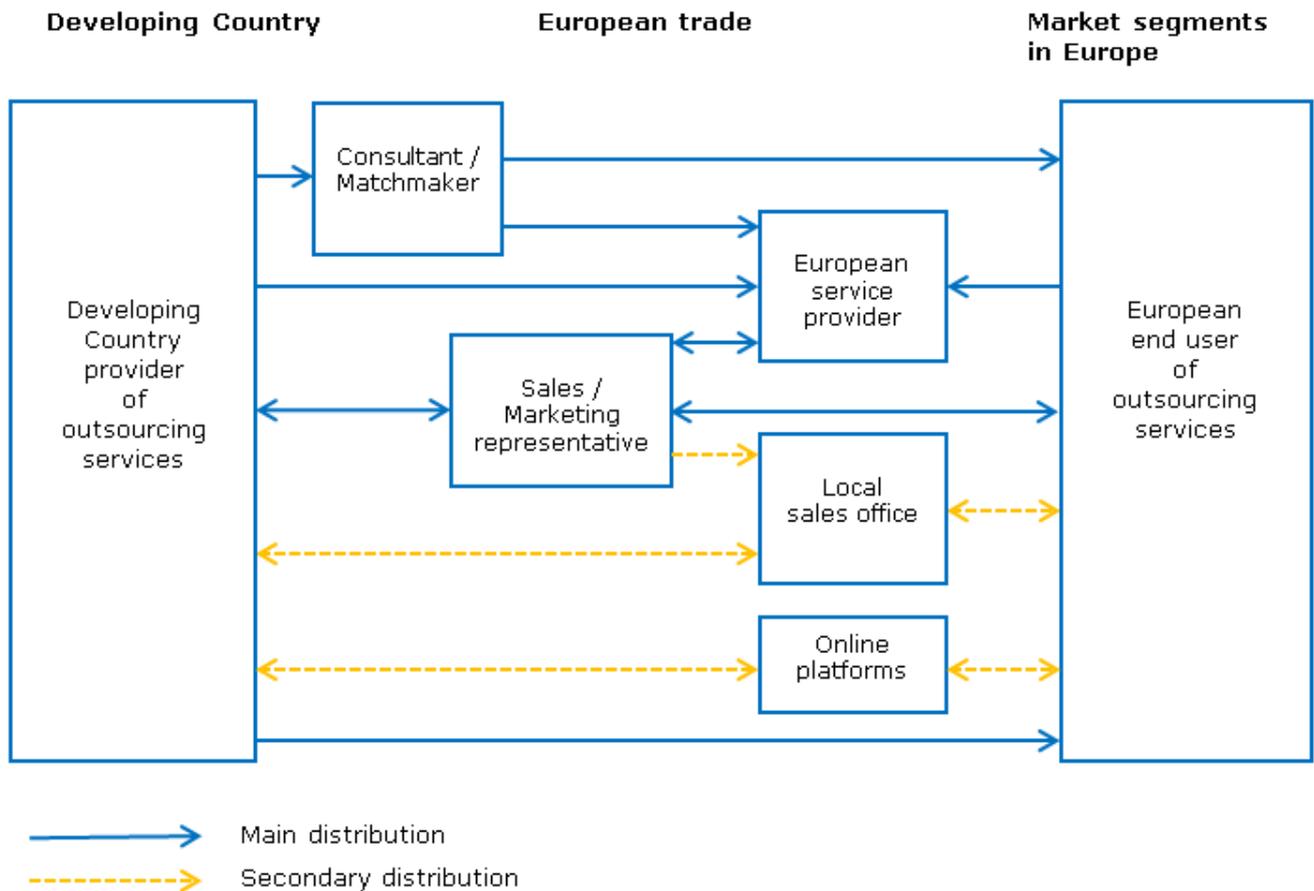
Tips:

- Select one or two priority target markets in Europe. To make this selection, think of: your present network, the openness towards outsourcing of the European markets, the level of labour cost, language and historical bonds.
- Specialise in a horizontal and/or vertical market and/or an emerging technology. Preferably an area in which you already have experience. Perform a market analysis of this segment to discover where your opportunities lie.
- Follow the medium and long-term developments/trends in the outsourcing industry. See our study about [trends on the European outsourcing market](#). For medium and long-term technology trends, check Gartner's [Hype Cycle for Emerging Technologies](#).
- Use this information to develop new opportunities for your company in niche market segments. Specialisation and focus on niche markets make your company less vulnerable to price pressure and competition.
- Learn and distinguish yourself from the competition within your focus segment. Assess your competitive situation. Who are your main competitors? Where are they from? What is their added value?

2 . Through what channels can you get your outsourcing services on the market?

Trade structure

Figure 2: Trade structure for outsourcing in the European 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 generally the same for all European countries.

Selecting distribution channels largely depends on your:

- type of company
- nature of the product/service
- target market(s)
- available resources for market entry

Good opportunities in subcontracting

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.

Tips:

- Use multiple distribution channels to increase your chance of success.
- To select the most suitable combination of market entry channels, analyse your company's

capabilities, products/services, resources and target market(s).

Characteristics of the market channels

Subcontracting

Subcontracting is the most realistic trade channel for you. It means that European service providers subcontract you to do work that end user companies have contracted to them. This makes you a subcontracted supplier for these European service providers.

The willingness to subcontract to service providers in developing countries differs per country. Northern and Western European countries are generally more open to nearshoring/offshoring than Southern and Eastern European countries.

The main characteristics of subcontracting are:

- subcontractors have a good knowledge of the local market
- subcontractors have their own network of customers
- subcontracting requires low up-front capital investments
- subcontracting contracts are generally longer-term contracts

If you are interested in subcontracting, you should:

- be willing to build a long-term relationship
- already have customers in Europe, as references in the European market make it easier to find a suitable European service provider

Intermediary

Intermediaries bring together supply and demand. This means that they bring together service providers and end users of outsourcing services. Or, in case of subcontracting, service providers with other service providers. This can include both national and foreign companies.

The most relevant intermediaries in the outsourcing market are:

- consultants/matchmakers - focus purely on matchmaking
- sales/marketing representatives - are also involved in the sales/marketing process

Especially smaller European companies prefer to work with a local intermediary.

The main characteristics of intermediaries are:

- they have a clear understanding of local markets and insights into buyer requirements
- they often have a large network
- they can supply valuable information, assistance and guidance
- they usually work for a fixed hourly/monthly fee, sometimes with an extra success-based fee
- service providers in developing countries depend on their knowledge and commitment.

Intermediaries can be an interesting channel if you:

- are new in the European market
- have limited resources
- are a small company

Local sales office

Ideally, you should establish a local sales office in your European target market. However, in reality this is very difficult. Most companies in developing countries are simply too small and do not have the financial strength for this.

The main benefits of a local sales office are:

- local presence in the European market, making it easier to build up long-term relationships with customers through personal contact
- they increase your credibility and trust
- they require a lot of exporting experience
- they require high initial investments
- you have complete control over your marketing activities

However, you do face higher sales and marketing costs!

A local sales office can be interesting if you:

- have experience in the European market
- have built a steady clientele and reputation in the European market
- have a strong financial position
- are a large company

Direct sales to end users

Instead of subcontracting, you can also work directly with European end users of outsourcing services. Many European companies are looking for cost reduction, which service providers in developing countries can often provide. However, mainly large European end users work with direct nearshoring/offshoring. Smaller end users are still hesitant towards direct nearshoring/offshoring. They generally prefer to outsource to companies within their own country.

The main characteristics of direct sales to end users are:

- a direct relationship between the service provider and the end customer
- you must have a lot of exporting experience
- you are in control of pricing

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

Online platforms

Online platforms are web-based platforms where supply and demand can meet. For example, freelancers and small companies often use [Freelancer](#) and [Upwork](#). [LinkedIn](#) is one of the most popular platforms to approach potential clients. On there, you can come into contact with European service providers or end users of outsourcing services. These platforms can be an interesting addition, but should not be your main trade channel.

The main characteristics of online platforms are:

- they require little exporting experience
- they require low initial investments

Market channel trends, developments and foresights

Subcontracting continues to offer good opportunities

Most European end user companies of outsourcing services still prefer outsourcing to onshore (local) service providers. In turn, these onshore service providers may subcontract part of their work to you.

Their main goals include:

- cost reduction
- access to skills
- flexibility

European service providers therefore continue to be an important distribution channel. However,

many of them prefer nearshoring rather than offshoring.

Tips:

- Focus on small and medium-sized European service providers, specialised in the same horizontal and/or vertical market, technology or services. Large companies and multinationals often have their own subsidiary or delivery centre in a developing country. They also may demand volumes that exceed your capacity.
- Be persistent, finding a suitable partner and building a long-term relationship take time.
- Attend relevant industry events in your European target market(s). These are still important places to meet European service providers. Attend a limited number of events repeatedly, rather than several events only once or twice. Focus mainly on specialised events that match your product/service.
- Become a member of relevant national and international industry associations. This increases trust in and visibility of your company. For example, your country's Information Technology association.

More demand for local intermediaries

Smaller European companies are becoming increasingly interested in outsourcing. To find a suitable outsourcing provider, they generally prefer working with a local intermediary. This reduces the risk of failure of the outsourcing project. As more smaller companies will start outsourcing, demand for local intermediaries is expected to increase in the coming years.

In addition, service providers in developing countries are realising that it is difficult to find customers on their own. This drives their need for a local contact person, such as a consultant, a matchmaker or a sales and marketing representative.

Tips:

- If you use intermediaries to find potential customers in Europe, make sure they are well informed about your company. For example, consultants speak with many potential customers. They are often involved in creating longlists of potential outsourcing providers. The more information they have on your company and the better they understand your capabilities, the better they can represent you.
- When selecting an intermediary, use the following criteria:
 - Expertise - their expertise should be in line with your product/service or vertical market focus
 - Network - the size and value of their network should be of good quality
 - References - their references should be good and credible
 - Risk - they should agree to a trial period, in which they must meet concrete goals or you can end the contract
 - Pricing - you must agree on price, payment options and financial criteria

Increasing importance of online channels

Online promotion channels are becoming more important in the trade structure for outsourcing. Advances in technology have made it easier for European companies to find service providers in developing countries. This makes your online presence very important for promotion, as this is the main reference point for buyers.

Examples of online channels are:

- websites
- social media networks such as LinkedIn and Facebook
- online outsourcing market places

The investment in online trade channels is relatively low. This offers interesting opportunities for outsourcing providers to look for service providers in developing countries and market themselves among potential customers.

Tips:

- Combine offline and online promotion channels to develop as many contacts as possible. This maximises your chances of finding suitable partners/customers.
- Have a professional, high quality company website. This lets you 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.
- Use social media as a marketing tool to reach potential customers, especially professional platforms like LinkedIn.
- If you are interested in online outsourcing market places, identify the main platforms in your key European target market(s). Find out what their business model is and what their requirements are. Analyse whether or not this is feasible and attractive for your company.

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