

What is the demand for IT Outsourcing Services on the European market?

The best opportunities for ITO providers from developing countries can be found in the United Kingdom, the Netherlands and Nordics (Sweden, Finland, Norway and Denmark), as they are most open to both offshore and nearshore outsourcing. Germany and France are also interesting due to their market size. IT service providers focusing on specific sectors, business domains, niche segments, innovative technologies and/or technologies where there is a significant skill shortage, have the highest chance of successful market entry to Europe.

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1. What makes Europe an interesting market for ITO?

The global market size of ITO totalled €16 billion in 2018. Europe accounted for €6.1 billion of this total. Even though Europe has seen a decrease in annual contract value (ACV) by an average annual reduction of -6.3% between 2014 and 2018, Europe still makes up for 38% of the Global ITO contract values. Therefore, Europe remains a high-priority target region. In addition to Europe's market size Europe's diversity, skills shortage and the diaspora also makes Europe an interesting market for ITO service providers.

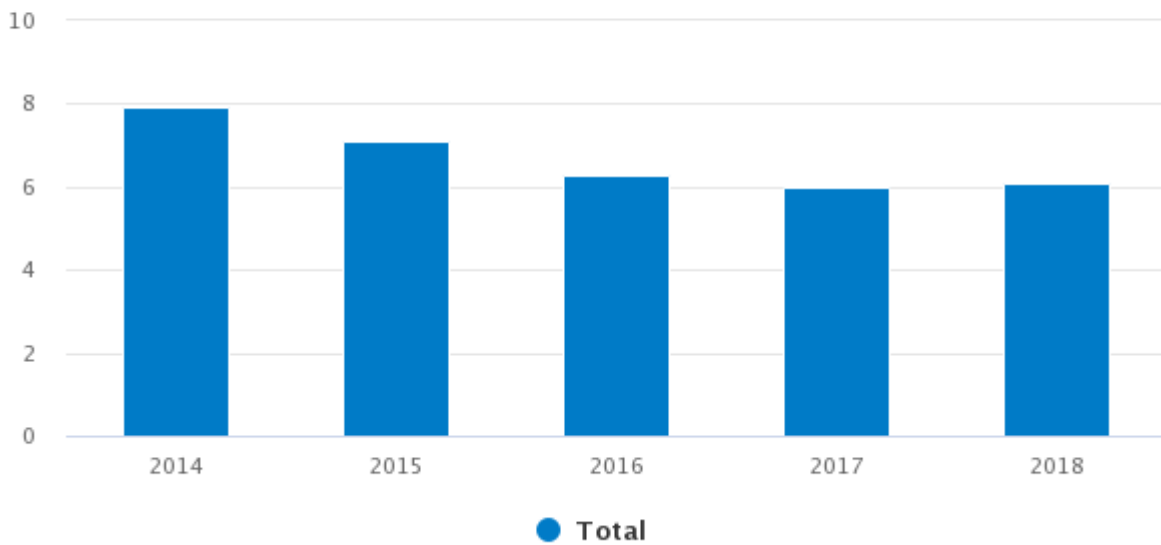
ITO market size still expected to grow

Figure 1 shows the decline in ITO figures between 2014 and 2018. Despite this decline the ISG Index's EMEA Sourcing and As-a-Service Market Insights suggests that [the ITO market is expected to grow further in Europe](#) over the next three years. The -6.3% annual decline in ITO services between 2014-2018 was a result of a shift from traditional outsourcing to 'as-a-service' outsourcing but also due to economic and political events across the European region, elaborated on later.

To read more about the shift from traditional to 'as-a-service' outsourcing and other trends in the market see our study about [trends on the European service outsourcing market](#).

Figure 1: European IT Outsourcing Market Annual Contract Values

in € billion



Source: ISG Index

The reduction in ITO was a development specific to the European market. On a global scale the ITO market is still stable and growing annually at a rate of 0.4%. Despite the shift towards 'as-a-service' outsourcing ITO will remain essential in Europe and it is expected that even with ongoing macro-economic challenges digital developments will continue to push the market forward. The ISG Index's Global Sourcing and As-a-Service Market Insights report estimates that [the global ITO market will grow by 4.5% annually](#) in the next three years.

Despite the reduction in ITO in Europe experts indicate that this decline applies to the ITO sector in general but that the portion of offshore ITO is stable. This means that the declines in ITO are less applicable to offshore service providers like you from developing countries.

Tips:

See our [studies per promising export service](#) to determine the competition for specific services.

See our [study about trends on the European service outsourcing market](#) and follow the medium and long-term developments/trends in the service outsourcing industry. Use this information to develop new opportunities for your company in niche market segments.

Check the Gartner [emerging technology hype cycles](#) for medium and long-term technology trends.

Diversity brings opportunity

Europe is a huge and diverse market for ITO services. In mid-2019, the European Union (EU) and European Free Trade Association (EFTA) nations comprise 32 countries that speak 27 different official languages and make up for a total population of 527.1 million. Although Europe is seen as one market from an economic perspective, there is massive diversity. Each country has its own characteristics in terms of doing business and it is Europe's diversity that brings countless and diverse opportunities from the West to the East.

Tips:

Look for countries that share cultural similarities to your own to increase chances of success in entering the European market.

Look at [passport to trade 2.0](#) to learn about the business culture and business etiquette in different European markets and see how your country's culture compare to European cultures using the Hofstede insights' [country comparison tools](#).

Learn to deal with Europe's cultural complexities and make up for their shortage in knowledge and expertise and there will be many opportunities.

Take note that, in mid-2019, the United Kingdom was part of the EU. It is currently unsure what will happen with the United Kingdom after Brexit and what its relationship with the EU and EFTA countries will be.

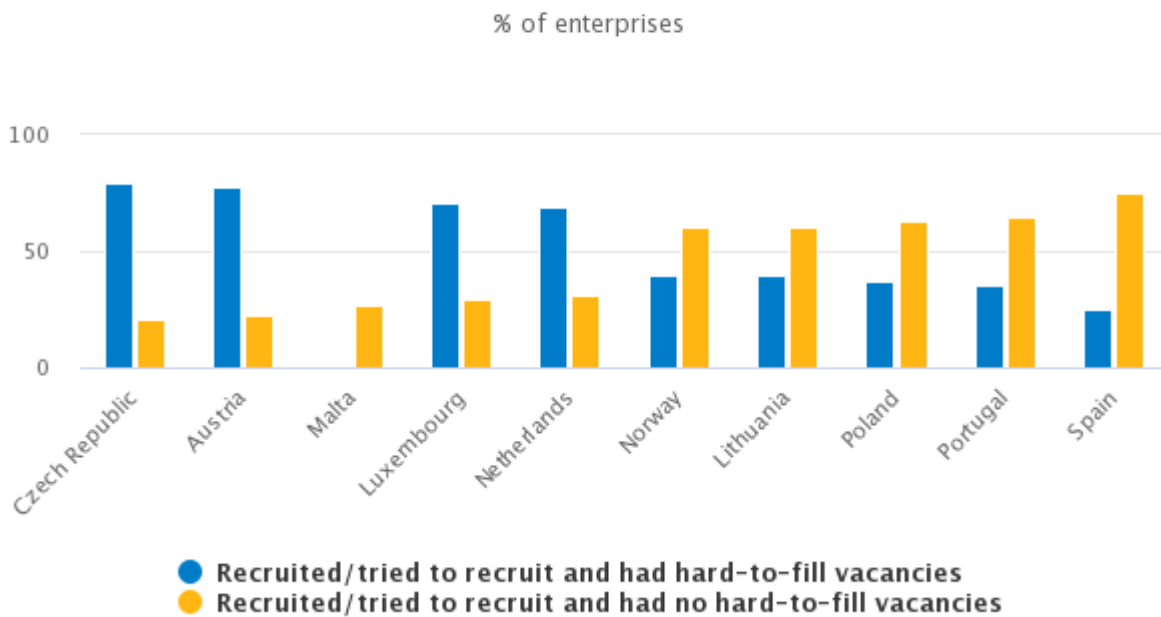
Developing Countries play a key role in skills shortage

An increasing number of European countries is dealing with a shortage of ICT specialists in some specific IT areas. While this situation used to be common for Western Europe, this shortage has also become apparent in other areas in Europe. The shortage depends on the country and sub sector. According to the Building a Better Working Europe survey released by Ernst and Young, [the scarcest skills are in cybersecurity, artificial intelligence \(AI\) and robotics](#).

Another report, the CIO Survey 2018 by Harvey Nash/KPMG, indicates that [the greatest demand for people, skills and sourcing](#) in 84 countries (including the majority of the EU and EFTA nations) lies in the areas of Big data/analytics, technical architecture, security and resilience, enterprise architecture, business analysis, project management and development.

The IT skills shortage is expected to increase as a result of the ageing European population and decreasing interest in IT education. As can be seen from figure 2 the top five European countries with enterprises that face difficulties in filling in vacancies for ICT specialists are Czech Republic, Austria, Malta, Luxembourg and the Netherlands. The five European countries with enterprises that face the least difficulties in filling in vacancies for ICT specialists are Norway, Lithuania, Poland, Portugal and Spain.

Figure 2: Top and bottom 5 European countries with enterprises that had hard-to-fill vacancies for ICT specialists, 2017



Source: Eurostat

From a skills shortage perspective it could be interesting for ITO service providers to consider the Czech Republic, Austria, Malta, Luxembourg and the Netherlands whilst paying less attention to Norway, Lithuania, Poland, Portugal and Spain. Our study [about trends on the European outsourcing market](#) provides more insights about the skills shortage trend.

Tips:

Conduct market research to identify in which countries and IT areas there is/will be a skills shortage. Useful sources are (inter)national IT associations such as [Digital Europe](#), industry experts and research companies such as [Gartner](#) and [Forrester](#).

Ensure that you have proper Human Resource Management practices and access to skilled people so that you can provide scalability and flexibility to (potential) European partners.

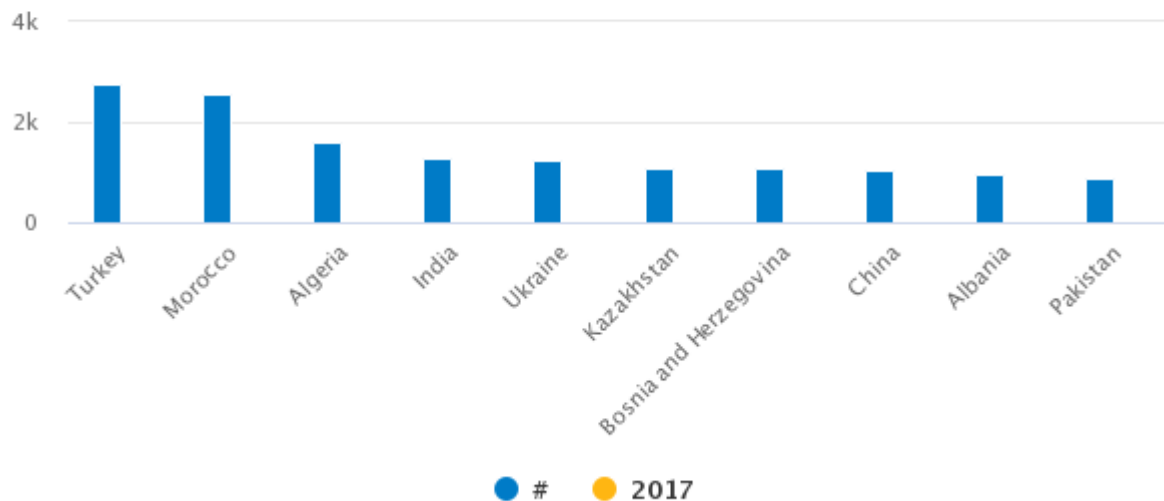
Diversity of foreign-born communities living in Europe

Immigration to Europe has a long history because of Europe's colonial heritage, but it took off substantially in the later part of the former century. In the past 20 years, Europe welcomed considerable numbers of immigrants from different continents. Often it is the presence of this diaspora (usually comprised of family or friends) in a European country that forms the basis of outsourcing IT services towards developing countries.

Of the total European Union and EFTA nations population of 527.1 million, about 35.6 million residents (6.8%) are of non-European Union and non-EFTA nation origin and of these 35.6 million non-European residents, approximately 30.5 million are from [ODA recipient countries](#). The six European countries with the highest number of diasporas from ODA recipient countries are Germany, the United Kingdom, France, Spain, Italy and the Netherlands. Figure 3 shows where the largest ODA diaspora communities in Europe come from.

Figure 3: 10 largest international migrant communities from ODA recipient countries living in the EU and EFTA nations

in 1,000 persons



Source: United Nations, Department of Economic and Social Affairs

Countries mentioned in figure 3 that are known for their outsourcing potential are India and Ukraine in the first place, while Bosnia and Herzegovina and Albania are also well-known outsourcing destinations for European countries. The diverse diaspora in European countries means there are opportunities for connections that ITO service providers can benefit from. Further below you can read how diaspora in different countries offer unique opportunities.

Tips:

Check if there is diaspora from your country in Europe and in which countries. You can use the [United Nations International Migration Stock: The 2017 revision](#) to help you do so.

Analyse the potential of launching IT outsourcing services with help of diaspora and try to connect with them.

Connect with organisations that represent your country's diaspora in Europe (mostly within a specific country). In Germany, for example, the [Centre for Support for Diaspora Organisations](#) might be helpful.

2. Which European markets offer most opportunities for ITO?

Europe is not a uniform market for ITO providers. In general, the three most important factors that determine whether countries are important target markets are market size, openness towards international outsourcing and IT skills shortage. From a market size perspective, the United Kingdom, Germany and France are potential markets. The United Kingdom, the Netherlands, Sweden, Denmark, Finland and Norway are interesting because of their openness to outsourcing. The financial services industry is the largest sector in terms of growth.

In general, experts from the field indicate that European companies are quite conservative regarding offshore outsourcing. They would often prefer nearshore outsourcing or bringing in people from other countries rather

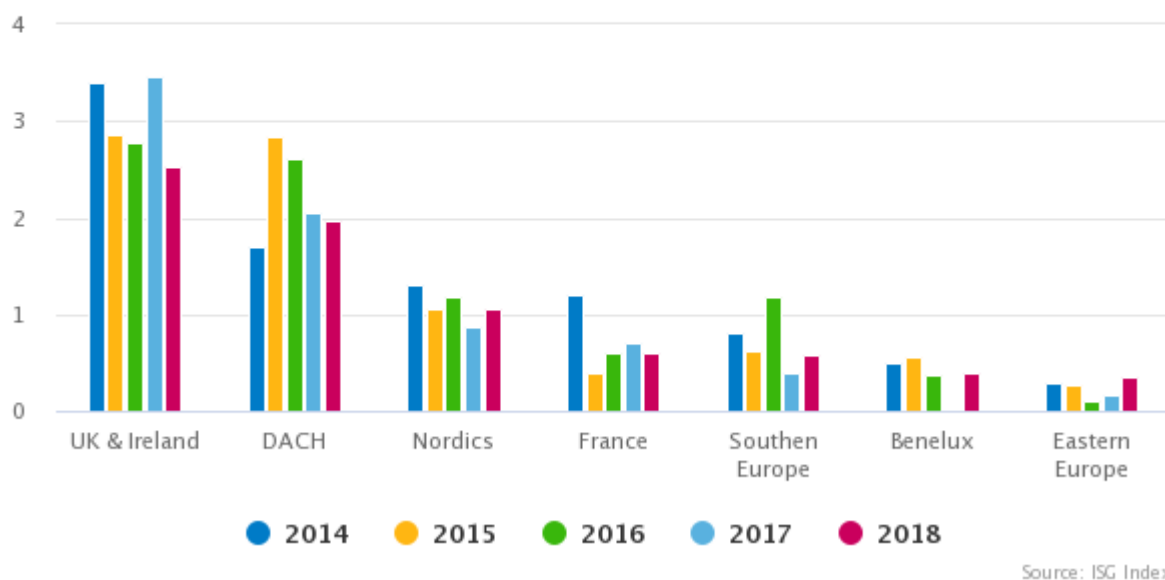
than moving their software production offshore. However, particularly skill shortage might drive companies to look at offshore or nearshore options or look for partners with offshore delivery capabilities.

Other aspects, beside skill shortage, can also play a role in deciding to outsource IT offshore, such as focusing on core competences, cost structure optimisation, flexibility and scalability of operations as well as to speed up time-to-market cycles.

United Kingdom, Germany and France are the three largest ITO markets

The largest ITO markets in Europe are the United Kingdom, Germany and France. Together, these countries represent more than 60% of the total European market. Figure 4 shows how different European regions compare to each other in terms of traditional sourcing contract sizes and annual growth during the 2014-2018 period. Although figure 4 shows ACV's for traditional sourcing in general (ITO and BPO), ITO made up for approximately 77% of the total ACV's. Business Process Outsourcing accounted for 23%.

Figure 4: European Traditional Sourcing Annual Contract Values
in € billion



In figure 4, the DACH countries include Germany, Austria and Switzerland. The Nordics include Sweden, Denmark, Finland, Norway and Iceland.

According to the ISG Index the decline in ITO seen in Europe between 2014 and 2018 was mainly caused by [the decline in the largest markets](#), the United Kingdom, Germany and France. Brexit caused the market to decline in the United Kingdom, in France the decline was caused by unsettling economic and political factors and in Germany the decline was caused by fears of a recession and economic risks caused by the Brexit that slowed decision making. In all cases companies became more cautious in their outsourcing decisions.

It is expected that the markets in the United Kingdom, Germany and France will stabilise as, even with ongoing macro-economic challenges, digital developments will eventually continue to push the market forward.

As mentioned earlier, despite the reduction in ITO in Europe, experts indicate that this decline applies to the ITO sector in general. The portion of offshore ITO is expected to have remained stable. This means that the declines in ITO are less applicable to offshore service providers from developing countries, like you.

Despite the overall decline in ITO in Europe there were also countries and areas that saw growth, especially year-on-year growth between 2017 and 2018. Particularly the Nordics, Southern and Eastern Europe saw exceptional year-on-year growth of 21%, 46% and 119% respectively. Within the Nordics Sweden is the largest market expected to see a growth of 2.4% annually in the next two years (2020/2021). Denmark, Finland and Norway have slightly less ITO than Sweden. Their markets are expected to grow by 2.3%, 2.3% and 2.5% respectively.

The United Kingdom, Germany and France remain interesting markets because of their size but smaller markets such as those in the Nordics, Southern Europe and Eastern Europe show the greatest growth, which make them worth considering too.

Tips:

Focus on one or two priority geographies. Be aware that product, price, promotion and trade channel selection strategies might differ per European country, unless you target similar countries.

Consider your present network, the openness towards outsourcing, IT skills shortage (see above), labour costs, language, and historical bonds when selecting your priority market.

Take a look at the United Kingdom government website to see [what you need to do as a result of the Brexit](#) in terms of providing ITO services.

Level of openness towards international outsourcing in Europe

The United Kingdom is most open to outsourcing, followed by Sweden, Norway, Finland, Denmark and the Netherlands. Germany and Eastern Europe are less open to outsourcing. However, skills shortages and growing experience of outsourcing are causing this to change as the need for outsourcing becomes stronger.

Openness towards outsourcing strongly depends on culture, language, proximity and historical ties. Of all European countries industry experts say the United Kingdom is most open to outsourcing and least sceptical to developing countries. Their openness is influenced by their Anglo-Saxon culture, which is very cost driven. English laws stimulate outsourcing and there is a tendency to outsource quickly if this means saving costs. France is quite reluctant to outsource except when it is to French speaking countries. Spain is open to Latin American countries.

Representatives from [the German Outsourcing Association](#) confirm that Germany is less open to outsourcing compared to the United Kingdom due to cultural and language barriers. Germans are risk sensitive and largely prefer in-house operations. This is why proximity is important for German companies. Nevertheless, the IT skills shortage, strong competition and high wages combined with growing experience of large corporations with outsourcing is causing German companies to become more open towards offshore/nearshore outsourcing.

The Nordics and the Netherlands lie somewhere in between the Germans and the British when it comes to risk sensitivity and openness to outsource. They are less risk sensitive than the Germans but more risk sensitive than the British.

Eastern Europe falls behind the rest of Europe in terms of outsourcing IT. Eastern European countries are reluctant to outsource, primarily because they are less ready for it. Eastern Europe has fewer large companies that lead the way like those that can be found in the large traditional markets (Germany and the United Kingdom). Nevertheless, Central and Eastern European countries are increasingly being considered potential partners rather than competitors for you. Mainly because they too are experiencing increasing skill shortage and rising salaries.

Tips:

Focus on the United Kingdom, the Netherlands, Sweden, Finland, Denmark and Norway, as these countries are most open to international outsourcing.

Remember that even if you do find a European partner, they will remain sceptical. It is important that you earn their trust and work hard to keep it once you have it.

Keep in mind that it price is not the only thing that matters for your European partners. Quality, time, effort and the total package are equally important. In fact, quality is more important than price.

Remain trustworthy, honest and transparent. This will help you stand out and will add to your partner's openness and willingness to outsource.

Look at opportunities in Central and Eastern Europe (CEE). While companies from CEE used to be competitors to companies from developing countries (DCs), nowadays they are often open to form partnerships with companies from DCs due to rising wages and skill shortage. Today there are partnership opportunities in CEE for companies from developing countries.

Diaspora in each country offer unique opportunities

The importance of relationships and personal ties in establishing ITO is evident in the diaspora in Europe and the choice of outsourcing destination for different European countries and companies.

Table 1 shows where the top 6 international migrants from ODA recipient countries in different EU and EFTA nations come from. Northern and Western European countries have higher percentages of international migrants. Eastern European countries tends to have less diaspora. For instance, in the case of Romania, Poland, Bulgaria and Slovakia less than 1% of the population consists of diaspora from ODA recipient countries.

Table 1: The top 15 European countries with the greatest international migrant communities, 2017

European country	Total international migrants from ODA recipient countries (in million) and as percentage of total population	Top 6 nationalities of international migrants in European market
Germany	5.23 (6.3%)	Turkey, Kazakhstan, Ukraine, Bosnia and Herzegovina, Iran, Iraq
France	5.17 (7.7%)	Algeria, Morocco, Tunisia, Turkey, Viet Nam, Madagascar
United Kingdom	4.51 (6.8%)	India, Pakistan, Bangladesh, South Africa, Nigeria, China

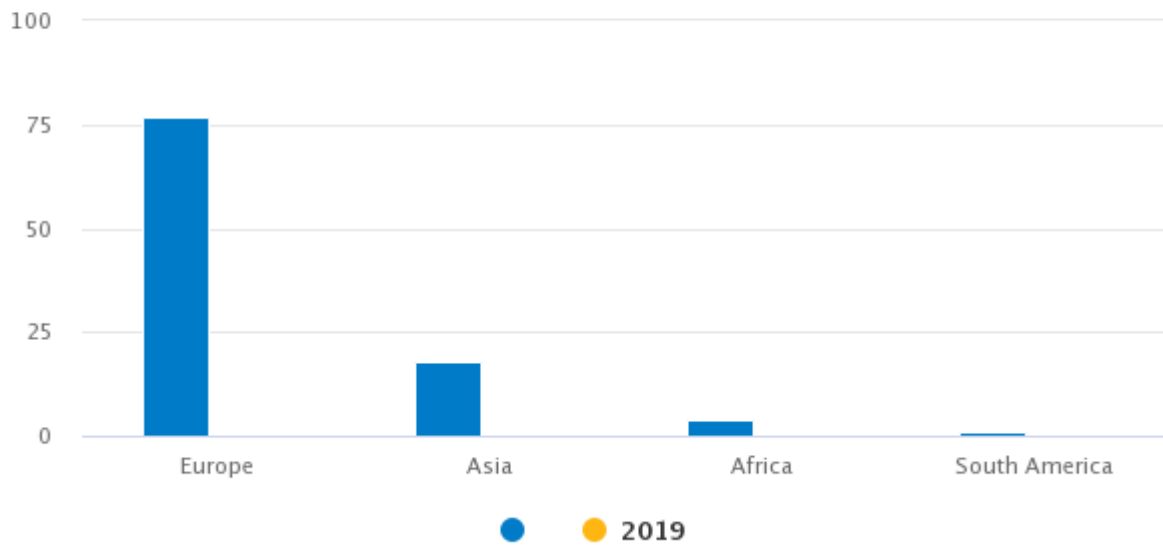
Italy	3.59 (5.9%)	Albania, Morocco, Ukraine, China, Moldova, Philippines
Spain	3.56 (7.75)	Morocco, Ecuador, Colombia, Argentina, Peru, Venezuela
Netherlands	1.27 (7.4%)	Turkey, Suriname, Morocco, Indonesia, China, Iraq
Sweden	0.91 (9.0%)	Iraq, Syrian Arab Republic, Iran, Somalia, Bosnia and Herzegovina, Turkey
Austria	0.87 (9.9%)	Serbia, Turkey, Bosnia and Herzegovina, Macedonia, Montenegro, China
Switzerland	0.85 (10.1%)	Serbia, Turkey, Macedonia, Bosnia and Herzegovina, Brazil, Sri Lanka
Greece	0.78 (7.2%)	Albania, Georgia, Turkey, Pakistan, Egypt, Kazakhstan
Portugal	0.63 (6.1%)	Angola, Brazil, Mozambique, Cabo Verde, Ukraine, Guinea-Bissau
Croatia	0.46 (11.2%)	Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Ukraine, China
Norway	0.34 (6.5%)	Somalia, Iraq, Philippines, Pakistan, Thailand, Iran
Belgium	0.32 (2.8%)	Morocco, Turkey, Democratic Republic of Congo, Algeria, China, Cameroon
Poland	0.32 0.8%)	Ukraine, Belarus, Kazakhstan, Bosnia and Herzegovina, Viet Nam, Armenia

Source: United Nations, Department of Economic and Social Affairs, (2017)

Figure 5 reveals Germany's preference for nearshoring to Central and Eastern European countries. This can be explained by the diasporas of Central and Eastern European origin living in Germany. Historically many countries used to host substantial populations of Germans, e.g. Poland, Czech Republic, Hungary, Romania, and Ukraine. All these countries still host German populations, and it has led to a lot of connections between Germany and these countries.

Figure 5: Germany's top regions to outsource software development

% of enterprises



Source: daxx.com

Similar relationships apply to the historical relationships between France and French-speaking countries and Spain and Latin American countries. There is diaspora from Algeria, Morocco and Tunisia living in France, which explains France's behaviour in offshore outsourcing to these nations. In Spain there is diaspora from Ecuador, Colombia, Argentina and Peru, which explains Spain's behaviour in offshore outsourcing to these nations.

Tips:

Study your options in France as this may give you a competitive advantage in the case you are from a French-speaking country.

Study your options in Spain as this may give you a competitive advantage in the case you are from a Spanish-speaking country.

Remember that your uncle living in Germany is not necessarily and automatically your best choice for a sales representative. While partnering with a compatriot of yours could have distinctive advantages, select your business partners, sales representatives or matchmakers very carefully and make a business-driven decision.

In addition to the elements of diaspora, openness to outsourcing and market size, experts from the industry indicate that Ireland could be an interesting market to focus on as well. Ireland has historical ties with the United States as well as short flights connecting the two. Additionally, it is expected that Brexit will cause many people, as well as knowledge, to move from the United Kingdom to Ireland. This could make Ireland a very interesting market to enter to open doors to both Europe and the United States.

It must be remembered that even though some markets are larger than others and some markets are more open than others, this does not mean that less obvious markets offer no opportunities. For instance, Switzerland, like Germany, is known to be sceptical towards outsourcing, and Filipinos are not amongst the top 10 diasporas in Switzerland. However, [Arcanys](#), a company from the Philippines, still succeeded in collaborating

with the Swiss company [FansNation](#) in mobile app development.

The Financial Services Sector is most interesting

Interesting sectors (also called the 'vertical markets') that show the most growth are the business services, FinTech, healthcare and pharma and retail sectors. Among the largest horizontal segments in the ITO market are Big Data, Blockchain technologies, Internet of Things, Machine Learning & Artificial Intelligence, Mobile Applications, cybersecurity and Virtual Reality / Augmented Reality. Our [study about trends on the European IT outsourcing market](#) provides more insights about the trends in these market/segments.

Figure 6 shows which industries in Europe saw the most ACV's in ITO and BPO. Although Figure 6 shows ACV's for traditional sourcing in general (ITO and BPO) ITO made up for approximately 77% of the total ACV's in traditional sourcing. Business Process Outsourcing accounted for the rest.

The financial services sector is the sector where most ITO takes place. This is followed by the manufacturing, energy and travel, transport and leisure sectors. The greatest growth in ITO can be found in business services, financial services, health care and pharma and retail. These fast growing and/or largest sectors could be interesting to look into for ITO service providers wanting to enter the European market.

In general, however, experts indicate that no industry is more relevant than the other when you cater to niche market segments, as these may be found in any vertical industry. The more you invest in specialising and finding your comfortable niche, the better your chances and the higher the possibility that you will find clients and partners. Which industry it happens in does not really matter.

Tips:

Assess your opportunities in both the fastest growing and largest industries and horizontal segments.

See our [study about trends on the European service outsourcing market](#) to read more about trends in these vertical and horizontal market/segments.

See our [studies per promising export service](#) to determine the competition for specific services.

Look for niche market segments based on your experience and capabilities and specialise and innovate. In those market segments there is less competition, higher and more stable prices as well as loyal buyers.

3. Which services from developing countries have most potential on the European ITO market?

The potential and demand for different ITO services in Europe depends on company size as large and small companies outsource different services. In general, service providers focusing on niche markets, innovative emerging technologies or offering significant software development capacity in areas where there is the highest demand/skill shortage will have a good chance of successfully entering the European market.

Company size matters

There is a difference between the outsourcing behaviour of large enterprises and other companies. The differences can be seen in Figure 7; larger companies typically outsource the development of web solutions and the development of business management software/systems while smaller companies tend to outsource more support for office software and maintenance of ICT infrastructure. Both small and large enterprises almost

equally outsource support for business management software solutions/systems and support for web solutions.

According to the Harvey Nash/KPMG CIO Survey 2018 [the demand for skills differs between small and large enterprises](#) as well. Big data and analytic skills are important for organisations of all sizes. Similarly, the demand for architecture skills also continues to increase. Larger organisations seek significantly more artificial intelligence, automation/robotics experts than smaller organisations. These technologies are early in their development and attract investment from the organisations with the scale, and budgets, to experiment.

In addition to outsourcing behaviour it must be remembered that working with large companies is different to working with small companies as flexibility and efficiency do not equal up. Although there are some exceptions, the general rule is that large companies prefer to work with large companies and are not likely to outsource important software developments to small and medium-sized enterprises.

For small and medium sized enterprises from developing countries it is recommended to focus on companies with 10-500 employees. Companies with more than 500 employees are difficult because they generally open their own offices abroad, such as [Deloitte](#), [CISCO](#) and [Capgemini](#). For companies with less than 10 employees there tend to be difficulties with payments and commitment.

Tips:

Become familiar with outsourcing behaviour among European companies. Determine whether there is more demand for your services in large or small enterprises.

Look for clients you can really serve. Do not get too keen on big names and large corporations unless you can offer them something they really need. Let it be immediate access to software development capacity or very specialised skills.

Specialization speaks louder than words

Any company, or group of companies from a specific country, that can deliver either sector or domain competencies, has a distinct advantage in Europe. It is important to specialize in something specific and remain one step ahead. Although companies may seek general programming services such as java development, companies are increasingly seeking to outsource specialized services where technology know-how is combined with domain knowledge. Examples of specialisms are [Serverless microservice architecture](#), [terraform](#) and [Knative](#).

While there are still generalists that make software for several horizontal and vertical markets, the future is for the specialists that have particular expertise in a horizontal and vertical market combination.

Examples of such combinations are the following:

1. (Industrial) Internet of Things / Industry 4.0 with integration of Big data technology
2. Virtual Reality/Augmented Reality/mixed applied in, for example, [PropTech](#) and [TravelTech](#) with integration of Big data.
3. Machine learning, robotics, Artificial Intelligence and Blockchain technologies in, for example, [FinTech](#), or [MedTech](#).

Tips:

Consider a more elaborated and focussed sector and domain services strategy. Combine your

technology expertise with domain knowledge in your offer.

Work together with the other companies in your country to establish one national focussed sector/domain services strategy.

Make your company less vulnerable to price pressure and competition by specializing and focusing on niche markets.


Communicate your differentiators from competitors such as domain expertise or scalability and indicate your competitive advantages such as time zone, knowledge and language when approaching potential customers. This will give you an advantage.

Follow technology trends and invest in innovation. See our [study about trends on the European service outsourcing market](#) to read about the trends in ITO.


This study has been carried out on behalf of CBI by [Globally Cool](#).

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