



CBI  
*Ministry of Foreign Affairs*

# **CBI Trade Statistics:**

# **Outsourcing in Europe**

## Introduction

The European service outsourcing market has matured significantly. This is resulting in increased interest among European companies in outsourcing Information Technology and Business Processes. The United Kingdom, Germany, the Netherlands and Scandinavian countries are interesting target markets for service outsourcing. The key to success is adding value, for example by specialising or innovating.

## Market developments

### Growing service outsourcing market

As competition in the global market continues to rise, European companies and organisations of all sizes are expected to be increasingly open towards service outsourcing and offshoring as a way to reduce costs, access skilled labour and improve efficiency. Furthermore, standardisation of services and solutions in the cloud will make it easier to switch providers. This means that there are opportunities for new entrants.

Europe is a high-priority target region for service providers. It has the largest outsourcing market, representing almost half of the global services outsourcing annual contract value according to the Information Services Group. In 2014, the value of service outsourcing contracts of over €4 million signed in Europe (and to a very minor extent in the Middle East and Africa) was €9.5 billion. This is 7.0% higher than in 2013. In particular Germany, the United Kingdom and France contributed to this growth.

#### Tips:

- Try to be innovative in product and service development and focus on value proposition to distinguish yourself from competitors. Address customer demand for new and better-integrated products, services, platforms and solutions.
- Specialise in a specific horizontal (a specific service/solution), vertical (a specific industry) or niche market (a combination of both a horizontal and vertical market).

### ITO still represents the largest market value

Information Technology outsourcing (ITO) is estimated to represent around 80% of the value of the European service outsourcing market. In 2014, the value of ITO contracts worth over €4 million signed in Europe was €7.7 billion according to the Information Services Group. This is almost 25% higher than in 2013, mainly driven by the reinvention of outdated business models and the adoption of new strategies such as cloud computing. Business Process outsourcing (BPO) is estimated to represent around 20% of the value of the European service outsourcing market. In 2014, the value of BPO contracts worth over €4 million signed in Europe was €1.8 billion. This is 10% lower than in 2013 and is probably the result of smaller BPO deals (with a value below €4 million).

### Number of smaller outsourcing deals is increasing

An increasing number of European companies and organisations are adopting a multi-vendor outsourcing model. Instead of having one large contract with one service provider, they have several smaller contracts with different service providers. Smaller contracts and the multi-vendor model are growing in popularity as they mitigate risks and provide more flexibility, but the management of projects might be more challenging. Smaller outsourcing contracts generally offer better opportunities for service providers in Developing Countries, as such providers often do not have the capacity for large outsourcing deals. Furthermore, when contracts are smaller, European companies and organisations are generally more prepared to work with service providers in Developing Countries as the risks are smaller.

#### Tips:

- Target smaller European companies and organisations as they are generally more in line with the capabilities of service providers in Developing Countries.
- Develop services/solutions that can easily be integrated with other services/solutions by means of open (interface) standards. In this way you will be able to operate with multiple vendors in the Information Technology environment of potential customers.

## Drivers and risks

### Cost reduction remains important driver

Cost reduction remains among the main drivers for service outsourcing. The search for cost reduction offers interesting opportunities for service providers in Developing Countries as they can generally offer their services at a lower rate than in Europe. However, other drivers such as access to skilled labour, efficiency improvements, focus on core business and access to specific expertise are increasing in importance as well.

#### Tips:

- Besides cost reduction, also focus on offering added value. Cost reduction is especially a driver for first generation outsourcers. However, second generation outsourcers are increasingly looking for added value. They are looking for providers that act as business partners who get to know their business and help drive efficiency and development.
- Consider working with flexible, output-based pricing models as these models are increasing rapidly in popularity.

### Dependency on external service providers seen as an important risk

When companies and organisations outsource services, a number of risks have to be addressed. Dependency on the service provider is perceived as one of the main risks, as are loss of control and impact on quality. Although companies and organisations face many risks when outsourcing services, they are apparently capable of managing these risks, as they continue to outsource.

#### Tips:

- Consider offering a trial project to potential buyers to show your capabilities and gain trust.
- Make sure you obtain extensive knowledge of your customer's company, for example through knowledge transfer sessions at the beginning of a partnership.
- Study the business culture of your customer to better understand his local culture and avoid (cultural) misunderstandings. For example, let some of your staff work onshore side by side with your customer for regular periods so they can deepen understanding and exchange cultural knowledge. Refer to <http://www.kwintessential.co.uk/resources/country-profiles.html> for free country guides on culture, customs and etiquette.

## Promising markets

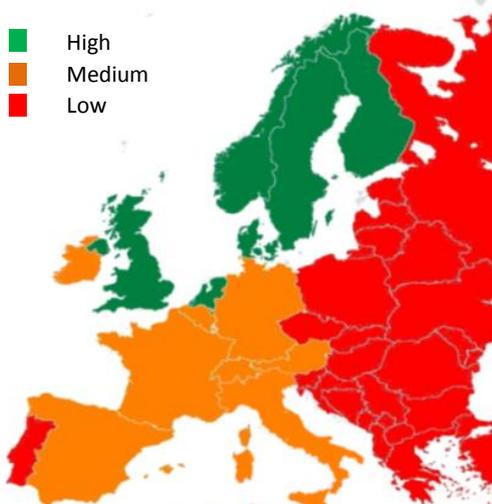
The European market consists of more than 30 countries that all have different characteristics. Some countries are more promising for service providers in Developing Countries than others. Four elements where your opportunities in the different European markets stem from are:

- Openness towards international outsourcing
- Market size
- IT skills shortage
- Language

### Northern European countries most open towards outsourcing

In general, Northern European markets like the United Kingdom, Scandinavian countries (Sweden, Denmark, Finland, Norway) and the Netherlands are most open to outsourcing (Figure 1). These countries therefore offer good opportunities for service outsourcing. However, other markets in Western, Central and Southern Europe, for example Germany, France and Spain, are becoming more open to outsourcing as well, due to a maturing service outsourcing market.

**Figure 1: Openness towards international outsourcing in European countries, 2015**

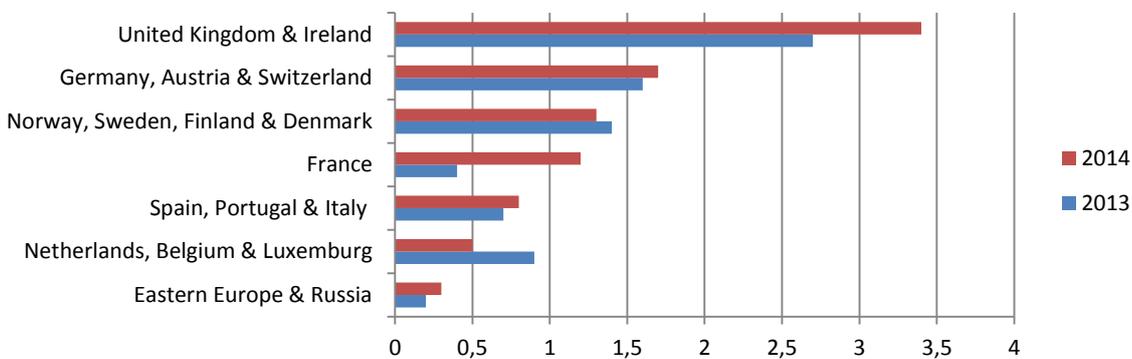


Source: Industry experts

**United Kingdom, Germany and France largest market size**

The United Kingdom, Germany and France have the largest service outsourcing markets in Europe (Figure 2). Although German and French companies and organisations are quite open to outsourcing, many of them prefer nearshoring (outsourcing to foreign providers within the region, for example in Poland or Romania) above offshoring (outsourcing to foreign providers outside the region, for example in Asia). This is mainly because of language and cultural similarities.

**Figure 2: Annual Contract Value of outsourcing contracts >€4 million, European countries, 2013 and 2014, in € billion**



Source: Information Services Group

**IT skills shortage highest in Western European countries**

An increasing number of European countries is coping with a shortage in IT skills. However, there are large differences between countries (Table 1). The IT skills shortage is partly offset by continuing economic uncertainty in some European countries, but is expected to increase in the long term. This expected increase is the result of declining interest in academic IT education and increasing retirements among IT practitioners due to the ageing European population. The shortage is forecast to be the highest in the United Kingdom, Germany, France, Sweden and the Netherlands.

**Table 1: ICT workforce, practitioner jobs and excess demand, 2012, 2015, 2020**

Country	ICT practitioner workforce 2012	Forecast practitioner ICT jobs 2015	Forecast practitioner ICT jobs 2020	Assumed excess demand 2012	Forecast excess demand 2015	Forecast excess demand 2020
EU 27*	7,403,000	7,503,000	7,950,000	274,000	509,000	913,000

United Kingdom	1,661,000	1,636,000	1,639,000	47,000	128,000	249,000
Germany	1,261,000	1,299,000	1,425,000	82,000	121,000	156,000
France	888,000	912,000	898,000	27,000	47,000	87,000
Sweden	251,000	246,000	255,000	10,000	31,000	57,000
Netherlands	328,000	337,000	374,000	9,800	23,000	34,000
Belgium	187,000	189,000	196,000	7,600	16,000	30,000
Denmark	135,000	133,000	132,000	5,500	14,000	27,000
Finland	135,000	137,000	148,000	5,500	12,000	17,000
Czech Republic	153,000	153,000	156,000	4,700	8,200	13,000
Austria	142,000	145,000	156,000	5,800	8,700	11,400

*\*When the research was conducted the European Union still consisted of 27 member states  
Source: European Commission*

#### Tips:

- Focus on Western European countries as the IT skills shortage tends to be highest there.
- Combine in your marketing activities the availability of professionally skilled employees with other advantages you provide (such as the lower cost of these skills, if applicable). For more information about the ICT workforce, practitioner jobs and demand in European countries, also refer to the [E-skills monitor Europe](#).

### Language match also offers opportunities

A language match can also offer opportunities, especially in the case of outsourcing Business Processes such as contact centre, social media and human resource services. For example, French companies prefer outsourcing to North African countries where French is spoken.

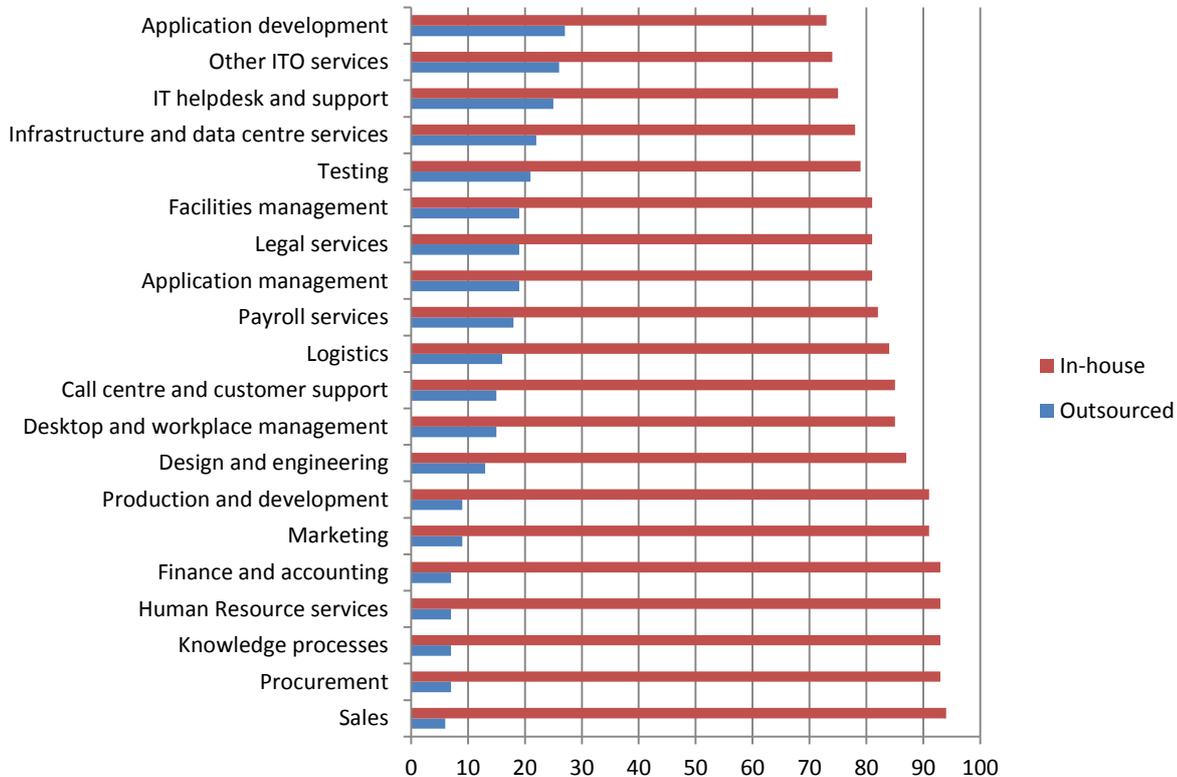
#### Tips:

- Focus on one or two European priority countries. When deciding on your priority market(s), keep in mind the openness towards outsourcing, the market size and language matches.
- Research your priority markets carefully, for example trends, buyer requirements, trade structure, competition and business culture.
- Consider having a local contact person such as a sales/marketing representative, as this is strongly preferred by European companies and organisations.

### Promising segments

Looking at what European companies and organisations outsource most, Information Technology services still lead and appear to be the logical starting point when it comes to service outsourcing (Figure 3). Once these services are outsourced, they are willing to identify outsourcing opportunities for business processes. According to research by Ernest and Young, 15-30% of Information Technology was outsourced in the most mature European markets in 2013 and 6.0-15% of Business Processes. This underlines a more mature market for Information Technology outsourcing than for Business Process outsourcing, although the latter has been improving in recent years.

**Figure 3: Outsourcing of services for the European markets that are most open to international outsourcing, 2013, in %**



Source: Ernest and Young

**Tips:**

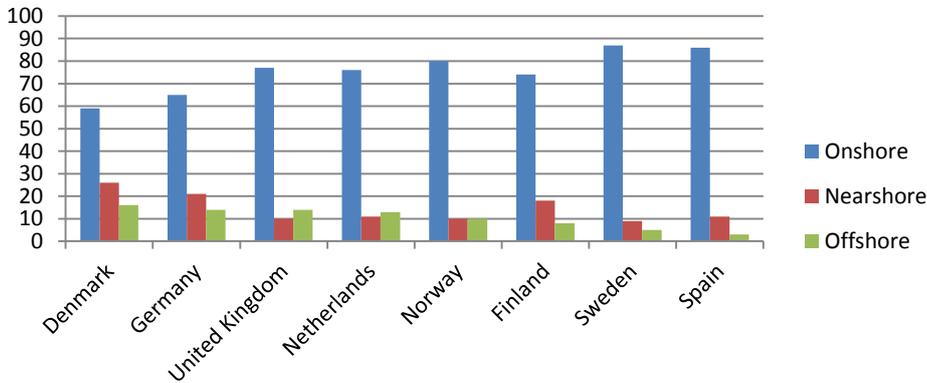
- Determine your company’s strengths and weaknesses and based on that focus on one or two horizontal or vertical segments as you cannot be good in everything.
- Refer to CBI’s Product Factsheets for insights into promising product-market combinations for service outsourcing from Europe. For example in the field of cloud computing, mobile, social, big data, web design, information security, contact centres, finance and accounting, digitisation and human resources.

**Outsourcing destinations**

**Nearshoring preferred over offshoring**

The majority of outsourced services go to service providers within the same country (onshoring). When outsourcing to foreign service providers, nearshore locations are preferred over offshore locations, except for companies and organisations in the Netherlands and the United Kingdom (Figure 4). The United Kingdom, for example, outsources especially to India because of its historical ties with the country. Nearshore locations such as Eastern European countries are generally preferred because of their proximity and language and cultural similarities. However, as prices in nearshore countries are rising, service providers in these countries are becoming less competitive for offshore service providers.

**Figure 4: Location of outsourced services for the European markets that are most open to international outsourcing, 2013, in %**



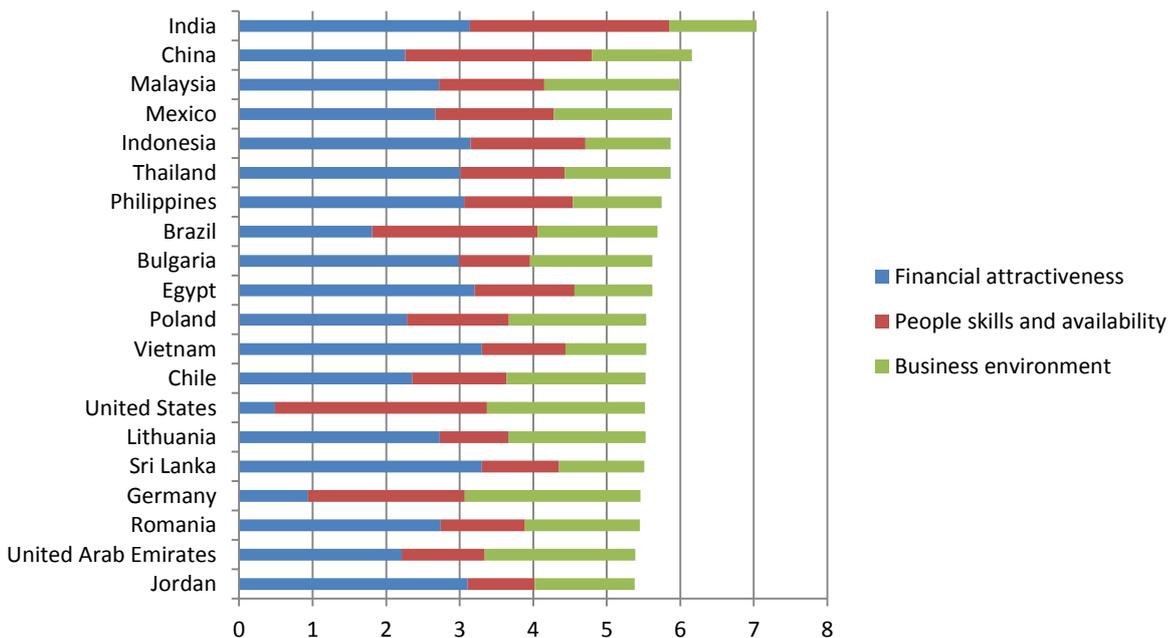
Source: Ernest and Young

**Tips:**

- If you are located offshore, try to limit the possible disadvantages by providing excellent means of communication, availability in the required time zone and good security and privacy measures.
- Differentiate yourself from nearshore service providers to remain competitive and emphasize how you are different in your marketing activities. Do not only focus on price difference but analyse what other advantages you can offer to European buyers. You can sell for example your location as an advantage for 24 hour round operations or you can specialise.
- Partner with nearshore service providers, as there is a drive of Eastern European companies looking for cheaper destinations. Many service providers in Developing Countries have not yet recognised this opportunity yet.

**Asia remains dominant offshoring region**

**Figure 5: Country rankings A.T. Kearney Global Services Location Index, 2014**



Source: A.T. Kearney

## Asia

Asia is the dominant outsourcing location for IT service outsourcing according to A.T. Kearney's Global Services Location Index. The Global Services Location Index tracks the contours of the offshoring landscape to deliver service outsourcing in 51 countries across three categories: financial attractiveness, people skills and availability and business environment (Figure 5). Asia has 6 countries in the top 10, including India, China, Malaysia, Indonesia, Thailand and the Philippines. Bangladesh is a new entrant who entered the index on place 26. South East Asia's maturing 'Outsourcing brand', improving macro-economic environment and expanding domestic markets continue to draw the attention of European services buyers. South East Asia is therefore expected to remain the most important region for service outsourcing.

## Latin America

Latin America is also doing well, with 2 countries in the top 10: Mexico and Brazil. Other countries in the ranking are Chile (13), Costa Rica (24) and new entrant Colombia (43).

## Europe

In Europe, especially Eastern European countries such as Bulgaria, Poland, Lithuania, Romania and Estonia are popular service outsourcing destinations. They are getting more attention as respective cities continue to develop their service outsourcing landscapes, especially in Poland. Furthermore, for European buyers communication with Eastern European companies is perceived as easier than with offshore companies due to little time difference and more cultural and language similarities. This is very important, as many offshored projects fail due to simple communication problems. Legal and financial issues are also much simpler as most of these countries are members of the European Union (EU).

## Middle East and Africa

Also some countries in the Middle East and North Africa are doing quite well, as they benefit from proximity to Europe and a large talent pool, for example Egypt. However, Egypt dropped in popularity due to prolonged political turmoil.

### Tips:

- Benchmark your competitiveness against service providers from other countries, both nearshore and offshore, and analyse their best practices. Check the [A.T. Kearney Global Services Location Index](#) for a complete overview of the top service outsourcing destinations. Using your competitors as resources can help you discover what they are doing right and sometimes also what they are doing wrong. This can help you identify ways to differentiate yourself from them.
- Positive country branding is very important to increase awareness of your country as a service outsourcing destination. However, you cannot do this alone, you need the public and private sector. Therefore join forces with other service outsourcing stakeholders in your country and together lobby for joint country branding campaigns, infrastructure developments, human capital development programs and good visa arrangements.

## Success factors Bangladesh

Between October 2010 and June 2013 the NTFII Bangladesh project was implemented through a partnership between ITC and CBI. The objective of this project is to brand Bangladesh as a Global IT Sourcing Destination. In 2014 Bangladesh emerged on the A.T. Kearney list in the 26<sup>th</sup> place. Among the main success factors for this development are:

- Communicating positively: focus on strengths
- Implementing a branding roadmap to position Bangladesh
- Articles in newspapers
- Using consultancy companies (e.g. KPMG) -> **why mention KPMG?:** because it produced the whitepaper below
- Whitepaper Bangladesh Beckons, 'An emerging destination for IT/ITeS outsourcing'
- Working with brand ambassadors
- Mobile marketing: Bangladesh exporter directory app
- Social media support
- Trade fairs: consistent use of logo and tagline

Refer to CBI's Trends in Outsourcing for more qualitative information regarding trends in service outsourcing.

For all CBI's service outsourcing related market intelligence documents, go to CBI's 'Market Intelligence Platform for Outsourcing'.



**CBI Market Intelligence**

P.O. Box 93144  
2509 AC The Hague  
The Netherlands

[www.cbi.eu/market-information](http://www.cbi.eu/market-information)

[marketintel@cbi.eu](mailto:marketintel@cbi.eu)

This survey was compiled for CBI by Globally Cool  
in collaboration with CBI sector expert Laszlo Klucs

Disclaimer CBI market information tools: <http://www.cbi.eu/disclaimer>

November 2015