

Which trends offer opportunities or pose threats on the European outsourcing market?

Last updated:

10 October 2022

There are many trends influencing the market for BPO and ITO in Europe. There are general trends, like inflation and talent shortages, that might justify raising the prices for your products or services. There are technological trends, like the ever-growing importance of IoT and big data solutions and the popularity of VR, AR and MR solutions. And there are also trends that shape the way business is done in the ITO and BPO sector, like the emerge of Green IT, Open Talent Platforms and impact sourcing, but also the importance of value over price and the impact of the geopolitical situation in your country of residence.

Contents of this page

1. [Raising the price for your products or services](#)
2. [Accelerated digital transformation has a positive effect on the outsourcing sector](#)
3. [Talent shortage drives outsourcing](#)
4. [The \(I\)IoT and big data revolution](#)
5. [There is a need for greater cybersecurity](#)
6. [Virtual, Augmented and Mixed Reality widely available and increasingly used](#)
7. [Value is more important than price](#)
8. [Increasing interest in impact sourcing offers opportunities](#)
9. [Sustainable or green IT solutions are growing in importance](#)
10. [New business model: open talent platforms](#)
11. [Geopolitical instability influences the selection of service providers](#)

1. Raising the price for your products or services

The annual [inflation rate has more than doubled between March 2021 and March 2022](#). This has many implications, 1 of which is that you could be raising the price for your outsourcing services. Maybe even for your existing contracts.

Reasons for a high inflation rate in Europe:

- Increasing energy bills;
- Supply problems (of physical products);
- Higher shipping costs;
- Talent shortage;
- Spiralling attrition rates (people leave companies quicker).

There are 2 sides to inflation: the employee's side and the employer's side. Your employees are dealing with an increased cost of living and are therefore in need of higher wages.

For you as an employer, your operation costs have risen as well. The costs for gas and electricity have gone up, and even though the ITO and BPO sectors are not the most vulnerable sectors when it comes to the price rise of raw materials, they too are seeing their costs rising.

ITO and BPO providers are increasingly looking to pass on the extra costs to their customers. Can they do that in the same way retailers do? Research by [Everest Group](#) revealed that 43% of service providers are actively seeking to increase prices on existing contracts. 12% have received an increase whilst 11% have been declined an increase. Globally, there has been an average 6% increase in prices requested by service providers.

It can also be an opportunity for you to (temporarily) compete on price if that is feasible.

Tips:

Consider raising the prices for your products or services, even for existing contracts. This might mean you will have to re-negotiate your contract. Check your existing contracts to see if there is a clause mentioning raising the price for your products or services.

Always keep in mind that European companies are willing to pay for valuable output.

Read more about [raising prices in the contact centre industry](#) in our news item on this subject.

2. Accelerated digital transformation has a positive effect on the outsourcing sector

Covid-19 has accelerated the digital transformation process in Europe. This is leading to a higher demand for products and services that can be outsourced and a lower threshold for outsourcing these products and services to companies located outside the buyers' countries.

Digital transformation is the incorporation of computer-based technologies into an organisation's products, processes and strategies. The European market has been slower than some other areas of the world, in adopting digital transformation. It became 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 has 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.

These changes are here to stay. While working from home was established to keep workers safe, over [70% of employees](#) now prefer to keep this option even after the global health crisis has settled. Employees are demanding that home-office work be incorporated in their employment contracts. Many even consider quitting their jobs if they cannot continue to work hybrid or from home.

This means the demand for IT and IT-enabled products and services will continue to be strong. If you combine this with the increasing skills shortage in Europe (see also the next trend: talent shortage drives outsourcing) and the lowered threshold for outsourcing in general, it is very likely that the demand from European companies for ITO and BPO will continue to grow significantly in the upcoming years.

Tips:

For more information on how the pandemic may increase digital transformation, see for example Ernst and Young's article on [why the future of global business consulting is 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](#).

Read our study about [hybrid workspace technology](#) to find out more about how to profit from the digital transformation in the workplace.

3. Talent shortage drives outsourcing

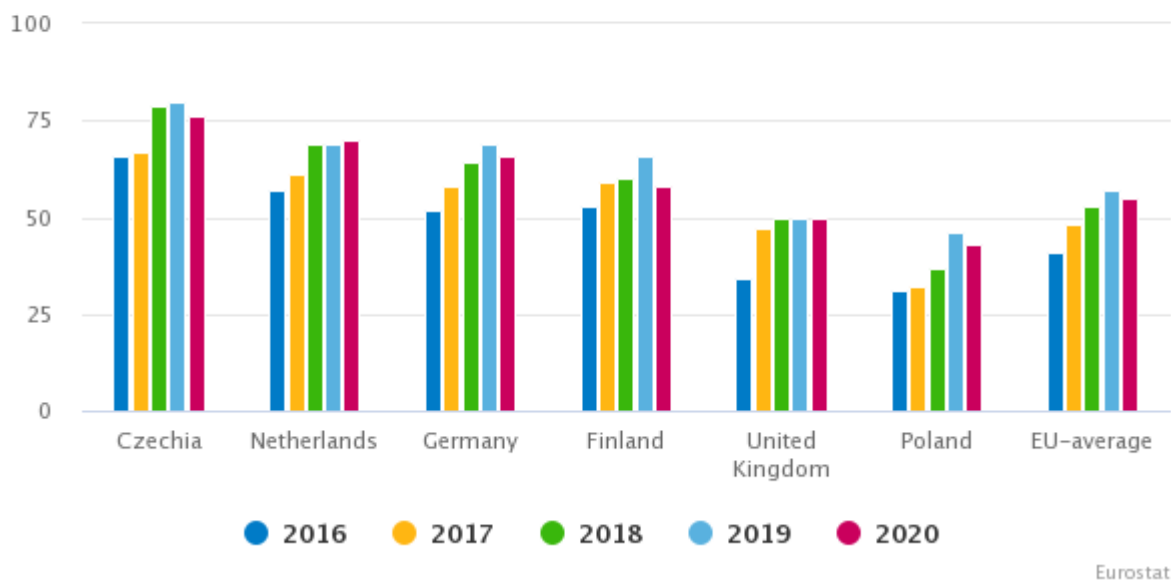
There is a considerable talent shortage on the European market. This shortage is due to demographic issues (a shrinking workforce) and the high demand for skilled workers. For the BPO and ITO sectors, the biggest talent shortages lie in ICT skills and contact centre employees.

The COVID-19 pandemic has only increased the demand for IT specialists, thus enhancing the talent shortage on the market. 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 ITO or BPO provider, as it drives the demand from Europe for IT and BP outsourcing. 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.

Figure 1: Enterprises with hard-to-fill vacancies for ICT specialists

in %*



*of enterprises that recruited or tried to recruit ICT specialists

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 a 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 1 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 and programmers and professionals in big data, mobile computing, and cloud computing.

Tips:

For more information on the talent shortage in the Contact Centre industry, read our studies on [exporting contact centre services to Europe](#).

Closely follow IT developments and build capacity in relevant technologies. For medium and long-term technology trends, check Gartner's 2022 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.

4. The (I)IoT and big data revolution

Currently, around [90% of the data in the world is unstructured](#). At the same time, demand for data is ever-increasing. If we combine this with the growing skills shortage, we can safely say there is a large demand for IoT and big data-related products and services outsourcing.

The Internet of Things (IoT) and big data are 2 independent technologies that are inseparable from each other. But they both enable some very important technological advances, including Artificial Intelligence and Machine Learning. While IoT collects data from physical objects, big data technology allows faster and more efficient storage and processing of this data.

IoT is becoming more mainstream, because the related technology is becoming cheaper and therefore more accessible to people and companies worldwide. [Europe is the third-largest adopter of IoT after the Asia-Pacific region and North America](#). However, [the European IoT market is growing annually by double digits](#) (more than 10%) from 2020 to 2025. [European Internet of Things spending was estimated to reach €184 billion in 2021](#) (forecasted in 2021 and converted from USD).

In 2021, the [global big data market was valued at €154 billion](#). And it is expected to reach a size of €259 billion by 2026, growing at a Compound Annual Growth Rate (CAGR) of 11%. [The USA is the biggest market for Big Data solutions, followed by China and Europe](#). However, the European market is growing fast. Its value was estimated at €15 billion in 2019 and is expected to [expand with an average annual increase of almost 26%](#) from 2020 to 2025.

The amount of unstructured data has enormous potential for European companies, but only when it can be processed by analytical tools operated by skilled personnel to extract valuable insights.

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 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.

Also, read our studies on [the market for exporting \(I\)IoT services to Europe](#) and [the market for exporting Machine Learning and Artificial Intelligence to Europe](#) to read more about the opportunities and requirements in those markets.

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

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 others) big data solutions from their office in Ghana. An example of an IoT company is [Eacomm Corporation](#) from the Philippines. This company has successfully built up an international customer base in IoT-related services.

5. There is a need for greater cybersecurity

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 [2021 Cyber Security Trends Report](#) by PurpleSec revealed that cybercrime has increased by 600% since the global pandemic started. This means that European companies will be looking to work with cybersecurity experts who can protect their data, software and infrastructure from threats both on and off the cloud.

Many European buyers expect you to implement an information security and management system, especially in industries in which security is essential, such as finance and banking, health care and mobile applications. Although there is no specific legislation on this, the [ISO 27000 series](#) contains common standards and guidelines for information security.

ISO 27001 is an internationally recognised standard that provides requirements for an information security management system. Companies can become ISO 27001 certified if they comply with the standard. ISO 27002 is a supporting document to ISO 27001 that gives guidance and advice on the implementation of information security controls. Other supporting guideline documents in the ISO 27000 family are ISO 27003 and ISO 27004. ISO/IEC 27701:2019 is a certifiable privacy extension of ISO 27001, supporting the GDPR.

Tips:

Make sure you have effective security processes and systems in place, from business continuity and disaster recovery to virus protection. Consider obtaining ISO/IEC 27701:2019 certification. To do so, you will need to either have an existing ISO 27001 certification or implement ISO 27001 and ISO 27701 together as a single implementation audit.

Ask your buyer to what extent they require you to implement a security management system like the ISO 27001 standard.

See our study about [buyer requirements on the European outsourcing market](#) for more information on cybersecurity-related requirements 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.

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

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

6. Virtual, Augmented and Mixed 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. Mixed Reality (MR) is a combination of both.

VR, AR and MR technologies are popular amongst consumers and businesses, in applications ranging from games to health care simulations.

It is estimated that the AR, VR and MR market will be worth around [€238.76 billion by 2028](#), coming from only €26.48 billion in 2021. This is a compound annual growth rate (CAGR) of almost 32%. 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, AR and MR include the availability of smaller (less bulky) hardware, less expensive hardware, highly developed graphics and VR sensors in mobile devices. Access to reliable 5G networks will help the further development of VR, AR and MR, as they require large amounts of data processing which will be supported by 5G networks.

Applications of VR, AR and MR can be found in gaming and entertainment, health care 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. Consider having a small research and development team in your company. It could be just 1 or 2 persons, even part time. What is important is that new technologies make their way into the company. You must assess their potential and regularly test the market opportunities, both domestically and internationally.

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 who offer 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.

7. Value is more important than price

Even though cost saving is still an important selection criterion when making the decision to outsource, when it comes to making the decision 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 focussed on outcomes and value.

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, outsourcing 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:

Emphasise the value you can add to your potential client's company. You do not simply take over the tasks from them but can truly add value to their company.

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 ask 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.

8. Increasing interest in impact sourcing offers opportunities

Impact sourcing is 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.

Why buyers value impact sourcing:

- Supplier performance is high;
- Stable workforce;

- Supplier inclusion (meeting supplier inclusion and diversity quotas);
- Corporate citizenship (promotes responsible supply chains and social equality);
- Positive social impact.

Why suppliers value impact sourcing:

- Facilitates access to a large, untapped talent pool;
- Cost savings;
- Stable workforce (lower attrition rate and higher motivation);
- Competitive edge;
- Positive 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](#).

There are also platforms dedicated to impact sourcing. An example is [B.O.T.](#) (Bridge, Outsource, Transform), which is funded by UNICEF (amongst others). It has launched its platforms in Lebanon and Jordan.

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, or the [Mandela Legacy Foundation](#) in South Africa.

Consider adopting the [Impact Sourcing Standard](#).

9. Sustainable or green IT solutions are growing in importance

For quite a long time, the words 'sustainable' and 'green' were mainly linked to physical products. In recent years, sectors that deliver mostly digital products or services have become increasingly aware of their environmental impact.

Sustainable or green IT is the practice of environmentally sustainable computing. Green IT aims to minimise the negative impact of IT operations on the environment by designing, manufacturing, operating and disposing of computers and computer-related products in an environmentally friendly manner.

Ways in which the ITO and BPO sectors can reduce their environmental impact:

- They can reduce the energy consumption of their office equipment by 23% if all office equipment is switched to low-power mode. If all desktop computers and printers are turned off for the night, energy consumption can be further reduced by 9%.
- Data centre energy efficiency can be improved.

- Multi-function office equipment can reduce energy consumption and waste.
- Telecommuting and working from home saves significant transportation impact.

Energy-efficient and green, clean or smart energy solutions will be valued more and more in the coming years. Examples of such solutions are: cleantech, smart cities, smart homes, renewables, smart grids and more.

Tips:

Reducing your energy consumption has never been so rewarding, not only because of the environmental impact, but also because the energy prices have been rising very fast in the past year.

Read more about [how to make your digital company more green](#) on this blog by the Center For Sustainable Systems.

Radboud University in the Netherlands is well on its way to drastically lowering its IT energy demand. On its website, [you can read how it is doing this](#).

10. New business model: open talent platforms

Open talent platforms can be seen as the future of recruiting. For outsourcing providers, they offer both threats and opportunities. Open talent platforms can help you attract new business, but they can also help companies find employees. In that case, those companies might need fewer outsourcing providers.

The outsourcing industry worked with the same delivery model for more than 25 years, by working offline and in-person. The market then moved to Service Provider 2.0. This model is driven by automation and transformation (like Software as a Service).

But before this model had the chance to completely take over the market, a new model became popular: Service Provider 3.0. This delivery model works with online platforms where companies can hire talent from anywhere. These platforms are called open talent platforms.

In 2021, around [11% of the European Union's workforce is estimated to have provided services through online platforms](#). This percentage is expected to rise significantly in the upcoming years, [especially in the ITO and BPO sectors](#). Currently, around [33% of talent services are focussed on IT](#).

Using open talent platforms has the following benefits for service providers:

- Access to many potential projects worldwide;
- Fewer fixed costs;
- Easier to compete with big brands;
- Focus is on talent, not on big brand reputation;
- Talent is not seen as an expense, but as an investment.

Tips:

Tap into the worldwide open talent market by signing up for 1 or more open talent platforms.

Read more about open talent platforms and how to use them to improve your business in our study [8 tips to go digital](#).

11. 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 unstable or antagonistic governments, power shifts, economic restrictions, tighter regional regulations, terrorist threats, a pandemic and other unpredictable events.

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.

That research proved to be even more relevant after the pandemic and the war in Ukraine.

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 a 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 into 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?'

Have a good answer when potential customers ask how your company handled the COVID-19 pandemic. 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 instable circumstances in your area.

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

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