

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

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The European outsourcing market is influenced by many different trends. There are general trends like the demand for cybersecurity, the rising use of artificial intelligence (AI) tools and the increased interest of European SMEs in outsourcing. And there are also other trends that are influencing the ways in which companies do business. They are increasingly preferring to work with single suppliers, in addition to adopting agile working methods, demanding sustainable solutions and working with different contracts. Buyers are increasingly looking for added-value suppliers, flexibility and outsourcing partners who can serve as a research and development department.

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## 1. Demand for better cybersecurity

As cyberthreats continue to increase, one of the most prominent trends in the IT outsourcing market is the growing demand for cybersecurity. Buyers are becoming increasingly aware of the potential cyberthreats. It is your job to make sure your products or services are secure. In line with this trend, the demand for managed security services is increasing.

Globally, [the number of security attacks grew by 125% from 2021 to 2022](#). Industry experts are convinced that this upward trend will continue in the next five years, and possibly even further. Cybersecurity has always been a concern for companies. Now that most businesses are using the cloud, however, they are much more easily exposed to data and privacy exploitation, at many levels.

As a result, European companies are increasingly turning to third-party providers for advanced cybersecurity solutions. This includes everything from managed security services to cloud-based security platforms, which can provide an additional layer of protection against malicious attacks.

Managed security services can help organisations protect their data from breaches and malware attacks and meet industry regulations and standards. There is also an increasing interest in hiring a managed service

provider (MSP) — a third-party service provider who manages a specialised operation (for example, data security).

Companies are increasingly handing over cybersecurity to MSPs, as they are more likely to have cybersecurity experts and advanced solutions. The [demand for MSPs is so high that it was worth almost €140 billion in 2020 and will grow to almost €250 billion by 2026](#), according to Statista.

European companies are also increasingly concerned about how their outsourcing partners (actual or potential) are handling cybersecurity. For this reason, you should ensure that the products or services you deliver include good security practices. You can do this by (if applicable):

- Implementing secure coding practices;
- Using a secure development environment;
- Encrypting sensitive data;
- Implementing strong authentication;
- Regularly scanning for vulnerabilities;
- Implementing security monitoring and logging;
- Having a plan for incident response;
- Educating employees about cybersecurity;
- Having a backup and recovery plan.

### **Tips:**

Communicate how seriously you take cybersecurity. Emphasise this in your marketing message. Do this in your general marketing (for example, website, advertisements) and your personalised marketing, when you are sending proposals and in collaboration communication.

Consider offering services concerning cybersecurity like managed security services, cloud-based security platforms or hiring out managed services providers.

## **2. From multiple suppliers to preferred supplier(s)**

In the past 10 years, most European buyers had multiple outsourcing suppliers, even for the same or similar tasks. Their main reason for working with multiple suppliers was that they thought it would be more cost-efficient. This model is now changing. European buyers are currently looking to work with preferred suppliers. This practice is also referred to as strategic partnerships.

In recent years, European organisations have been increasingly relying on outsourcing to optimise their operations, reduce costs and access specialised skills. The COVID-19 pandemic dramatically changed the dynamics of the workplace, however, posing a challenge to traditional outsourcing models. When remote work became the norm and virtual collaboration tools facilitated seamless communication, the difference between in-house and outsourced employees became smaller. This provided an opportunity for buyers to re-evaluate their outsourcing strategies.

European companies are realising that it can be very beneficial to have a strong bond with their suppliers. It increases commitment and trust, making it easier to achieve desired project outcomes.

You would obviously like to become such a preferred supplier or strategic partner, and you would definitely prefer not to be one of the suppliers to whom a company is bidding farewell. Being a preferred supplier does not

mean that you must expand (diversify) your range of services. It might mean that you have to be able to scale up to do more of the work you are currently doing for a particular buyer.

In general, you become a preferred supplier when your buyer stops outsourcing small projects to several different suppliers, but instead chooses a single supplier (you) with whom they form a strong bond. Your working relationship will transform from one in which you do a few small, isolated projects into one in which you and the buyer cooperate more on larger projects.

### **Tips:**

Invest in the relationships you have with your buyers. Examples could include proactive engagement, actively seeking feedback and being a collaborative partner. Regularly ask buyers about their evolving needs and offer innovative ideas and solutions to help them stay ahead in their industry.

Understand your buyer's business: Take the time to understand each buyer's business, industry and specific needs. Go beyond surface-level knowledge, and delve into their strategic goals, difficulties and market challenges. Once you understand a buyer's operations, you will be able to customise your services and solutions to align with the goals of that buyer. This will demonstrate to buyers that you are committed to their success.

Build trust: Consistently deliver high-quality services and meet or exceed agreed-upon deadlines. Maintain open and transparent communication channels, provide regular updates of your progress and address any concerns quickly.

European companies prefer suppliers who can scale up when needed. Have a plan ready in case you need to scale up and attract new talent. Present this plan to current or potential buyers to show that you are prepared.

## **3. Value over price**

In the ITO and BPO industry, experts are seeing a shift towards prioritising value over price. Buyers now expect higher levels of service and are increasingly seeking suppliers who can meet these new standards. As a result, the industry is witnessing a shakeout, in which companies that cannot meet these higher expectations face the prospect of losing their former buyers.

Another aspect of this trend is the increasing [demand for niche talent](#). Buyers are looking for suppliers who can provide specialised expertise, industry-specific knowledge and innovative solutions customised to their unique business needs.

This change is in line with the trend in which generic outsourcing approaches are no longer sufficient to address complex challenges and achieve strategic objectives.

Below is an example of how you can offer added value to your buyer. Your buyer is an SME specialising in organic skincare products. The company has decided to outsource its e-commerce website development to you.

The SME provides you with a basic outline of requirements, including features like product listings, a secure checkout process and a simple customer account system.

Your added value is industry knowledge. Because of this knowledge, you are aware of the competitive nature of the skincare industry. You suggest additional features to add value to the project. You propose integrating a

system for customer reviews and ratings, which would allow shoppers to provide feedback on products. In addition to building trust, this system would provide valuable insights for product improvement.

Your added value also consists of knowledge about e-commerce websites. Based on this knowledge, you could recommend incorporating a newsletter subscription feature to capture and nurture leads. This emphasises the importance of engaging customers beyond the initial purchase, potentially leading to repeat business.

You could even suggest integrating a chatbot for customer support, thereby enhancing the user experience and providing timely assistance to potential buyers.

The SME appreciates these suggestions and agrees to implement the additional features. As a result, the e-commerce website is able to facilitate smooth transactions whilst also providing a platform for customer interaction and relationship-building.

This example illustrates how an outsourcing provider can add value to SME projects by understanding the client's industry, anticipating needs and proposing enhancements that go beyond the initial scope, ultimately contributing to the market success of the SME.

You will have a competitive advantage if you can offer:

- Access to niche talent pools;
- Good domain expertise;
- A demonstrated track record of success in specific areas; and
- Customised solutions.

### **Tips:**

Emphasise quality. Do this in your marketing, as well as on your website.

Regularly ask your buyers how you can improve on quality, and make your own suggestions for quality improvement.

Add value to your product or service by offering customised solutions.

## **4. Generative AI**

Generative AI is a transformative trend in outsourcing. It is the key to innovation, efficiency and automation. By using generative AI, you can improve productivity, reduce costs, drive innovation and gain a competitive advantage. As generative AI continues to evolve, outsourcing providers must embrace this technology to stay ahead in the evolving outsourcing landscape.

The following are several ways in which you can benefit from generative AI:

- **Improved Productivity:** Generative AI helps outsourcing providers automate repetitive or time-consuming tasks, making them more productive. This allows companies to focus on more important activities and complete projects faster.

- **Cost Savings:** Generative AI can reduce costs by automating tasks that would otherwise require substantial time and effort. Outsourcing providers can offer cost-effective solutions by using AI algorithms to automate processes, improve workflows and avoid mistakes.
- **Innovation and Competitive Advantage:** Generative AI enables outsourcing companies to provide innovative and unique solutions to their clients. By using AI-generated insights and designs, providers can stand out in a competitive market and offer customised services.
- **Scalability and Flexibility:** Generative AI allows outsourcing providers to scale their services and adapt to changing client needs. With AI, providers can handle larger workloads and respond quickly to new demands.
- **Data-Driven Decision-making:** Generative AI can analyse large amounts of data, thereby helping providers to make decisions based on evidence. By using AI-generated insights, outsourcing providers can offer data-driven recommendations and solutions to their clients.

### Tips:

Learn to work with generative AI, for both your internal processes and your products. Read more about this in this document: [9 tips to go digital in the outsourcing sector](#).

Read more about what AI can do for the outsourcing sector in this news item: [Is AI the future of software development?](#)

## 5. Agile working

After years of working with the [waterfall approach](#), most of the outsourcing sector has shifted to 'agile working', which essentially amounts to flexible working. Developments in IT are occurring at such a rapid pace that both buyers and providers of IT solutions must be flexible.

In the outsourcing sector, agile working involves bringing together people, processes, connectivity, technology, time and place to find the best working method for a specific task. It emphasises working within the guidelines of the task, whilst allowing flexibility in how it is performed. It involves finding the most appropriate and effective approach, breaking free from rigid boundaries to adapt and optimise the work process. Agile working encourages collaboration, adaptability and leveraging technology to achieve desired outcomes.

The most recent trend in agile working is 'T-shirt sizing' — a combination of the agile and waterfall approaches. Its goal is to gain a better grip on agile working. The concepts of 'grip' and 'agile' could largely be regarded as opposite ends of a spectrum. The following question is an example of T-shirt sizing in outsourcing: 'What are we going to develop today: small, medium, large or extra-large?' Most agile teams make such estimates, as it helps teams to understand, discuss and plan what they are going to work on next.

Outsourcing providers who apply agile working methods approach projects in a way that allows for flexibility, collaboration and rapid adaptation to changing requirements. For example, suppose a client has outsourced the development of a software application to you. In an agile working environment, you would start by breaking down the project into smaller, manageable parts known as 'sprints'. Each sprint typically lasts two to four weeks.

During the first sprint, you and your buyer work closely together to define the specific features and functionalities needed for the application. The buyer then prioritises these features based on current needs.

Your development team then focuses on building and testing the highest-priority features during the first sprint. At the end of the sprint, you demonstrate the working features to the client and ask for feedback.

Based on the buyer's feedback, you make adjustments and improvements in the sprints that follow. This process creates room for continuous improvement and ensures that the final product will be closely aligned with the buyer's vision.

Throughout the project, regular communication and collaboration between you and the buyer are essential. This might involve daily or weekly meetings to discuss progress, address any challenges and make decisions together.

By adopting agile practices, you can deliver a product that is both technically sound and closely aligned with the buyer's evolving needs and priorities. An additional benefit of this approach is that it helps build a strong and collaborative relationship between you and your buyer. This is also in line with the 'preferred supplier' trend.

### **Tips:**

Make your company's culture one of collaboration and communication. Encourage open collaboration and effective communication amongst team members. Emphasise the importance of sharing ideas, feedback and progress updates regularly. Promote a supportive environment in which everyone feels comfortable contributing their insights and perspectives. Agile working thrives on effective collaboration and communication to ensure alignment and quick decision-making.

Empower cross-functional teams. Form cross-functional teams with members from different disciplines or departments. These teams should have skills and expertise relevant to the project or task at hand. By bringing together individuals with different perspectives, you can create innovation, creativity and efficient problem-solving. Encourage team members to work together, share knowledge and take ownership of their tasks.

Embrace flexibility and adaptability. Promote a mindset that embraces change, flexibility and adaptability. Agile working acknowledges that requirements and priorities may evolve, and plans may need adjustments along the way. Encourage teams to be responsive to changes, identify opportunities for improvement and adapt their strategies accordingly. This flexibility will give you continuous improvement and will ensure that the company remains responsive to evolving market dynamics.

Implement agile methodologies and practices (for example, [Scrum](#) or [Kanban](#)), and implement related practices to support agile working. Break down projects into smaller, manageable tasks or sprints with clear objectives and timelines. Use visual management tools (for example, Kanban boards) to track progress and visualise work. Hold regular team meetings (for example, daily stand-ups or sprint reviews) to foster transparency and ensure that everyone is aligned.

Keep learning and improving. Promote a culture of continuous learning and improvement within the organisation. Encourage teams to reflect on their work, identify areas for enhancement and implement changes to optimise performance. Provide opportunities for professional development and skill-building to support the growth of team members. Foster a safe environment where mistakes are seen as learning opportunities, encouraging experimentation and innovation.

## **6. Market requires sustainable solutions**

Sustainability is a hot topic, including in the outsourcing sector. Many governments in Europe are pushing sustainable solutions. Legislation is being prepared to make sustainability a legal requirement. An increasing number of European companies are demanding sustainability standards from their buyers. Sustainability is thus increasingly becoming a requirement.

There are two directions within sustainability: green sustainability and social sustainability. Green sustainability can be described as minimising harm to the environment and preserving resources for future generations through eco-friendly practices. Social sustainability has the goal of creating a fair, inclusive and equal society that meets the needs of all individuals.

One trend within the outsourcing sector is that buyers help providers to become more sustainable. This trend is becoming increasingly visible in the market.

The following is an example of a social practise that benefits the well-being of employees. This [small IT company in India has installed software that reminds the workers to 'clock off' in time.](#)

### **Tips:**

Write your own sustainability policy. It does not have to be perfect, and you do not need to have an answer to all sustainability issues within your company or the sector. What is important is that buyers are able to appreciate a provider who has a CSR policy. It indicates that you understand what it means and that you are motivated. Once a deal has been achieved, your buyer can help you improve your strategy.

Read the documents on the CBI website concerning sustainability in the outsourcing sector: [7 tips on how to go green in the outsourcing sector](#); [7 tips on how to become a socially responsible exporter in the outsourcing sector](#).

## **7. Outsourcing partner as a Research and Development department**

Outsourcing partners are increasingly being seen and treated as external research and development (R&D) departments. This trend is largely due to the lack of available talent in many European countries.

New technical developments are creating possibilities for great progress, but it is hard to find the right people to work on them. Many European companies have tried to hire talent themselves, to research and develop new ideas for their businesses, but they have often been unsuccessful. For this reason, they are increasingly interested in outsourcing. Companies are looking for outsourcing partners to serve as their research and development departments and come up with innovative solutions.

Imagine a scenario in which a buyer has decided to partner with you. Your buyer operates in the healthcare industry and would like to develop an innovative telemedicine platform. The buyer lacks the in-house expertise and resources for extensive R&D in this field.

In this scenario, you are acting as an extended R&D department. You start by conducting a thorough market analysis, in which you assess current trends, competitor offerings and emerging technologies related to telemedicine. You also investigate regulatory requirements and user preferences. Based on what you have learned, you identify key opportunities and challenges relating to telemedicine. You then propose a range of innovative features and functionalities that could differentiate your buyer's platform in the market.

Next, you start prototyping and testing various components of the telemedicine platform. You could develop

proof-of-concept models, conduct usability studies and fine-tune the user experience.

Throughout this process, there are continuous collaboration and feedback loops between you and your buyer. These loops provide insight based on domain knowledge and specific requirements, and you provide technical expertise and creative solutions.

As the project progresses, you fine-tune the platform based on feedback and insight gained from testing. You ensure that the technology is scalable, secure and compliant with industry standards.

Ultimately, you deliver a telemedicine platform that not only meets your buyer's initial vision, but that also incorporates innovative features that set it apart in the market. In this way, you have acted as a valuable R&D partner, using the buyer's expertise to drive innovation and enhance your buyer's competitive edge in the healthcare industry.

In this scenario, success requires a combination of technical expertise, industry knowledge and strong communication skills. Examples of such skills include:

Technical proficiency:

- Expertise in software development, including relevant programming languages, frameworks and technologies;
- Knowledge of technologies, protocols and best practices in telemedicine;
- Experience in developing platforms that are scalable, secure and compliant.

Innovation and creative problem-solving:

- Capacity for innovation;
- Creative problem-solving skills;
- Ability to translate technical concepts into understandable insights for the buyer, and the other way around;
- Openness to incorporating domain knowledge and specific requirements provided by the buyer into the development process.

Project management:

- Project management skills;
- Communication skills regarding project status, potential challenges and proposed solutions;
- Assurance processes to ensure the platform is compliant and that it meets the required standards.

Although this trend is relatively new in the outsourcing industry, experts predict that it will grow significantly within the next 10 years. This is mainly because the talent shortage is only growing, with no solution in sight in the near future.

Another reason that this trend is likely to grow has to do with the opportunities it offers for European companies. When they see their competitors are working with their outsourcing partners as research and development departments, they might decide to follow their example.

If you think your company has the potential to act as an outsourced research and development department for your buyers, consider steering your company in that direction.



## Tips:

Emphasise on how you can contribute to the development of your buyers' companies by essentially serving as a research and development department for them. Illustrate your vision with real-life examples of how outsourcing providers have contributed to the business success of their buyers by coming up with new business ideas or improvements.

Focus on your core competences. Know where your added value lies. Where can you make your best contribution? What skills do you currently lack?

Table 1: Sector transformation

	Current situation (from recent past to near future)	Trend
Doing business	<ul style="list-style-type: none"><li>• European companies work with multiple suppliers.</li><li>• Price is very important as a deciding factor.</li><li>• The outsourcing team is perceived as to be outside of the buyer's business.</li><li>• Buyers contract providers when they need something.</li></ul>	<ul style="list-style-type: none"><li>• European companies prefer to work with single preferred suppliers.</li><li>• Value is more important than price.</li><li>• The outsourcing team is part of the buyer's team.</li><li>• The outsourcing provider serves as the buyer's research and development department.</li></ul>
How you run your company	<ul style="list-style-type: none"><li>• First steps in using generative AI.</li><li>• Working with a fixed plan.</li><li>• Sustainability does not play a very big role.</li></ul>	<ul style="list-style-type: none"><li>• Generative AI is an integrated part of outsourcing providers' businesses.</li><li>• Agile working methods are adopted.</li><li>• Sustainability is an important factor in your business.</li></ul>
Your product or service	<ul style="list-style-type: none"><li>• Cybersecurity is very important.</li><li>• You do what your client asks you to do, and not much more (or less).</li></ul>	<ul style="list-style-type: none"><li>• Cybersecurity is very important. Clients expect you to keep up to date with the newest threats and solutions.</li><li>• You propose added value options and profile yourself as an added-value supplier.</li></ul>

## Quote

Making clear what customers can expect is crucial to gaining credibility from buyers in the European

Union.

Ad Hesselings, CBI outsourcing expert and senior IT recruiter

## Customisation and flexibility

Customisation and flexibility are becoming increasingly important for European buyers. The field of information technology is changing rapidly, with new technologies, methodologies and tools emerging on a regular basis. As a result, organisations need the flexibility to adapt to technological trends and incorporate customised solutions that are suited to their specific needs.

On-demand buying is a trend that corresponds to those of customisation and flexible contracts. An increasing number of current and potential European buyers of IT and business-process outsourcing are looking to buy products or services on demand.

### Tips:

If you offer products or services focused on achieving specific business objectives and measurable results, consider working with outcome and value contracts. This will make you more innovative, accountable and aligned with the strategic goals of your buyers. This will lead to a stronger partnership and greater value, but it also requires careful planning, monitoring and collaboration to ensure success.

Customise your services to meet the specific requirements of each buyer. Avoid a one-size-fits-all approach, and demonstrate your flexibility in adapting to their unique needs. Be receptive to feedback and willing to make necessary adjustments to optimise processes, workflows and deliverables. The ability to provide customised solutions demonstrates your commitment to the buyer's success and reinforces your value as a preferred supplier.

## 8. SMEs are increasingly open towards outsourcing

In the European market, the outsourcing of IT and business processes has long been a practice used primarily by larger companies. For SMEs from emerging countries, however, larger companies are relatively difficult to target, thus making it harder for them to enter the European market.

There is good news: European SMEs are increasingly open to outsourcing. This is because they are beginning to realise the benefits of outsourcing for smaller companies as well. In particular, small companies are less likely to have experienced employees, and outsourcing enables them to access the best talent.

According to a survey conducted by Clutch, [90% of small US businesses](#) had plans to outsource a business process in 2022 — an increase of 10% from 2021. Industry experts consider these figures equally representative of the European market.

This outsourcing trend will make the demand for IT and business process outsourcing grow, and it will make the European market more accessible to SMEs from emerging economies.

## Tips:

Highlight the benefits of outsourcing in your promotional materials, and particularly on your website.

Read more about how to find buyers (including SMEs) in our study: [10 tips for finding buyers on the European outsourcing market](#).

## 9. Demanding outsourcing providers

Buyers are not the only ones who can be very demanding; industry experts have observed that outsourcing providers are becoming more demanding as well. Some buyers perceive hiring an outsourcing provider as a 'quick fix'. Even though they are not prepared, they expect outsourcing providers to deliver output almost immediately. This is a very bad start for collaboration.

Although a buyer can expect a lot from you (as an outsourcing provider), if the buyer is not prepared, it will slow the process. Moreover, it could reduce the quality of the end product or even lead to project failure. An unprepared buyer might assign the work to you and then leave you to do it without communicating. Alternatively, a buyer might expect a quick fix without any collaboration or strategic communication.

It is therefore perfectly acceptable — and necessary — for outsourcing providers to have demands for their buyers as well. Working with an outsourcing provider is a partnership, and not an excuse to dump work that you either cannot or do not wish to do.

Outsourcing service providers are increasingly demanding the following from their buyers:

- A good security policy
- Clear quality requirements

The following are examples of what you can do:

- Conduct a readiness assessment. Before committing to a partnership, assess the buyer's level of preparedness and maturity in terms of outsourcing needs. Evaluate various factors, including the buyer's understanding of the outsourcing process, organisational structure and willingness to collaborate.
- Educate buyers about the outsourcing process. Provide resources, case studies and examples that illustrate the benefits and potential challenges.
- Clarify expectations. Have an open and honest conversation about what each party expects from the partnership. Discuss goals, timelines and responsibilities. This type of clarity can help both parties understand whether they are a good fit for each other.
- Consider conducting a pilot project. Propose starting with a smaller, low-risk pilot project. This will allow both parties to evaluate compatibility and determine whether a larger, long-term partnership is a good idea.

## Tip:

It is not a bad thing to be demanding when trying to make a sale. Although you must obviously hit the right note, demanding a professional attitude towards a current or potential outsourcing project will demonstrate your dedication and professionalism.

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