

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

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The demand for IT outsourcing services from developing countries to the European market is showing strong growth. This surge is driven by various factors, including the rapid expansion of digital technologies, a shortage of talent and a need for cost-effective solutions. In addition, sustainability concerns are shaping the outsourcing landscape, with an increasing emphasis on environmentally and socially responsible practices. Specialisation creates potential in any sector. Cybersecurity is still the most in-demand IT skill.

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1. What makes Europe an interesting market to target for this sector?

In IT outsourcing (ITO), companies contract out IT-related tasks to external service providers, whether domestic, nearshore or offshore. The continuing increase of digitalisation and technical developments is boosting demand for IT solutions in Europe. Given the scarcity of talent and rising prices in nearshore countries (e.g. Central and Eastern Europe), the idea of offshoring services to developing countries is becoming more attractive. The presence of diasporic groups in Europe could provide a further basis for offshore ITO activities. Moreover, sustainability is becoming increasingly important.

Nearshoring versus offshoring

European companies prefer to outsource services to providers within their own countries. This is also known as 'domestic outsourcing' or 'onshoring'. It is often the easiest option, for various reasons, including the absence of language barriers or time differences, as well as the fact that suppliers are bound by the same laws as the buyers. According to a 2020 international survey conducted by the Boston Consulting Group (a global consulting firm), [46% of all ITO/BPO budgets are spent onshore, with 23% nearshore and 31% offshore](#). Although the share of onshore outsourcing may be higher for European SMEs, this survey provides a good general impression of the market. In many cases, IT projects are complex, long and variable, in addition to being critical to the strategic future of clients. For this to be successful, good communication between clients and providers is particularly important.

The most popular nearshoring locations for Western European companies are Central and Eastern European (CEE) countries (e.g. Poland, Bulgaria and Romania). In addition to offering the usual benefits of nearshoring, these countries are members of the European Union (EU), and their contracts and payments are governed and protected by the same European legislation that applies in the buyer countries.

Despite the benefits, labour prices in nearshore countries are rising, especially within the EU. As a result, service

providers in these countries are less price-competitive, and this could make European companies more open to offshoring.

To benefit from these developments, you can choose one of two options: forming subcontracting partnerships with nearshoring providers or competing with them. In addition, the increased familiarity with remote working due to the COVID-19 pandemic seems to have lowered the barriers to offshoring.

The [Global Services Location Index](#) (GSLI) ranks ITO/BPO destinations according to four characteristics: financial attractiveness, people skills and availability, business environment, and digital resonance. This information can give you an idea of how competitive your country is. The GSLI is compiled by [Kearney](#), a global management consulting company that is active in more than 40 countries.

Most developing countries are more than three times more financially attractive than non-developing countries are. Some countries score high on people skills and availability (e.g. Indonesia and Vietnam).

Some countries are very good at building digital skills and adopting emerging technologies (e.g.). Others score high in the general GSLI, but lack digital focus (e.g. Egypt, Morocco and Sri Lanka).

Some countries must be careful to retain talent (e.g. Indonesia and Vietnam). Business climate is another important factor. Two countries that score well in this area are Jordan and Vietnam.

Tips:

Limit the possible disadvantages of being offshore. Provide excellent communication, availability in the required time zones, and good security and privacy measures.

Differentiate yourself from onshore and nearshore providers to remain competitive. Emphasise how you are different in your marketing message. Do not compete on price alone, but also analyse what other advantages you can offer (e.g. access to skills or specialised industry expertise).

Research what your competitors are doing right and wrong, in order to learn how you can differentiate yourself from them. For example, see the [Outsourcing Destination Guides](#) of the German Outsourcing Association.

Partner with nearshore service providers that are looking for cheaper subcontractors. Many service providers in developing countries have not yet recognised this opportunity. This can offer really good opportunities.

Growing European demand for ITO

Determining the exact size of the European ITO market is difficult, because definitions and indicators differ greatly depending on the source.

To present a coherent and consistent estimate across the European market, this study uses data from several global and European editions of the [ISG Index](#). This index measures commercial outsourcing contracts with an annual contract value (ACV) of EUR 5 million or more, thus providing an indication of the general ITO market. While the ACV for Europe also includes the Middle East and Africa (EMEA), these contracts are mainly European.

Source: ISG Index, value converted from USD

For the ITO sector, 2022 was the second-best year ever in contract values. The best year was 2021, however, and ITO contract values thus declined by 4% from 2021 to 2022. Worldwide ITO contract values reached almost EUR 25 billion in 2022. Europe (EMEA) accounts for about one third of the global market. The United States of America is also a large outsourcing market, with competition from nearshore suppliers in Latin America rather than Eastern Europe.

Source: ISG Index

Between 2018 and 2022, the European ITO market (including domestic, nearshore and offshore outsourcing) grew from EUR 13.8 billion to around EUR 21.8 billion in contracts per year, which translates to an annual increase of more than 12%. Since the start of the pandemic (2020), the market has shown a significantly higher growth rate. This is most likely due to the increased demand for IT solutions during the working-from-home period. The market is generally projected to continue growing at a similar pace.

In terms of the ACV for ITO, the ISG Index highlights [Software-as-a-Service](#) (SaaS) and [Infrastructure-as-a-Service](#) (IaaS). Demand for such cloud-based services has shown an especially strong increase in 2023.

Increased digitalisation is driving demand for ITO

At the outset of the pandemic, [digital adoption made five years' worth of progress in only eight weeks](#). In a global survey conducted by KPMG concerning the impact of COVID-19 on digital transformation, [67% of all respondents said that they had accelerated their digital transformation strategies as a result of COVID-19](#), and 63% said that they had increased their digital transformation budgets. In 2021, [56% of European SMEs had achieved a basic level of digital intensity](#). A basic level means the use of at least four of twelve selected digital technologies (e.g. any AI technology; e-commerce sales accounting for at least 1% of total turnover). This share is expected to grow to more than 90% by 2030.

ITO allows buyers to focus on their core business functions

One major advantage of outsourcing IT services is that it eliminates the need for European end-user companies to hire in-house expertise. More specifically, IT services require excellent knowledge, skills, tools and security provisions that most European end-user companies do not have. Outsourcing allows them to focus on their core business, in addition to providing scalability: the flexibility to engage IT specialists as and when needed.

Growth emerging from European companies

The outlook for the ITO market in the coming years is good. For example, Statista predicts that [the global value of the ITO market will grow from EUR 136.49 billion in 2023 to EUR 225.71 billion by 2028, which translates to a CAGR of almost 10.6%](#). This is considerably more than Statista's predictions for 2022–2026, when the market was forecast to grow by a CAGR of 6%.

Companies are moving into the cloud, and they need customised solutions to do so. One objective of the EU's Digital Decade is to ensure that [75% of all European businesses are using cloud-edge technologies](#) by 2030.

Amongst other developments, consumers have further embraced online shopping; retailers need web shops and apps; the manufacturing industry is looking for real-time solutions to keep up with stock, and the financial industry wants to be able to access data from different locations.

These trends are projected to continue in the coming years. Companies are aware that digital solutions offer major benefits to their companies. In most cases, however, it is not feasible to hire staff to develop these digital tools. To solve this, businesses are starting to realise that ITO can make them more flexible and resilient in difficult times.

Some companies that are reconsidering their ITO strategies may move their offshored activities to nearshore or domestic providers in search of stability. Others may have become more interested in offshoring as a way to save costs.

Either way, diversification strategies aimed at minimising risks are no longer a trend. Most companies are choosing the 'preferred supplier method', meaning that they prefer to work with single suppliers with whom they wish to build strong relationships.

Growth coming from the European Union

The EU has set out a strategy to become a leader in the digital economy. This involves embracing new digital technologies, promoting digital skills and innovation, and creating a regulatory framework that encourages investment and growth in the sector. [The EU's Digital Single Market strategy](#) aims to remove barriers to cross-border online activity and promote the development of a seamless and secure digital environment across the EU.

For you, this strategy presents opportunities to tap into a growing market for digital services and solutions across Europe. As the EU seeks to boost innovation and digital transformation across various industries, there is a growing demand for expertise in several areas, including cloud computing, cybersecurity and data analytics. Providers of ITO services that can offer these services and solutions are well-positioned to benefit from the growth opportunities emerging in the EU's digital economy.

The EU's focus on promoting digital skills and innovation is creating a more diverse and competitive market for ITO providers. As more companies seek to embrace new digital technologies and solutions, there is a growing need for skilled and experienced providers to help them navigate the complex and rapidly evolving digital landscape.

Overall, the EU's strategy to become a leader in the digital economy presents significant opportunities for ITO providers, like you, to expand their business and play a key role in driving this digital transformation.

Tips:

Consult the [surveys from Whitelane Research and partners](#) for information on the increasing willingness to outsource in Europe and in various European countries.

To learn more about trends in the European ITO market, see our study about [trends on the European outsourcing market](#).

See our [studies on specific promising export services](#) for information on the European demand for specific ITO services (e.g. [software development](#)).

For market insights on business process outsourcing (BPO), see our study on [the demand for BPO services on the European market](#).

High European inflation

Even though the annual inflation rate in Europe decreased from 6.1% in June 2022 to 5.5% in June 2023, inflation in Europe and around the world is still very high.

This means that you and other ITO providers can probably ask higher prices. [Transaction-based businesses in the IT industry will be able to follow traditional methods of passing costs on to customers](#). If you are working with subscription models based on Anything-as-a-Service (XaaS), ITO contracts and infrastructure managed

services agreements, however, it might be more difficult to negotiate higher prices.

Tips:

Talk to your buyers about inflation. Let them know how it has affected your business. Keep the discussion short and clear.

Ask other ITO providers in segments similar to yours about how they are coping with inflation.

Talent shortage in Europe

In Europe, there is a large gap between the number of IT jobs and the number of available IT professionals. The percentage of European enterprises that recruited or tried to recruit ICT specialists in 2021 is presented in Figure 4.

Source: Statista

The average percentage of European companies attempting to recruit IT specialists in 2021 was 62.8%. For more [information about the talent shortage in all European countries](#), visit the Statista website.

To fill the gap, many companies in Europe try to hire IT staff from abroad. Because the shortage is affecting most European countries, and because [most European developers prefer to keep jobs within their own countries](#), companies regularly recruit talent from outside Europe. An easier option, and one that provides more flexibility, is to outsource IT tasks to offshore providers like you. The increase in remote working due to lockdown measures only accelerated this trend, as they increasingly blurred the distinction between in-house, nearshore and offshore teams.

Cost reduction continues to be a motive for ITO abroad

Cost reduction remains one of the most important reasons for European companies to outsource IT services to providers abroad. The continued shortage of IT skills in Europe is further increasing the cost of the available specialists, who are in high demand. This is good news for outsourcing companies in developing countries, who are often able to offer similar services for lower prices.

This could make offshoring to developing countries more attractive. In general, IT specialists cost less per hour in developing countries than they do in Europe. You should nevertheless be aware that, if your offer is 'too cheap', European buyers may think that it is too good to be true and assume that the quality of your services is low. In fact, in an ISG analysis of competitive managed services bids between 2018 and 2022, [the highest bids won 38% of the time](#).

Tips:

Do not compete on price alone. Offer competitive pricing, but do not compromise on the quality of your services.

Be transparent in your pricing. Clearly show what service clients will get for what price. Make sure to include everything they might need in your offer to avoid hidden costs (e.g. fees they will have to pay for extra services that were not mentioned beforehand).

In addition to your competitive prices, promote your expertise, experience, references, capacity,

flexibility, reliability and communication capabilities.

Increased demand for impact sourcing

Sustainability is becoming a key factor for European ITO buyers when selecting their service providers. This counts for both the social side of sustainability and the environmental part. As an ITO provider, therefore, you should have at least some sort of sustainability practice in place. This is becoming increasingly important for anyone wishing to do business in Europe.

Environmental, social and governance (ESG) criteria are becoming increasingly important in the evaluation of bids. For you and other ITO SMEs, labour practices, fair operating practices and community involvement are the most relevant aspects of the [ISO 26000 standard, which provides guidance on CSR](#).

As an outsourcing provider in an emerging economy, you probably already meet some social sustainability standards. You could consider [promoting yourself as an impact-sourcing destination](#).

Energy reduction is one example of green sustainability in ITO. Of all the energy used for IT, [the end-user environment accounts for almost 40%](#). This means that a large amount of energy can be saved by increasing the energy efficiency of end products. For example, the [programming language you choose influences the energy efficiency of your software](#).

One example of an offshore ITO impact sourcing provider is [Sama](#), a company that specialises in AI and data-annotation services. In its recently [published impact report for 2022](#), the company lists an array of accomplishments, including creating more than 1,600 new jobs, employees completing more than 16,000 courses and volunteering in the Give Work Challenge, and commitments to two science-aligned reduction targets.

Figure 5: Impact Sourcing Africa

Source: [Impact Sourcing Africa @YouTube](#)

Since 2021, the government of the United Kingdom (UK) has been assigning [10% of the points in its Requests for Proposals to social value](#). Similar arrangements are seen across Europe, in both governments (e.g. [the Netherlands](#)) and companies (including SMEs). Other countries and companies are expected to follow. In line with the increasing importance of sustainability, [the Global Sourcing Association \(GSA\) is currently exploring a Service Provider Sustainability Maturity Index](#). The goal of this index would be to allow the best performers to promote themselves and to let others learn from them, so that the industry as a whole can improve. The index is part of [the association's social sourcing programme](#).

Tips:

Read our two related documents: [7 tips on how to go green in the outsourcing industry](#) and [7 tips on how to become a socially responsible exporter in the outsourcing sector](#).

Read more about corporate social responsibility (CSR) in practice on the website of the [European](#)

Commission. In addition, keep an eye on new laws that are being issued (e.g. the EC directive on [corporate sustainability due diligence](#)).

Show that you care about your impact on society and the environment by implementing your own CSR policy. This could be a unique selling point (USP) for buyers who are selecting providers.

To qualify as an impact-sourcing provider, show buyers that you are actively hiring and training people with limited employment opportunities.

Diversity brings opportunity

Europe is a large and diverse market for ITO services. Together, the European Union (EU), the European Free Trade Association (EFTA) nations and the United Kingdom consist of 32 countries with 28 different official languages. The total population of Europe is around 527 million people. Although Europe is seen as a single market from an economic perspective, each country has its own profile based on such characteristics as demographics, historical ties, business culture and etiquette. This diversity offers a variety of opportunities.

The presence of different migrant communities also adds to the diversity of opportunities on the European market. [The presence of such diasporas can form the basis of outsourcing to developing \(or other\) countries of origin](#). In many cases, family, friends and business relations can function as entry points to the market. [Around 34 million people in Europe are members of diasporas from developing countries](#), accounting for about 6% of the European population as a whole. The largest of these communities reside in Germany, France, the United Kingdom, Italy, Spain and the Netherlands.

Source: United Nations, Department of Economic and Social Affairs

Of the developing countries of origin listed in Figure 6, India and Ukraine are best known for their outsourcing potential. These statistics date from before the Russian war in Ukraine. The actual size of the Ukrainian migrant community in Europe is thus even higher than shown in Figure 6.

Other well-known outsourcing destinations with large migrant communities in Europe include Bosnia and Herzegovina, Albania, Pakistan and Serbia. The diversity of diasporic groups residing in European countries could potentially offer a variety of beneficial connections for you.

Tips:

Use [Passport to Trade 2.0](#) to learn about the business culture and etiquette in various European markets. The country comparison tools from [Hofstede Insights](#) can help you learn how your country's culture compares to European cultures.

Look for countries with cultural similarities to your own, as this makes it easier to do business.

For more information, see our [tips for doing business with European buyers in ITO and BPO](#).

Identify potential diasporas from your country in Europe through the [international migration data](#) published by the United Nations.

Connect with organisations that represent your country's diaspora in Europe, including the [European Union Global Diaspora Facility](#) and the [African Diaspora Policy Centre](#).

2. Which European markets offer most opportunities for ITO suppliers in developing countries?

Europe is not a uniform market for ITO providers. Countries in Northern and Western Europe have traditionally had the largest markets for ITO. Whereas the largest countries offer opportunities based on their size, some smaller countries are key players in the IT industry. In addition, the Central and Eastern Europe (CEE) region is becoming a promising market for partnerships with nearshore providers.

Northern and Western Europe are the largest European markets for ITO

Whilst the largest countries offer opportunities based on their size, some smaller countries are also open to outsourcing and/or specialisation in IT. In smaller countries, the pool of tech-related talent tends to be concentrated in a single hub, as is the case for Copenhagen (Denmark) and Amsterdam (the Netherlands). In other countries (e.g. Germany), tech-related talent is often distributed across several large cities.

Source: Whitelane Research

Figure 7 shows the percentage of companies in different European regions that expect to outsource at the same rate or more in the near future. Almost 80% of [Chief Information Officers \(CIOs\)](#) in the Netherlands expect to outsource at the same rate or more in the coming years. This is the highest percentage in Europe. The Netherlands is followed closely by Germany (72%). Most CIOs in the Nordic countries (66%), France (66%) and the United Kingdom (63%) also expect to outsource at the same rate or more in the coming years.

The European market for IT outsourcing remains strong. [In 2022, 36% of all European organisations reported having plans to increase their outsourcing in the next two years, with 13% indicating that they would be outsourcing less.](#) It is expected that the market will continue to grow in the next few years.

The United Kingdom is facing a post-Brexit talent war

The United Kingdom is the second-largest economy in Europe. Its most prominent sectors include finance and banking, which are part of the services sector. Together, finance and banking make the largest contribution to the British Gross Domestic Product (GDP). Outsourcing is a common practice in the services sector, thereby stimulating the demand for ITO services in the United Kingdom.

[Revenues in the UK's ITO market are projected to reach EUR 30.22 billion in 2023.](#) They are expected to grow at an annual rate of 9.56% from 2023 to 2028, eventually reaching a market volume of EUR 47.70 billion by 2028.

Of all European markets, the United Kingdom is the most open to offshore outsourcing and the least cautious about doing business with developing countries. This openness is due to the nation's cost-saving business culture and historical ties to many countries across the globe. Language barriers are low, as the United Kingdom's official language is English. This makes the British market relatively accessible for offshore providers.

Since [the United Kingdom withdrew from the European Union](#) (Brexit), many EU workers have left the country. At the same time, immigration from the EU to the UK has consistently declined. [Together, these trends have led to a war for talent and increased labour costs.](#)

In 2022, tech jobs accounted for 14% of all job opportunities in the UK. In 2019, this percentage was only 11%. [Between January and May 2022, there were around 870,000 tech and digital job vacancies in the UK.](#) This is the highest number in years. According to a survey conducted by Whitelane Research and PA Consulting, [63% of British ITO buyers plan to outsource at the same rate or more](#) in the coming years.

These developments offer opportunities for ITO providers in developing countries, as the UK is looking for talent and its own pool of talent is becoming more and more expensive. They can thus achieve cost savings by

outsourcing their IT services to you.

The presence of diasporic groups is also an important factor in the UK market for ITO. At present, around five million migrants with a background in developing countries are living in the United Kingdom. They account for about 8% of the total British population. The largest of these communities consist of people from India, Pakistan, Bangladesh, South Africa, China and Nigeria. India and Pakistan are particularly well known as providers on the British outsourcing market.

The most in-demand skills in the UK market for ITO are [those related to data and engineering](#). The greatest demand for soft skills is in the areas of management, clients and communication.

Germany plans to increase its offshoring

Germany is the largest economy in Europe, and it is home to 19% of the European Union's population. [Revenues in the German ITO market are projected to reach EUR 22.95 billion in 2023](#). They are expected to grow at a compound annual rate of 10.65% from 2023 to 2028, ultimately reaching a market volume of EUR 38.07 billion by 2028.

Although this makes Germany an interesting market, German companies are less open to offshore outsourcing than companies in countries like the United Kingdom.

In light of the continuing shortage of skills and increasing experience with offshoring, German companies are adopting a somewhat more positive attitude towards offshore ITO. This shift is reflected in a survey conducted by Whitelane Research amongst German ITO buyers, showing that [72% were planning to outsource at the same rate or more](#) in the coming years. Another factor underlying the positive shift in attitudes is that recent years have allowed German companies to experience the possibilities of remote working.

Providing ITO services to Germany may be subject to language barriers. In general, German companies prefer to do business in German, which explains their preference for nearshoring when they do outsource. A German intermediary is usually necessary in order to communicate with current or potential clients. If you meet these criteria, you could also target German-speaking companies in the other DACH countries (e.g. Austria and Switzerland).

Germany is home to nearly six million migrants with roots in developing countries, accounting for around 7% of the total population. The largest of these communities is composed of people with roots in Turkey, Kazakhstan, the Syrian Arab Republic, Ukraine, Afghanistan and Iraq, as well as in Serbia and in Bosnia and Herzegovina. Given the relatively strong ties between Germany and the CEE region, opportunities on the German ITO market are particularly strong for countries from this region.

Nordic ITO markets are looking abroad

Individually, the markets in each of the [Nordic countries](#) are smaller than those in other European countries, but they are relatively open to outsourcing. People from these countries are highly proficient in English, which makes doing business relatively easy.

[The Nordic countries are known for their highly developed and advanced technology industries](#). They are home to some of the fastest-growing global tech companies, including Skype, Spotify and Mojang. In addition, investments in the IT industry are very high. Although the workforces in these countries have some of the [highest shares of IT specialists in Europe](#), there are not enough to meet demand. According to a survey conducted by Whitelane Research, [66% of Nordic ITO buyers are planning to outsource at the same rate or more](#) in the coming years.

Norway has a particularly large oil and gas industry. The most in-demand IT services are product innovation, digitalisation, robotics and network security.

Known as an innovative nation, Sweden is home to many start-ups. Swedish tech companies are mainly looking for process engineers, project leaders, laboratory engineers, IT developers (e.g. Java and embedded IT) and testers.

In Finland, IT has become the largest industry, with projected revenues of almost EUR 9 billion in 2023 and a current annual growth rate of nearly 5.8%. Finland is mainly looking for telecommunication engineers, systems analysts, software developers and web and multimedia developers.

Denmark is experiencing a talent mismatch. Their most sought-after specialisations are software development, marketing (digital), mechanical engineering, regulatory-affairs management and quality-assurance management.

[Read more about the individual Nordic IT markets in this report by Grid Dynamics.](#)

Around two million migrants with roots in developing countries are currently residing in the Nordic countries, with more than half of them in Sweden. These migrants account for about 8% of the total population in the Nordic countries. The benefits of diasporic connections might nevertheless be limited in this market, as the largest of these communities (Syrian and Iraqi communities) do not originate from countries with strong ITO sectors.

Some Nordic countries, and especially Finland, have many diasporic connections in Russia. Due to various sanctions on Russia in response to that country's ongoing assault on Ukraine, however, the [Russian software outsourcing industry](#) has lost its position on the global tech scene, and it can no longer supply talent abroad.

France is particularly interesting for francophone providers in Africa

As the third-largest economy in Europe, France is another European market that is particularly interesting. In a 2022 survey conducted by Whitelane Research, [66% of French ITO buyers expressed plans to outsource at the same rate or more](#) in the coming years.

The main factors driving French companies to outsource IT are cost reduction (63%), improvement of service quality (50%) and a focus on core business (50%). In 2022, France and Switzerland were the only two European countries included in the survey for which cost reduction was the main reason for IT outsourcing.

To provide ITO services to French companies, you must be able to work in French. Given that [French is the official language in 29 countries](#) throughout the world, this language requirement does not pose a barrier to market entry for many service providers. Instead, it makes France a particularly interesting target market for providers from African countries (e.g. Senegal). Offering services in French also makes it possible to target francophone companies in Belgium and Switzerland.

Many people from former French colonies attend university in France. This direct link to France can facilitate outsourcing when these graduates return home. In addition, nearly six million migrants with roots in developing countries are currently living in France, accounting for around 8% of the French population. The largest of these communities consist of people from Algeria, Morocco, Tunisia, Turkey, Vietnam, Madagascar and Senegal.

The Netherlands: A large market that is open to outsourcing

The Netherlands has the sixth-highest GDP in Europe, and it is a true IT hotspot. [Revenues in the Dutch ITO market are projected to reach EUR 8.11 billion in 2023](#). This revenue is expected to grow at a compound annual rate of 10.08% from 2023 to 2028, ultimately reaching a market volume of EUR 13.12 billion by 2028.

Companies in the Netherlands are also relatively open towards outsourcing. In a survey conducted by Whitelane Research, [79% of Dutch ITO buyers expressed plans to outsource at the same rate or more](#) in the coming years (the highest level in Europe). This provides a strong indication of good opportunities on the Dutch ITO market.

Another promising factor is that language barriers for doing business in the Netherlands are generally low, as the Dutch are highly proficient in English.

Even though the density of IT professionals in the Dutch workforce is one of the highest in the world, the country still has a pressing need for IT talent. The Netherlands has more than 600 international ICT companies operating within its borders, and almost 180 of these companies are headquartered in Amsterdam.

Dutch companies were also amongst the first to adopt cloud computing, which is a necessity for working remotely. Their high degree of openness to remote working and collaboration with people and companies in other countries makes the Netherlands highly open to outsourcing as well.

The Netherlands is home to about 1.4 million migrants with roots in developing countries, representing roughly 8% of the total Dutch population. The largest of these communities consist of people with backgrounds in Turkey, Suriname, Morocco, Indonesia, China and the Syrian Arab Republic.

Poland needs offshore partners to keep up with demand

Within the CEE region, Poland is a major player in the IT industry. The country has the highest number of tech-related start-ups in the region, and it is home to about 25% of the entire developer population in the Central and Eastern European region. The population of Polish IT professionals ranks amongst the 10 best developer populations in the world, which enhances the country's popularity as a nearshoring destination for European buyers.

Revenues in the Polish ITO market are projected to reach EUR 2.5 billion in 2023. They are expected to grow at a compound annual rate of 12.29% from 2023 to 2028, ultimately reaching a market volume of EUR 4.5 billion by 2028.

Although Poland has become an important and valued IT-outsourcing destination for many companies in Western and Northern Europe, the country is currently facing a talent shortage. To meet the demand from its flourishing IT industry, Poland is increasingly having to turn to offshore partners. Given that the country has the highest hourly rates for software development in the CEE region (EUR 43-65), Polish software companies actually stand to achieve substantial cost savings by outsourcing some development tasks or projects to you.

Tips:

Work on your soft skills. Experts note that a perceived lack of soft skills is a dealbreaker for many European buyers, who are likely to perceive potential suppliers as lacking soft skills or as having insufficiently developed soft skills. This is true of buyers in most Northern and Western European countries. If you wish to be successful on the European market, it is important to focus on both your hard and your soft skills.

Consider your present network, its openness towards outsourcing, labour costs, language and historical bonds when selecting your priority market.

The IT outsourcing business is based on trust. Be aware that European partners may be sceptical of offshoring. You will need to earn their trust and work hard to keep it. If you prove to be trustworthy, honest and transparent, you will be able to stand out from your competition and enhance your partner's openness and willingness to outsource.

For more information about various ITO destinations (e.g. average rates), see the [Daxx-blog](#).

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

The demand for ITO continues to increase. Cybersecurity, data science and software development skills are the most needed. Medium-sized enterprises are your most suitable potential buyers. These companies are a good match for you in terms of capacity and flexibility. Although the banking, financial services and insurances (BFSI) sector is Europe's largest ITO market, specialisation can create opportunities in any sector.

While experimenting with emerging technologies (e.g. virtual and augmented reality) may be optional for European companies, investing in cybersecurity is not. The same applies to most other areas of expertise in the six leading skills. For example, there is an increasing need for employees to have remote access to documents and tools, platforms and programmes through the cloud. At the same time, emerging technologies are offering opportunities as well. Specialising now will mean less competition in the short term, in addition to giving you a head start as the market matures.

In general, the following are the six most in-demand IT skills in Europe:

Cybersecurity

Cybersecurity involves strategies and technologies designed to safeguard digital systems, networks and data from unauthorised access, cyberattacks and potential harm. Examples include identity and access management, infrastructure security and data security.

Demand for cybersecurity is booming, due to increased digitalisation, legislation and awareness. [In 2022, 493.33 million ransomware attacks were detected by organisations worldwide.](#)

The European cybersecurity market was valued at EUR 25.59 billion in 2021, and it is estimated to reach EUR [48.82 billion by 2027](#), which translates to a CAGR of 24.4%. In Europe, cybersecurity skills have become one of the most sought-after areas of IT expertise, especially in terms of cloud and data security.

Data analytics and data science

Data analytics involves examining large sets of data to identify trends, patterns and insights that can lead to decision-making. Data science concerns a broader spectrum, including data analytics, as well as such tasks as data cleaning, visualisation and the development of models for predicting future trends.

As the amount of data produced in Europe grows, so does the need for services that help companies to use such data to their advantage.

[The European market for big-data analytics and big-data science is therefore projected to increase from about EUR 74.50 billion in 2022 to about EUR 126.04 billion in 2029](#), which translates to a CAGR of 7.8%.

Software development

Software development is the process of creating computer programs or applications that perform specific tasks or functions. It involves such tasks as planning, coding, testing and maintaining software to ensure it works effectively and efficiently.

Software development services are a key segment within ITO, with cybersecurity as a top priority. In this case as well, increased digitalisation leads to increased demand for software solutions.

[Revenues in the European software market are expected to grow from about EUR 136.67 billion in 2023 to about EUR 183.91 billion in 2028](#), which translates to a CAGR of more than 6%.

According to market experts, the best opportunities in software development are fintech, healthcare, retail or e-

commerce, industry, education, transport, smart mobility and energy. The most in-demand programming languages are Java, JavaScript, Python and C/C++, depending on the market and type of software.

Artificial intelligence (AI) and machine learning (ML)

AI involves creating computer systems that can perform tasks that typically require human intelligence, like learning, problem-solving and decision-making. Machine learning, a subset of AI, focuses on enabling machines to learn and improve based on data, without explicit programming, thereby allowing them to make predictions or decisions according to patterns they discover.

Skills in AI and ML are in high demand in Europe, as they empower companies to make more and better decisions, in addition to enabling them to automate complex tasks. Given Europe's increasing reliance on digital technologies, AI and ML skills are very important for organisations seeking to stay competitive and innovative.

There are many market opportunities for AI and ML products and services in Europe. Examples include AI consulting and strategy, AI in automation and robotics, AI for cybersecurity and data management, and analytics. There are also many industry-specific opportunities, including AI/ML for the manufacturing, healthcare, finance and retail industries.

Given the rapid growth of demand for AI in Europe, [the market is expected to grow from EUR 61.62 billion in 2023 to EUR 188.67 billion in 2030](#), which translates to a CAGR of more than 17%.

If you provide services in this sector, you should stay up to date on the [European Commission's proposal for a regulatory framework on AI](#), in addition to [finding out what you can already do today](#) to prepare for upcoming legislation.

Cloud computing

Cloud computing is like renting computer power and storage space from a company that owns and manages large data centres. Instead of storing and processing data on a personal computer or local server, it is done over the internet, making it accessible from anywhere and reducing the need for physical infrastructure.

European companies have been the front runners in cloud adoption, and skills in cloud computing have therefore been in high demand over the past five years. The earliest adopters of cloud computing are generally the largest companies and government organisations. At present, European SMEs are quickly moving to the cloud. For SME cloud-computing providers from emerging economies, the European cloud-computing market has become even more interesting, as these SMEs are easier to target than larger companies are.

The demand for cloud-based services is growing rapidly. Cloud-computing skills are essential, as they are used in virtually all types of ITO services. [The size of the European market for cloud computing was valued at almost EUR 57 billion in 2022, and it is projected to grow at a CAGR of 25% between 2023 and 2032.](#)

The largest segment within the cloud-computing market is Software-as-a-Service (SaaS). This segment accounted for a 60% share of the European cloud-computing market in 2022.

IT management

The European demand for [IT managers](#) is high, and there are not enough people to fill all the vacancies. It is relatively hard to outsource the function of IT management to people or companies in other countries, given the need for both hard skills (e.g. hardware expertise, software expertise, budgeting and purchasing, cybersecurity and computer administration) and excellent soft skills (e.g. leadership, communication, problem-solving and interpersonal relations). Many soft skills are culture-sensitive.

For this reason, despite the high demand for IT-management functions in Europe, it is not recommended

to focus on this segment, given the difficulty of outsourcing these roles.

Tips:

For more information on providing services in these areas, see our [studies on specific services](#).

See Stack Overflow's annual [Developer Survey](#) for an overview of the most popular programming languages, as well as other tools and technologies.

Specialisation and/or a focus on niche markets can offer opportunities in any sector

The ITO market can also be segmented into several sectors (or industries) known as 'vertical markets'. The total global outsourcing ACV for 2022 in each commercial sector is presented in Figure 8. The combined value of almost EUR 68 billion is composed of around 70% ITO contracts and 30% BPO contracts. The percentage of ITO contracts is lower than it has been in previous years. This is because the BPO market grew faster than the ITO market.

* Converted from USD (\$)

Source: Calculations based on ISG Index

The largest global market for ITO is the BFSI sector (i.e. the financial services sector). It is also one of the most rapidly growing sectors (+13% from 2021 to 2022). Other large markets include the business services and manufacturing industries. Although the business services sector is also large, its growth percentage from 2021 to 2022 was negative (-3%). The manufacturing industry grew at a rate of 12%, and the healthcare and pharmaceutical sectors exhibited a 13% increase during the same timeframe.

The travel, transport and leisure sector is also showing one of the highest growth rates, having increased by 13% from 2021 to 2022. The growth rate for retail and consumer packaged goods was negative (-2%).

Although the financial services sector has the highest ACV on the European market, there are opportunities across the various industries. The key is to reduce competition by specialising in a specific sector, or even a specific service for a particular sector. This type of expertise will provide you with a competitive advantage in whichever sector you choose to focus on. Although staff can be trained in a new field, buyers generally prefer existing knowledge and experience. This also makes it easier to provide relevant references in the search for new buyers.

In general, there is less competition in niche markets, and this leads to higher (and more stable) prices and buyer loyalty. For example, offering fintech services to a bank requires a thorough knowledge and understanding of European financial legislation. In contrast, developing VR/AR applications for the real estate sector requires completely different skills and expertise. The more you invest in specialising and finding your comfortable niche market, the better your chances of finding clients and partners.

Most outsourcing is predicted for the public sector. According to a 2022 study conducted by Whitelane, [41% of public sector organisations expressed plans to outsource more in the coming years](#). This share is 5% above average, and it represents an increase of 9% compared to 2021. In contrast, the transportation, logistics and retail sector is predicted to have the highest level of insourcing (17%), with a below-average level of plans to

outsource (31%).

Tips:

Assess your opportunities in the various vertical segments. In which industry do you have the most experience? Do you have access to talent in a particular sector?

Once you have selected the niche market (or markets) on which you will focus, make sure to keep your expertise up to date and stay ahead of the competition.

See our [studies about specific services](#) to determine the competition for specific services.

For more information on how to find and approach European SMEs, see our [tips for finding buyers](#) and [tips for doing business](#).

[Globally Cool B.V.](#) carried out this study in partnership with Laszlo Klucs on behalf of CBI.

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