Which trends offer opportunities on the European outsourcing market?

There are many promising trends in the European outsourcing market. Big Data, 5G and Artificial Intelligence have served as triggers and enablers for several other trends and innovations. Currently, the main opportunities lie in big data, mobile and cloud application development, the (Industrial) Internet of Things, virtual and augmented reality, blockchain, machine learning and in the mastering of technologies related to these trends. The skills shortage in Europe and increased demand for added value / specialised service providers also offer opportunities.

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1. Big data revolution

Many European companies and organisations have (and continue to generate) enormous data sets that they do not and/or cannot use yet, but an increasing number of companies is adopting big data services, as the insights that big data can generate offer good business opportunities. The growing trend combined with a skills shortage and further developments in data collection services including those related to the (Industrial) Internet of Things) means there are countless opportunities. Nevertheless, it must be remembered that privacy and security will remain important issues.

To maximise the benefits of big data, data should be properly collected, structured, stored, analysed and visualised. Big data has the potential to provide companies with real business opportunities, for example in business intelligence, sales/marketing insights and brand reputation management. However, doing this effectively takes time and resources. Outsourcing this work – or parts of it – allows companies to stay focused on their core business, while receiving new insights.

Hyper-scale cloud services that provide massive storage, analysis tools and algorithms have particularly fueled the big data development. Examples include Amazon (AWS) and Microsoft Azure.

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.

A study by Harvey Nash/KPMG, the CIO survey 2018, revealed that in 84 different countries, including the 28 European Union (EU) and 4 European Free Trade Association (EFTA) nations, big data and analytics expertise is the number one skill in short supply and has been for four years in a row, from 2015 to 2018. The combination of increased demand with shortage in supply of big data professionals means there are opportunities for those service providers offering big data related services.

Data volumes will likely continue to increase as a growing number of people and consumers use internet and online services/devises. 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 are able to collect, process and analyse data.

Tips:

See our study on offering big data services in North-western Europe to read more about the opportunities and requirements regarding Big Data services.

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

Stay up to date with the latest developments in Big Data in Europe through industry associations such as the European Big Data Value Association.

Take a 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.

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

Data security and privacy are growing in relevance

As the volumes of available data grow so do the issues of data security and privacy. There are increasing challenges to protect data from cyber-attacks and intrusions. Organisations and governments are, therefore, increasingly taking measures to make sure that privacy and security are addressed.

Europe's new General Data Protection Regulation (GDPR) came into effect on 25 May 2018. This regulation has been designed to protect European citizens from privacy and data breaches. Under the GDPR, any company or individual that processes data is also responsible for its protection. It applies to all companies processing the personal data of European subjects, regardless of the company's location. This means it also applies to you directly!

The personal data this regulation protects can range from a name or email address, to bank details, social media content, a photo, an IP address or a cookie your website is using. Some key consumer rights you must comply with include consent, right to access, data portability and the right to be forgotten. You also need to practice privacy by design; meaning data protection should be included from the onset of designing systems. It is expected that security and privacy will remain hot issues in the foreseeable future.

Tips:

Make sure you comply with the GDPR if you process data of European citizens (or sensitive information of any kind).

Be aware that EFTA countries, although not members of the European Union, are also subject to the obligations laid down in the GDPR legislation. You can read more about data protection in EFTA nations on the European Free Trade Agreement Page.

See our study about buyer requirements on the European outsourcing market for more information on the GDPR (as well as additional European legislation) 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.

2. Booming demand for mobile application development

The use of mobile devices like smart phones and tablets has become commonplace in Europe. And there continues to be an increasing demand for mobile application development. Many European companies outsource mobile application development to specialised service providers. The main reasons for outsourcing mobile application development are the lack of well-educated, experienced personnel, lower costs and the ability to focus on core competences instead.

This provides you with some interesting opportunities. Especially because, as a provider from a developing country with competitive salaries, you can provide such services at a lower cost than local or nearshore service providers in Europe.

The market for standard and consumer mobile application development has reached its saturation point. There are so many generic applications available that it becomes difficult to generate substantial revenue. Your most promising strategy would therefore be to develop tailor-made mobile applications, focusing on niche market segments or company and industry-specific solutions.

Mobile applications that allow companies to simplify work processes and increase efficiency are especially promising. Customers want to have the applications available anytime, anywhere and on any device.

The enterprise market is especially interesting because enterprise apps generate a greater revenue than consumer apps and most developers target the consumer market, making the enterprise market less competitive.

Tips:

Distinguish yourself from competitors. Competition in this market is fierce as there are many providers offering similar services worldwide. Offer technology expertise combined with specialised domain knowledge.

Remember that the best opportunities lie in tailor-made mobile application development, enterprise apps, rather than consumer apps, and in niche market.

Have a look at this case study from Arcanys from the Philippines. They are an example of a company that successfully collaborated with the Swiss company FansNation in mobile app development.

Compare yourself with international and local mobile app competitors on Appfutura.

See our study about mobile application services for more information.

3. (Industrial) Internet of Things on the rise

The Internet of Things is on the rise, both with consumers (often referred to as IoT) and businesses (also called Industrial Internet of Things, or IIoT). The difference between the two lies in their general usage. While IoT is most commonly used for consumer usage, IIoT is used for industrial purposes such as manufacturing, supply chain monitoring and management systems.

IoT and IIoT refer to objects being connected and interconnected to the internet. These 'things' are embedded with electronics, sensors, software, actuators and network connectivity. This allows them to collect, send and receive data, making these devices 'smart'. By collecting and analysing data from a wide range of sensors, broader applications like smart buildings become possible.

Consumer areas of the IoT include examples from travel, everyday life and healthcare. Specific examples of IoT in consumer travel are smart parking and personalised travel experience. Examples from IoT in everyday life are security and surveillance (home automation) systems and services and smart clothes. Examples of IIoT include examples from farming and travel. Smart farming, soil preparation and livestock monitoring are examples of IIoT in the former and fleet management and payment and ticketing are examples of IIoT in the latter.

This technology is becoming cheaper as it develops, which adds to the popularity. It is forecasted that there will be 14.2 billion connected things in use in 2019 and that this total will reach 25 billion by 2021. It is estimated that by 2025 there will be 5 billion connected devices in Europe.

Germany, the United Kingdom, France and Italy show the highest level of IoT adoption in Europe. In 2019 their spending on IoT solutions were expected to exceed €31 billion, €22 billion, €22 billion and €17 billion respectively. This makes these countries your most promising target markets. Central and Eastern Europe, however, are also interesting. Not only do they make up for 7% of the IoT revenues in Europe but the Cisco VNI Global IP Traffic Forecast also sees greater annual IoT growth of 21% as opposed to 19% in Western Europe.

European companies often use IIoT to boost revenues by increasing productivity and creating new hybrid business models but also to exploit intelligent technologies to fuel innovation and to transform/empower their workforce.

Tips:

Target European companies that already have some experiences with big data and/or the Internet of Things. It is likely that they are easier to sell offerings to as many companies are still at the beginning of the transition and probably less open for outsourcing solutions.

Take a look at Eacomm Corporation from the Philippines for an example of a company that has successfully built up an international customer base in IoT related services.

Offer your domain expertise and software development capabilities to start-up companies developing IoT/IIoT solutions.

Keep an eye on the many start-up competition, fairs and events.

Visit specialised IoT/IIoT events in Europe to update your knowledge, observe the trends, find new inspiring ideas and talk with potential customers.

Cross-industry devices are catching up with industry-specific devices

The majority of Internet of Things connections are consumer devices. Around 37% of connected things are business devices, which is a relatively stable share.

Business devices on the Internet of Things can be divided into cross-industry devices used in multiple industries, mainly to save costs, such as building management systems and vertical-specific devices used in a specific industry to improve efficiency and accuracy, mainly in healthcare and manufacturing. Most connected business devices used to be industry specific. However, since 2018 cross-industry devices are the majority. Because specialised devices are more expensive than generic devices, both types offer good business opportunities.

Tips:

Look into cross-industry devices as they may offer good opportunities. Especially focus on Germany, the United Kingdom, France and Italy as these are the biggest adopters of (I)IoT.

Study your potential client's company well. Show your expertise by suggesting specific opportunities for their company to benefit from the Internet of Things.

Innovate, gain experience and select the segment that suits your company best.

Offer complementary big data analytics skills to analyse and visualize data collected from the devices.

See our study about the Internet of Things for more information on this topic.

Machine learning and artificial intelligence services outsourcing goes up

Artificial intelligence is the concept of machines being able to carry out tasks in a way that we would consider 'smart', 'intelligent', 'autonomous'. Machine learning is an application of artificial intelligence, based around the idea that we should give machines access to data and let them learn for themselves (and improve through experience, for example). Machine learning is just one way we aim to achieve artificial intelligence.

European companies increasingly understand that (custom) machine learning and artificial intelligence solutions give their company a competitive edge. However, they usually do not have in-house development skills, as this requires specific knowledge, expertise and tools. This often leads them to outsource the development of their machine learning and artificial intelligence.

As a result, Europe has become one of the largest regions in the world for machine learning and artificial intelligence projects, after the United States of America. The leading region is Western Europe and the main segment is the financial sector. The next five years will be marked by a booming interest from both the public and private sector, making the market grow towards almost €10 billion in 2022.

The potential of 5G – more connections, more data

With higher bandwidth, 5G, the next generation of mobile data infrastructure, will become an important driver of applications' use of IoT data. Simply stated, 5G will enable the rise in the number of devices connected to the Internet along with the amount of data they generate. Even though 5G itself offers little direct opportunities to software companies, especially smaller ones, 5G is necessary to connect millions of machines. This makes 5G one of the most important infrastructures to further develop IoT and/or IIoT in general.

The three industries that are expected to be impacted most by 5G are manufacturing, energy and utilities, and agriculture. It is expected that 5G will help make manufacturing production operations more flexible and efficient. In the energy and utilities industry 5G technologies could help create more innovative solutions in energy production, transmission, distribution and usage. For the agricultural industry, 5G could enable real-time data collecting allowing farmers to monitor, track and automate agricultural systems.

Tips:

Focus on Western European countries, where machine learning and artificial intelligence spending is highest.

Stay informed about the latest trends and technologies, as artificial intelligence is a fast-moving market where new technologies and applications emerge quickly.

Consider making narrowband IoT your niche area.

Innovate in any of these segments (listed above). Make sure you provide software development skills, capacity and domain knowledge (for example Artificial Intelligence, big data) to clients.

It has been established that the higher bandwidth associated with 5G will allow more devices to be connected to the internet. This in turn means there will be greater data generation and processing capacity allowing companies to benefit even more from Big Data. As the availability of data will continue to increase, the demand for Machine Learning and Artificial Intelligence will also grow. This shows that certain trends impact the potential of related trends.

4. Virtual and augmented reality become widely available

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. Both VR and AR technologies are popular amongst consumers and businesses, in applications ranging from games to healthcare simulations.

Although predictions vary, industry experts agree that VR and AR are set to grow. They forecast exponential growth. Statista for example, expects the VR and AR market size to increase from an estimated €15.2 billion in 2019 to €145 billion in 2023. This is because technological developments now allow widespread access to VR and AR.

Technological developments that have led to widespread access to VR and AR include the availability of smaller (less bulky) hardware, less expensive hardware, highly developed graphics and VR sensors in mobile devices. In the future, reliable 5G networks will help the further development of VR and AR as they require large amounts of data processing which will be supported by 5G networks.

Applications of VR and AR can be found in gaming and entertainment, healthcare 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.

Tips

Be curious and proactive in seeking out (or developing) innovative technology.

Consider focussing on VR and AR technologies. They are expected to take over or add value to many parts of existing interfaces, such as shopping, education, real estate and some forms of live entertainment.

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.

5. Outsourcing graphic design services has become mainstream

Graphic design is the skill of combining typography, photography and/or illustrations to deliver (digital) messages. Almost every European company uses some form of graphic design in their visual communication. European companies increasingly see the importance of good quality graphic design and often realise they cannot achieve the desired result in-house. Examples of graphic design services that are often outsourced are logos, branding, advertisements, info graphics, posters, billboards, websites, banners and product packaging.

The constantly changing design trends, availability of design tools, including free ones, and growing involvement of graphic designers in user interface designs lead to constant developments in the possibilities of graphic design and the interaction between graphic design items and audiences. As businesses increase their presence both offline and online, they also increasingly demand more effective graphic design items to communicate with their audience and deal with competition.

European companies increasingly outsource their graphic design due to reasons related to cost, flexibility and lack of talent and skills. If you have the necessary talent, skills, tools and internet connection, then graphic design services are ideal for outsourcing as this work can easily be performed off-site. Also, the demand for graphic design from EU/EFTA countries is expected to continue to grow in the upcoming years.

Tips:

Make sure you stay up to date with the latest (European) design trends. There are plenty of blogs that discuss the newest trends in graphic design. Some examples are 99designs, Adobe Blog, Design Hill,

Focus on the manufacturing, gaming, mobile, healthcare and education sectors to increase your chances of success.

See our study on graphic design services in Europe for more information.

Combine your technical expertise, artistic competences and user experience (UX) design know-how in your offerings.

Look at Creative Clipping Path Ltd for an example of a graphic design company from Bangladesh that has successfully entered the European market with graphic design services and has opened a marketing and support centre in Sweden. Also take a look at Label Solutions from Bangladesh who supply and design labels and packaging items for apparel, trims, toys, jewellery and gift items. International players such as Superdry are part of their customer base.

6. Blockchain technology is put into practice

Blockchain was originally created to record cryptocurrency transactions and has now become a hot topic with broader applications. The blockchain technology stores and distributes digital information by linking several records (blocks) into an encrypted ledger (chain). It is therefore also known as a Distributed Ledger System (DLS).

A blockchain is stored across many computers in a peer-to-peer network. This makes it almost impossible to corrupt. The larger the network the blockchain involves, the more difficult to corrupt it becomes. Blockchain is useful for those companies and industries who wish to achieve greater transparency. This article gives you 55 examples of blockchain applications and their use in various industries.

While blockchain technology is not (yet) widely applied, many industry experts think it has great potential. In Deloitte's 2018 Global Blockchain Survey, 74% of organisations see a 'compelling business case' for the use of

blockchain. While 34% have initiated making use of blockchain technologies, a further 41% expect to within a year. Contrastingly, in Gartner's 2018 CIO Survey, 77% are not interested or do not plan to use blockchain, 1% are using it and 8% have short-term plans. This illustrates the continuing discussion about whether blockchain is a hype or an opportunity.

One of the main appeals of blockchain technology (the fact that data in a blockchain cannot be altered) also offers one of its biggest challenges. The challenge being that the new GDPR gives European citizens the 'right to be forgotten', meaning they are entitled to have their personal data erased. The GDPR requirement is not compatible with blockchain technology. This is a key issue that has yet to be resolved.

Despite the issue of GDPR compatibility companies are working on ways to make blockchain technology compatible with GDPR. Therefore, it is also expected that the use of blockchain technology within European companies will increase in the coming years.

Tips:

Stay up-to-date on the developments regarding blockchain, its practical uses and GDPR-compliance.

See our study about blockchain for more information.

7. IT skills shortage drives outsourcing

There is a considerable shortage of Information Technology (IT) skills on the European market. The European Commission expects there could be up to 756,000 unfilled vacancies for IT professionals by 2020. Because of this, 40% of European companies have difficulties finding IT specialists. This drives the demand for IT outsourcing from Europe. 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.

Not only is new IT staff scarce, but the ever-developing IT landscape also requires different IT 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 can counter the IT skills shortage by training new or existing staff, by innovating and developing your own product in one 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.

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.

The IT skills shortage on the European market is already quite large, and it is expected to grow significantly over the upcoming years. This offers interesting opportunities for you, as an IT outsourcing company.

Tips:

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

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 the target country, in order to judge the level of needs for specific skills on a market.

8. Search for added value and professional partners

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.

Because the European outsourcing market has matured significantly, especially in Northern and Western European countries, being a professional partner has become very important. For first generation outsourcers, saving costs was the main drive for outsourcing. However, second generation outsourcers are now looking for added value to further develop their relationship with service providers.

Ideally, IT service providers should provide software development skills, capacity and specialised domain knowledge. Thereby you have a better position if, besides skills, you also focus on value added in a niche, specialised market segment. Being specialised and focusing on a niche market segment 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.

A good partnership with European buyers is very important. Invest in understanding your buyer's company culture, as this can be one of your biggest challenges. For example, organise knowledge transfer sessions at the beginning of a partnership. Send employees to work at the outsourcer's company for certain periods, so they can deepen understanding and exchange cultural knowledge.

A vital part of the outsourcing contract is the Service Level Agreement (SLA), in which the service is formally defined. SLAs are an effective way to quantify and continuously improve the services you provide to your customers. Develop the contents of your SLA together with your customer. Work with a lawyer who knows the applicable law in your target country in Europe. A lawyer can also help you to develop a (sample) contract and a General Terms and Conditions document (GTaC).

Often potential buyers are asking service providers to provide examples of the above documents (sample contract, SLA and GTaC throughout the tendering or contracting phase). Consider high added value, risk and reward sharing, flexibility and mutual benefits.

As the European outsourcing market reaches maturity, offering added value and being a professional partner will only increase in importance.

Tips:

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.

Invest in a solid Service Level Agreement (SLA) and emphasize on building up a partnership with European buyers.

Focus on a vertical or horizontal market in order to become more of a specialised outsourcing provider.

See our study about buyer requirements on the European outsourcing market for more information about what is required.

9. 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 the Arab Spring that negatively influenced outsourcing to Egypt and Palestine in 2011 and 2012.

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.

Clearly communicate these contingency 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 one?'

10. Shifting from traditional to As-a-Service sourcing

Traditional sourcing includes IT outsourcing (ITO) and Business Process Outsourcing (BPO). As-as-service outsourcing includes as-a-service options for both software and infrastructure. Although traditional sourcing still dominates the European outsourcing market it is steadily decreasing, and as-a-service outsourcing is growing steadily. This shift from traditional to as-a-service sourcing is being driven by today's available digital technologies.

Where companies traditionally had their IT systems on-premises, with software installed in the building, for example, they now increasingly make use of cloud-based as-a-service solutions. As-a-service sourcing models are often referred to as flexible consumption models, where companies and consumers are offered product delivery and only pay for what they consume. European companies prefer such models as they offer a company lower investments and operational costs while still benefitting from the advantages that a product has to offer.

Although the offshore service market is being driven towards digitisation and automation, which is diminishing the importance of traditional offshore services, there are still opportunities for traditional sourcing in the European market. The United Kingdom, France and Germany offer opportunities due to their large market size and countries in Northern, Southern and Eastern Europe are interesting because they still show growth. Our study on the demand for IT Outsourcing Services on the European market reveals more insights about opportunities on the European market.

Experts from the German Outsourcing Association believe the shift and the increasing use of digital technologies will particularly effect BPO in Europe. They also feel it will result in smaller contract values.

Tips:

Follow the developments in As-a-service sourcing and keep in mind that these can implicate your future offering. Good places to search for more information are the ISG-one and Gartner.

Look into how your company could offer As-a-Service sourcing solutions where you become more customer oriented rather than product oriented.

This study has been carried out on behalf of CBI by Globally Cool.

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