The European IT Outsourcing Market 2012: A Race To Maturity?

Ciklum

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Ciklum presents a general review of the most thought-provoking predictions for the European IT Outsourcing Industry in 2012.

The European IT Outsourcing (ITO) market has been dynamic and quite consolidated in 2011. Within the European Union it has been ruled largely by an increased demand for external resources and innovation as well as strive for cost-saving, multi-vendor management and focus on lower-cost yet skills-abundant nearshore locations. During 2011 the myth that outsourcing is for large and mature companies only has finally been busted as more high-tech startups and Small and Medium Enterprises (SMEs) started their ITO journeys. Compared to 2010, a 10 to 15 percent increase in the number of outsourcing SMEs has been observed across Europe[1].

The year 2011 has seen both an extensive use of ITO services in traditional niches such as IT and Telecom, and a rapid penetration of ITO into the innovative lucrative niches such as digital media, mobile computing, online gaming and others.

While it is yet too early to make any forecasts for the 2012 European ITO market volume, increase or decrease in outsourcing activity and the overall IT spending, it is still possible to identify some of the trends that will most likely be ruling the market throughout this year.

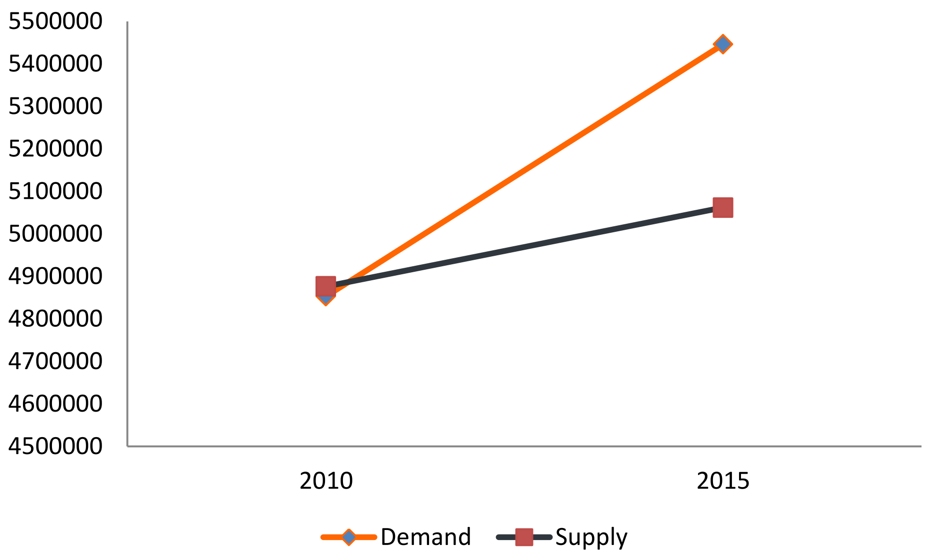
1. Lack of domestic resources will boost sourcing decisions

Recent European ITO research conducted by IT Sourcing Europe reports lack of domestic resources and slow time to market (TTM) as some of the key factors that are likely to influence corporate sourcing decisions in 2012. The latest Report on the European STEM (Science, Technology, Engineering and Math) skills by BusinessEurope generally supports IT Sourcing Europe's findings. For instance, Germany was lacking around 88,000 employees with ICT skills in 2011 and 77% of the Austrian companies reported difficulties in recruiting talent in the technology field in

[1] "European IT Outsourcing Intelligence Reports," 2010-2011, *IT Sourcing Europe*

2010[2]. On the pan-European scale, the estimated shortage of qualified ICT staff is expected to reach almost 400,000 jobs by 2015[3].

Figure 1. Demand for / supply of e-skills within the EU: 2010 vs 2015



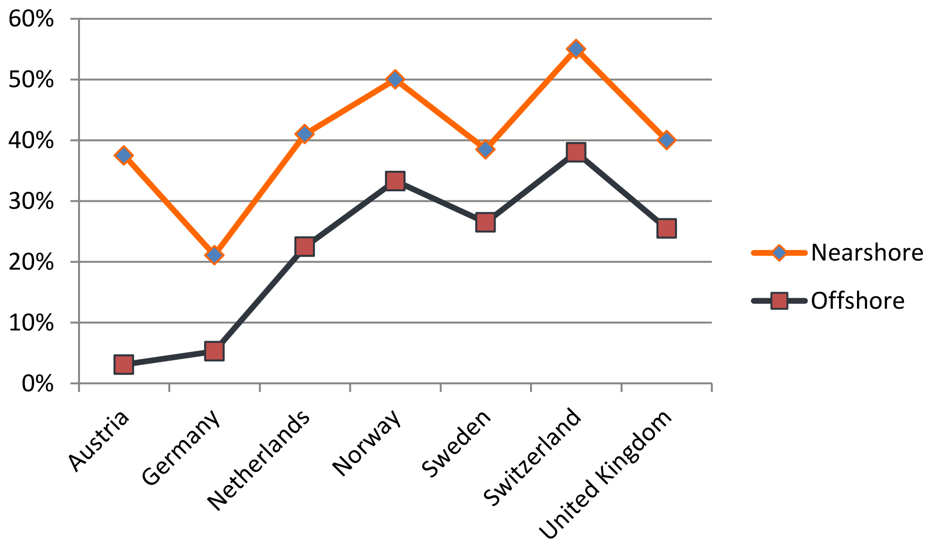
In order to satisfy the rapidly growing demand for qualified ICT resources and keep their IT solutions up and running, the EU businesses will have no other option in the short- to mid-term but to source external resources.

2. Nearshoring will continue attracting Western European companies

IT Sourcing Europe's latest surveys of the European non-outsourcers demonstrate that in most of the EU countries companies would transfer their IT support / development rather nearshore than offshore if they make such a decision in the near future[4].

2 "Plugging the skills gap – clock is ticking," 2011, *Businesseurope.eu*
3 "Monitoring e-Skills demand and supply in Europe," 2010, *European Commission*
4 "Pan-European IT Outsourcing Intelligence Report," 2011, *IT Sourcing Europe*

Figure 2. Where non-outsourcing companies will transfer their IT / development if they make such a decision in the next 12 to 24 months



3. ITO service providers will be challenged to offer their clients innovative business models

Cumulative 56% of today's in-house development companies polled admitted that innovative engagement models were very important or somewhat important determinants in their future choice of the ITO partners[5].

By offering innovative service delivery models, ITO providers will be able to fix some of the most critical issues that faced the European ITO buyers in 2011, such as insufficient communication, hidden agenda and delayed delivery[6].

As more innovative models such as Own Agile Development Team show up, the entire outsourcing concept will most likely change: ITO buyers will be able to in-source innovation and technology expertise while outsourcing processes. This will allow them to enhance and update in-house knowledge and capabilities and nurture own pool of highly motivated and loyal cross-border IT staff. In addition, ITO buyers will finally get rid

[5] "Pan-European IT Outsourcing Intelligence Report," 2011, *IT Sourcing Europe*
[6] Ibid.

of the concerns related to the loss of managerial control of own IT projects (which is the case in many traditional project-based ITO models).

4. The buzz around cloud will most likely die out

According to CIO.com's predictions, IT leaders will be looking more critically at the risks and value of cloud-sourcing in 2012[7]. It is expected that more rigid firm policies on cloud regulation will be developed, and companies willing to cloud-source their solutions will scrutinize the privacy laws in the countries to house the data. This will undoubtedly force Central and Eastern European nearshoring hubs to considerably revise and modify their existing data safety laws, but it will not happen in the foreseeable future as if by magic. That been said, no major progress towards cloud-sourcing will be seen throughout 2012.

5. Progressive ITO providers will take over infrastructure outsourcing

Central and Eastern European ITO providers focused on winning the market share rather than "skimming the cream" off short-term Service Level Agreements will slowly but surely be building the strong infrastructure capabilities in order to move beyond application development and maintenance work. As a result, 2012 will see more EU companies setting up their IT departments nearshore with ITO providers able to offer the EU-level IT infrastructure and a mutually beneficial networking with other clients. That being said, ITO providers acting as separate High-Tech parks and/or customer-specific Innovation Labs will have a better chance to win clients in 2012 than their "old school" competitors.

[7] "12 IT Outsourcing predictions for 2012," 2011, *CIO.Com*

6. Increased Backsourcing[*] activity will be observed

More than 10% (cumulative) of the EU IT outsourcers polled reported backsourcing their operations back in-house or to a different ITO provider onshore and/or nearshore as a response to their outsourcing issues in 2011[8]. In 2012 more companies are expected to pull the trigger on this in search of more transparent pricing options, better access to resources and engagement models' maturity. This generally suggests that the European ITO service providers should be on the watch for backsourcing companies as they can be a good addition to their client portfolio.

[*] Backsourcing is a process of bringing the previously outsourced operations back in an organization or to a different ITO provider onshore and/or nearshore

[8] "Pan-European IT Outsourcing Intelligence Report," 2011, *IT Sourcing Europe*

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ABOUT CIKLUM

Ciklum is a Danish IT outsourcing company specializing in nearshore software development by establishing and servicing clients' own development teams and/or centres in Eastern Europe, in Ukraine and Belarus. The environment of services and knowledge sharing within the company helps clients to market quickly and with less risk and minimal investment. Established in 2002, Ciklum employs more than 1,700 IT specialists with more than 160 global clients' own software development teams. Ciklum has six development offices in Ukraine, one in Belarus, and two in Pakistan, as well as representative offices in Denmark, Sweden, United Kingdom, Switzerland, Germany and the Netherlands. Ciklum is a winner of Red Herring 100 Europe 2009, recognized as CeBIT 2010 Top 20 innovative company delivering services/products for small and medium sized companies, and named the 2010 and 2011 Top 100 global services provider. Ciklum is rated best Ukrainian IT Employer 2010 and 2011 by DOU, the Ukrainian Community of Software Developers.

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