



CBI
Ministry of Foreign Affairs

The European intermediary landscape for ITO and BPO services

How can service providers from the developing countries make use of intermediaries to enter the European market?

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RESEARCH APPROACH

ITO and BPO service providers from the developing countries increasingly aim to offer their services to clients in the European market. In an earlier study on this topic, the collaboration with intermediaries has been named as one of the most promising possibilities for the market entry. **But who are these intermediaries and how can they be approached?**

This collaborative study by CBI and M-Brain sheds light onto this topic and offers answers to the most common questions relating to it. The study is based on extensive **secondary research** and **6 interviews with outsourcing companies and industry experts**. The aim of the study is not only to give an insight onto the European intermediary landscape, but to point out market opportunities and to uncover possible threats.



THE INTERMEDIARY LANDSCAPE



Who are the intermediaries?

Working as a link between client and service provider, intermediaries can have any shape



- Individuals or companies acting as “middle men” between end-clients and ITO/BPO service providers present themselves as intermediaries, brokers, agents, pivotal/campaign providers and offshore / freelance / outsourcing / development experts, as well as consultants of any form
- Depending on their level of professionalism, they can be individuals, start-ups or big-name system integrators
- Professional intermediaries collaborate with each other, forming an *international network of agency*

- The intermediaries' **main task is to negotiate between the clients and the service provider.** Professional intermediaries also manage the projects and take over financials and qualitative responsibilities. While the intermediary states the contact person for clients, service providers get often subcontracted by intermediary companies.
- In most cases, professional intermediaries hold a **catalogue** of subcontracted (and validated) ITO and BPO companies and potential clients.
- Service providers' **key goal** of collaborating with intermediaries is the discovery of new markets. Intermediaries should preferably have local knowledge and experience, however, outsourcing intermediaries are not homogenous and the term can be used for anybody who connects service providers and clients.



Expert outsourcing / intermediary agencies

Bigger and consecutive projects can be easily managed by the help of specialized partners

- Outsourcing agencies act as a subcontracted intermediate between clients and the service providers, streamlining the flow of information with the help of a **dedicated project manager**.
- It is up to the agency who will be included in the project and how it will be managed. The outsourcing agency has the responsibility to ensure that the job is done as agreed with the client.
- While some of the companies do not own deep knowledge on IT-related topics, the majority does dispose general expertise on it or offer own IT services.
- Some outsourcing agencies focus on the outsourcing of services to specific regions or specific IT services, such as software development and call centres.
- Also, bigger outsourcing companies offer **additional services**, such as trainings, back office analytics, paperwork, marketing and auditing which can be part of the agreed packages. Smaller companies take over the project management only.
- Some modern companies (e.g. BPO Xchange, Inteliom) work based on a self-established platform, which brings together their pool of clients and the pool of service providing companies or individuals (also sales agents).

ADVANTAGES

- Taking over the client communication and project management
- Formal collaboration based on the needs and possibilities
- Owning local and trade exchange knowledge
- Worldwide presence and network
- Management of payments
- Full overview on the outsourcing process

DISADVANTAGES

- Have often less overview on the work quality
- Limited partner capacity
- Work availability depends on the available projects
- Often fixed catalogue of clients
- Lack of direct communication with clients for the service providers
- Higher costs and possibly additional fees

EFFECTS FOR SERVICE PROVIDERS



Individuals

Any person of contact can mediate between service providers and potential clients

- There are two types of individuals mediating work between clients and service providers: Laypersons who act primarily as “person of contact” (paid and non-paid), and professional “**matchmakers**” who convey contacts on base of a commission, a fee or a percentage of the revenue.
- Professional individual intermediaries call themselves (IT outsourcing/ IT service) agents, outsourcing consultants, sales representatives or advisors, there is no universal term for these intermediaries.
- While professional intermediaries tend to contact IT service companies also by themselves to make special offers, laypersons can be found being part of the IT service providers’ professional network. Persons in the target industry and region may turn out to be especially interesting for service providers who aim to enter a new market.

“When I started IntoPeople, I asked for recommendations of outsourcing firms in Belarus and was introduced to ScienceSoft. I was able to identify firms in the Netherlands who were comfortable working with ITOs in Belarus. I spent lots of time and cost as an intermediary to create clear IT and business specifications to be communicated with ITO in developing countries.”

- CEO, Into People, The Netherlands

ADVANTAGES

- Greater independence
- Lower costs/ fixed fees
- Easy access/contact cooperation
- Owns local knowledge
- Timely support, if needed
- Continuity of the person of contact
- Short way to the clients (for example in terms of communication)

DISADVANTAGES

- No/less project management
- Few or no implemented security measurements
- Needed clarification on roles and conditions
- Limited catalogue of potential clients
- No additional supportive services

EFFECTS FOR SERVICE PROVIDERS



Online platforms

Especially smaller projects can be easily managed and distributed through online platforms

- Online platforms, bringing together freelancers and clients for projects, have been **gaining in prominence** in the last few years. 73% of freelancers turn to platforms to offer their work to clients, while only 33% profit from word-to-mouth referrals.
- Apart from freelancers, the platforms can be also used by smaller companies to get into touch with clients of all different sizes. For example, the platform "Upwork" announces collaborations with clients like Microsoft, AirBnB, GE Healthcare and others. Additionally, talented freelancers are found on expert forums and websites such as GitHub (for programmers).
- Available payment terms are on per-hour basis, per-day basis, per-project basis and flat rate, depending on the negotiations.
- **Popular freelancer platforms in Europe** include Clutch.co, TopTal, People Per Hour, Upwork, Hired, Freelancer, Fiverr, and Gulp. Some platforms specialize in the hiring of local experts, such as the platform Tunga, supporting African freelancers.



ADVANTAGES

- Short-term employment can be extended any time
- Protection by the freelancer platform
- Easy review of member profiles
- Starters can make use of the setting of virtual milestones
- Availability of project / member reviews



DISADVANTAGES

- Imposed fee based on project value
- Often smaller projects which can fast accumulate
- Possible security risks if agreements are not sufficiently set
- Need to apply for each project individually

EFFECTS FOR SERVICE PROVIDERS



Other IT service providers

Bigger ITO and BPO companies outsource parts of their work to save their capacities

- Once IT or BP service companies in Europe or other regions recognize a shortage of specific capacity, they outsource tasks or whole projects to subcontracted partners. Likewise, they do act themselves as intermediaries and provide the partner with experience in collaborating with European clients.
- The **end-client must agree to the subcontracting** of tasks to other service providers. However, at a later point, these clients may decide to outsource tasks to the service providers in developing countries by themselves.
- Another interesting prospect are (European) **start-ups** which often need to expand their capacity through the collaborations. According to experts, start-ups do offer more potential for bringing together end-clients and service providers from developing countries than bigger intermediaries. In the meantime, European start-ups build a new form of competition for service providers.



ADVANTAGES

- Can turn into a long-term relationship
- Existing global network of (high-end) clients
- Exchange of industry-related knowledge and insights on the functionality of the market
- Gathering of experience with (European) clients in an indirect way



DISADVANTAGES

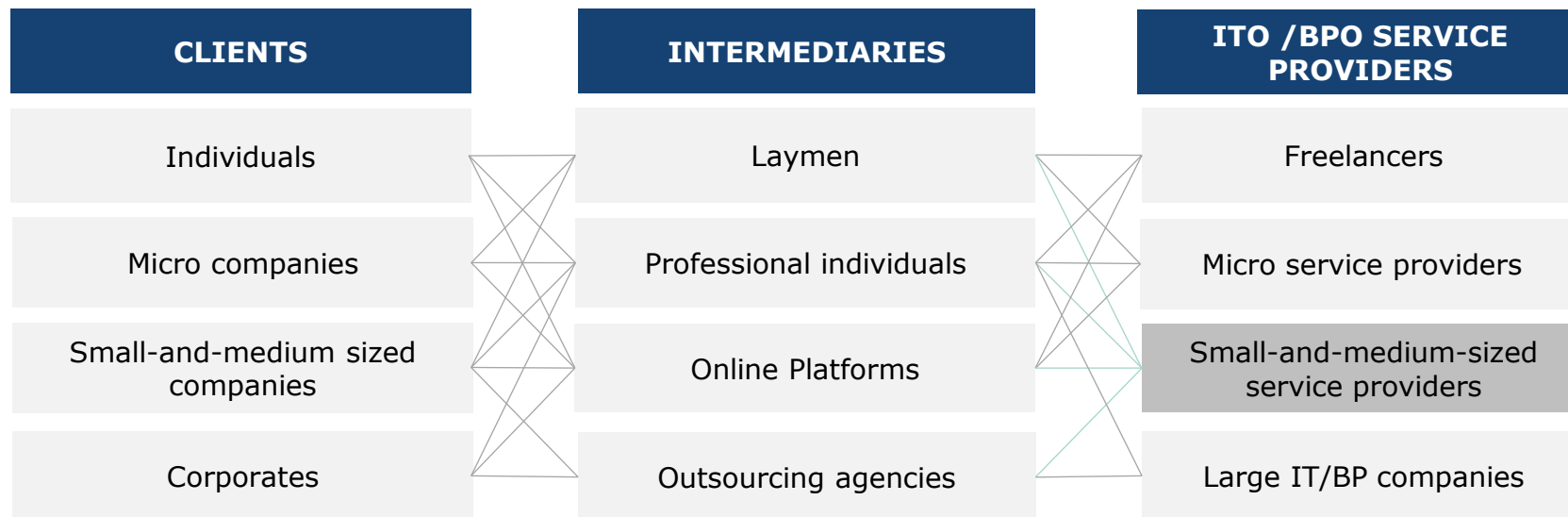
- Outsourced tasks are mostly simple, but time-consuming
- Low payment
- Direct contact with the end-client questionable
- No guarantee for the acceptance of the experience gathered

EFFECTS FOR SERVICE PROVIDERS



Chains of collaboration

The choice of intermediary depends also on the targeted type of client



"Only large Dutch firms are comfortable and confident with reputable ITOs from developing countries. Recently during Covid-19, smaller Dutch firms got used to working remotely on the internet with ITOs since there is no choice as they preferred to work with someone in their office."

- CEO, Into People, The Netherlands

- Small and medium-sized companies can collaborate with any type of intermediary and, likewise, theoretically reach any client. Smaller companies from developing countries are expected to start building a reputation through the work with other smaller companies first.
- A large number of IT service companies reach first clients in Europe through the **word-of-mouth recommendation** of individuals.

"We only work with intermediaries where it makes sense when the client organization is large, with high potential margin passed down by the intermediary and when the intermediary introduces a strategic client and strategic market penetration."

- CEO, Arateg, Belarus

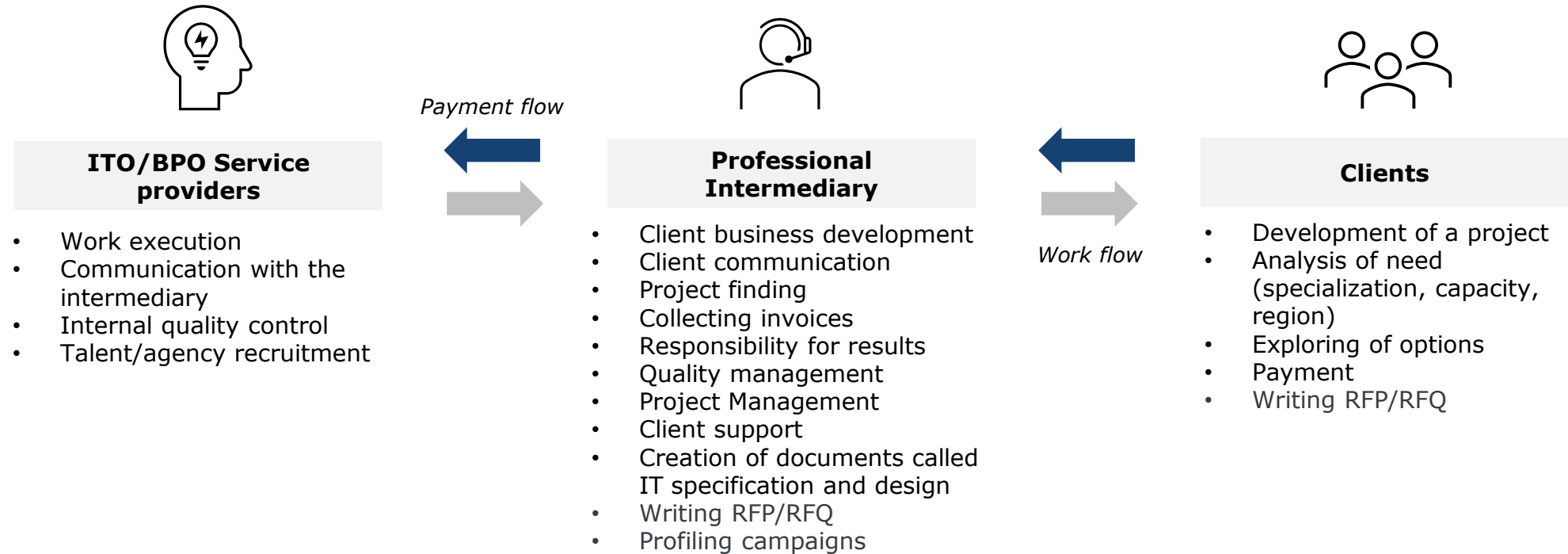


COLLABORATION PATTERNS WITH INTERMEDIARIES



Outsourcing process with professional intermediaries

Professional intermediaries are taking over major project management tasks



Large intermediaries own additional tools (such as the IT Sourcing Health-Check Diagnostic Tool of Deloitte) to facilitate the outsourcing process



Approaching an intermediary partner

Choosing a partner can become an extensive process requiring a lot of research / negotiation



COMPANY PROFILE

Possible content should include make proof of:

- Trustworthiness
- Reputation
- Direct communication
- Work experience
- Talent pool
- Quality of work

Important channels for representation include:

- Professional website and business cards
- Direct communication
- Offering of personal meetings/video calls
- Content creation on expert/networking websites



Finding an intermediary partner

Intermediaries approach service providers actively or are approached by possible partners

PLATFORMS

Freelancer platforms, as well as expert (hiring) websites offer information about reliable companies, give tips on how to reach experts and connect.

Examples: Fiverr, Upwork, Github, Guru

INTERNET SEARCH

Google (Ads) and other search engines give an overview of available companies and experts. Once a target region or client type has been defined, the search can be limited and focused.

Examples: Google Search, company websites

SOCIAL MEDIA / FORUMS

Specialized social media groups help to connect service providers and intermediaries. Networking here is mostly completely free of charge, whereby official advertising (e.g. Facebook Ads) must be paid.

Examples: Facebook, LinkedIn, Twitter

PERSONAL BUSINESS NETWORK

Word-of-mouth recommendations belong to the most important sources for clients and IT outsourcing companies. Also, IT incubators are becoming an important networking event.

Examples: Conferences, hackathons, network meetings, start-up meetings, Meetup (Germany)

ASSOCIATIONS

Local state associations (like the European IT chamber of commerce) and industry expert associations can promote services from developing countries and facilitate networking.

Examples: Outsourcing Verband, Central and Eastern European Outsourcing Association, Global Sourcing Association

"Intermediaries usually reach out to companies from developing countries. It is through word of mouth for the 2 way interaction. Trust and respect is usually communicated through trusted recommendations. Companies can also be found on the internet, but word of mouth is the most effective."

- CEO, IntoPeople,
The Netherlands



Intermediary selection criteria

A collaboration with an intermediary should be value-adding for the service provider

- ✓ Operational expertise/experience
- ✓ Strong pool of talent
- ✓ Positive reputation through reviews in the industry
- ✓ Level of ITO / BPO knowledge
- ✓ Importance of trust and trust development
- ✓ Expertise for the chosen (geographical) scope
- ✓ Established business model for collaborations
- ✓ Representative online presence
- ✓ Strong sales agents
- ✓ Open and fast communication systems
- ✓ Effectivity of project management
- ✓ Preparation for initial discussions
- ✓ Diligence / Quality Control
- ✓ Availability of (special) service offers (e.g. software)



Challenges for service providers

Working with intermediaries needs constant re-evaluation and quality control



HIGH / HIDDEN FEES:

In some cases, the intermediary has much more profit from the collaboration than the service provider.



FIXED CLIENT CATALOGUE:

Intermediaries tend to work with a limited set of clients, which encloses the service provider's scope of potential activity.



LACK OF COMMUNICATION:

Some intermediaries limit their range of communication, making the fine tuning of services for service providers difficult.



DEMANDING INTERMEDIARY:

Especially prominent outsourcing agencies demand certain certificates, software and education of the talents.



LOW QUALITY:

The quality of chosen intermediaries should be carefully evaluated, the scope of services can vary drastically.



THIN MARGINS :

Due to currency exchange issues and the general decrease in profits, working with an intermediate leads to unfavourable pricings.



KEEPING CONTROL:

Service providers are challenged to keep an overview on what intermediaries are doing and if their actions benefit the providers.



CHANGING REQUIREMENTS:

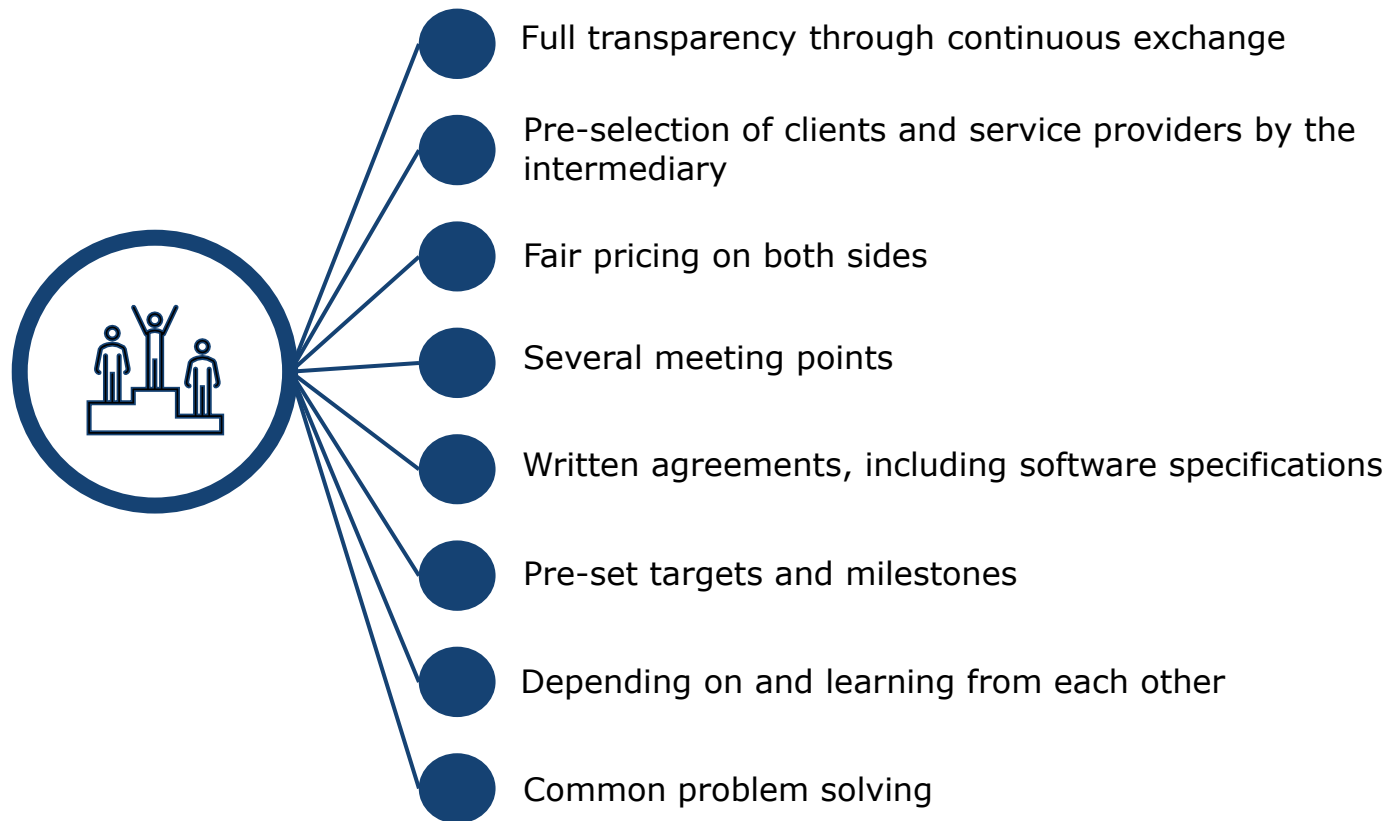
The requirements by the intermediaries and clients can always change and influence the ongoing and future collaboration.

- Experts warn, there are **many fraudulent intermediaries** in the market who are only looking for their own benefits and show inventiveness in creating many additional fees for the clients and service providers at the same time. **Service providers should only pay a fee/commission if they themselves get paid.**
- The collaboration with an intermediary should result in a **win-win situation** and build the base for service providers to serve the markets on their own. In some cases, this happens through the acquisition of own "intermediary entities", such as salesmen.



Success factors for a collaboration with intermediaries

Both parties need to have a clear understanding of the projects and collaborate as partners



"The collaboration can only be successful when the BPO company do not have a local salesforce and business development team. Once the BPO has scale to expand across geography to hire local talent, the success is best enjoyed without an intermediary."

- Senior Vice President,
Teleperformance, France

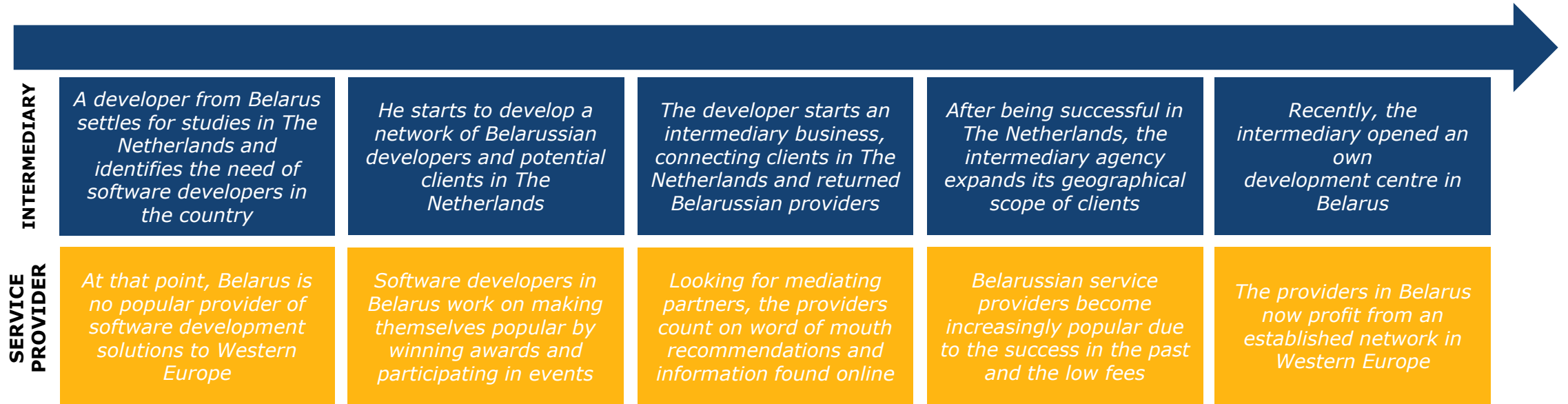


EXAMPLES FOR COLLABORATIONS & TIPS



The beginning of a software development intermediary

A developer in The Netherlands identifies opportunities through the Belarusian diaspora

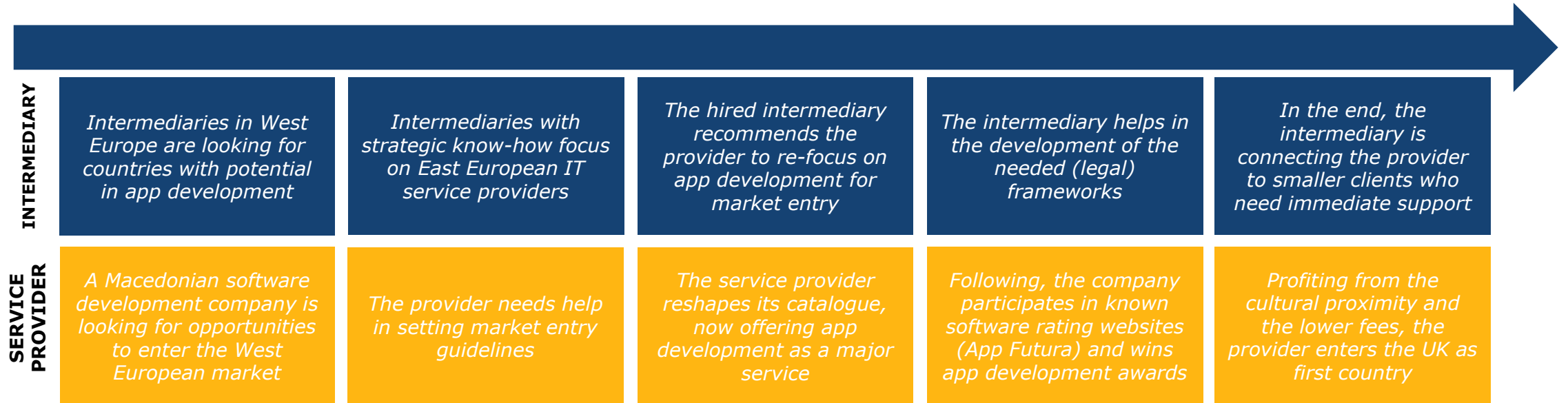


- The base of the success of the intermediary agency has been the availability of sponsored Knowledge Migrant Visa in The Netherlands and the **intermediary's entrepreneurial spirit** during his studies in The Netherlands.
- The service providers in Belarus had detected Western Europe as great potential to offer their services, but they understood the need of intermediaries and first success stories in the region to built the needed network.
- **Today, Belarus and other Eastern European countries are very demanded** outsourcing providers for West European and US-American clients who needs support in software development and other disciplines.



App development made in North Macedonia

A service provider re-evaluates its catalogue of services with the help of a consultancy

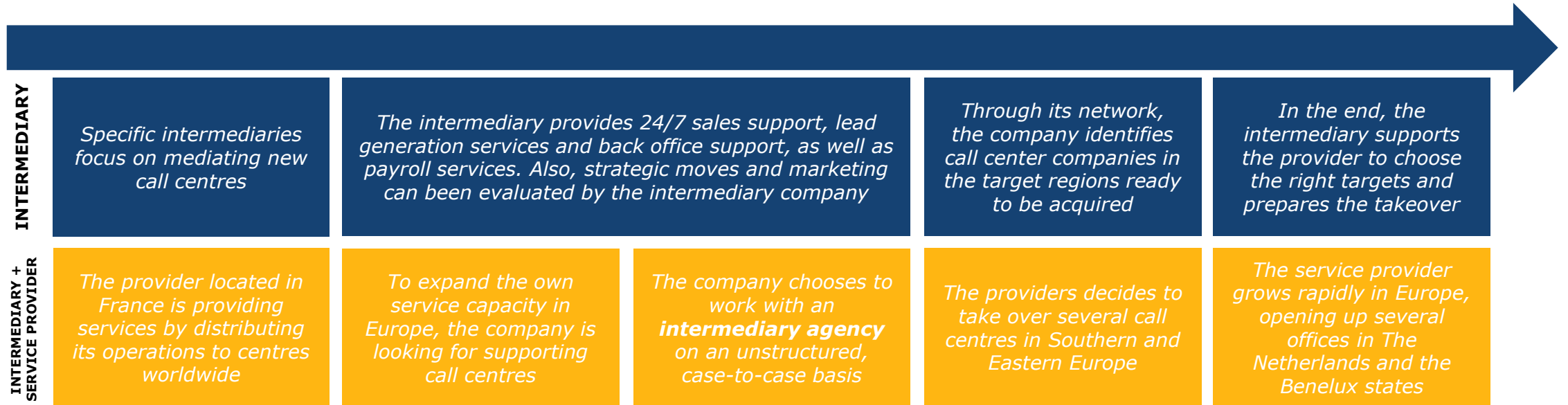


- Before serving West-European companies, the service provider from North Macedonia developed a **successful company profile**, awarded with digital prizes. These awards increased the company's reputation.
- Driven by the knowledge on an actual need of software developers for the West-European market, the service provider from Macedonia hired a consulting agency to ease its market entry.
- The **consultancy agency** worked for the company as an intermediate, especially in evaluating the needed changes and adaptations, and discover an efficient way to enter the European market through a change in strategy.



Expanding the call center capacity through acquisition

A successful call center collaborates with an intermediary to enlarge its services



- Although the company HQ is located in France, the service provider needed to gain access to the trust of European clients for its outsourcing to other countries.
- Therefore, the company profited from its early success and hired **IT outsourcing agencies** to adapt the company strategy, resulting in many collaborations, acquisitions and in an **international expansion**.
- In 2020, the company started to offer a "Cloud Campus" to offer **virtual intermediary services** for client companies and skilled workers and teams who work remotely around the world.



Tips for collaborating with an intermediary

Intermediaries can be important strategic partners when entering new markets

-  **DEFINE YOUR IDEAL PARTNER:** Depending on your future strategy, establish a system to define the type of partner you would need to enter the chosen market; a layman, a professional intermediary, an outsourcing agency or would you prefer to try any of the freelancer platforms?
-  **DIGITAL NETWORKING:** Make use of digital communication channels, such as expert platforms and networking websites, to approach possible intermediaries. You can gain attention of intermediaries and clients through quality content creation.
-  **THE DIASPORA AS ENTRY POINT:** Migrants originally from your own home country might work as interesting intermediaries due to their knowledge about processes in both countries/regions and the established network.
-  **DISCUSS & RISE AWARENESS:** Try to become a part of national/regional associations like Eurochambers to enhance your network in the region. Use all kinds of platforms to grow awareness on available skills in your country and to communicate the benefits of outsourcing to you.
-  **SHOW YOURSELF:** Participate in the European IT events, such as hackathons and other competitions. Also, develop a digital strategy to be digitally visible and increase your virtual relevance.
-  **LEARN FROM EXPERIENCE:** Select partners who are experienced in the European landscape and can help you to understand all processes by yourself. Each rejection should be carefully evaluated to enhance your procedure.
-  **COMMUNICATION IS KEY :** For a long-term success, targets and collaboration objectives, as well as failures should be communicated and evaluated with the partners regularly.
-  **BE PROACTIVE:** Intermediaries interested into ITO and BPO are mostly used to and interested in an active exchange concerning the topic. Approach potential intermediaries in a polite and casual manner to establish a relationship.
-  **BE PATIENT:** Not every contact you make might lead directly into a potential collaboration with a client, but every gained active contact should be seen as a success which can lead indirectly to successful partnerships.

“There is however an incentive where we need to pay the intermediary and earn less profits and revenue in such a business model. When there is success in establishing reference and reputation of BPO and investments in technology, the intermediary is no longer needed.”

- Senior Vice President,
Teleperformance, France



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