

# The European market potential for finance and accounting services

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More and more European companies, mostly small to medium-sized enterprises (SMEs), are discovering finance and accounting outsourcing (FAO) as a cost-effective way to improve their business. The trends on the market are automation, real-time services and the demand for added value partners.

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## 1. Product description

There are two types of finance and accounting services: services covering transaction-intensive processes and those covering knowledge-intensive processes.

Transaction-intensive processes are processes with lower added value, such as:

- accounts payable/receivable accounting
- general accounting
- payroll accounting
- fixed assets accounting
- tax preparation

Knowledge-intensive processes are processes with higher added value, such as:

- budgeting/forecasting
- capital budgeting
- internal auditing
- management reporting/analysis
- regulatory reporting/compliance
- treasury/risk management

Most outsourced finance and accounting services cover:

- transaction processing
- financial reporting
- month-end closing
- financial planning and analysis.

These are all considered knowledge-intensive processes. Relatively simple, rule-based and repetitive tasks are increasingly automated.

The key benefits of FAO include:

- efficient use of finance and accounting professionals
- enhanced processes and technologies
- stronger compliance measures.

Outsourcing enables European organisations to scale resources up and down as needed, without the obligation to pay salaries or other employee benefits, and without the need to hire, train and retain accounting staff.

## 2. What makes Europe an interesting market for finance and accounting services?

Europe is the second biggest finance and accounting market in the world, after the United States. The market has moved beyond back-office support and currently includes more specialised industry areas and processes with higher added value.

### The market is growing

It is estimated that by 2025, the European FAO market will be worth [worth €921 million](#), with Germany alone comprising half of this market. Finance and accounting services are the most commonly outsourced services in European companies. This market was long the domain of large companies, but that has changed. The market is maturing and SMEs are also increasingly outsourcing their finance and accounting services.

The industry has suffered from the pandemic but remains strong. Research by [Hays Accountancy and Finance](#), found that [approximately 54% of Europeans companies expect to recruit accountancy and finance staff in 2021](#). Most in demand are tax and audit, risk and compliance professionals.

#### Tip:

Shift your focus to European SMEs.

### Skills shortage in the sector

As is the case in many parts of the business process outsourcing (BPO) industry, the finance and accounting sector is faced with a significant skills shortage. Nearly 73% of employers in the finance and accounting sector say that they have experienced some form of skills shortage in 2020. Consequently, almost one in five companies (19%) admit that their organisation does not have the talent needed to achieve its business objectives.

To fill the gap, many companies in Europe try to hire finance and accounting professionals from abroad. An easier option, which provides more flexibility, is to outsource finance and accounting tasks to offshore providers like you. The recent increase in remote working due to lockdowns may well accelerate this process, as it lessens the difference between in-house, nearshore and offshore teams.

#### Tips:

Find the right people. Consider hiring people with the necessary talents who still need to attain the required competencies. You can train them on the job.

Take steps to retain your people. Invest in education, create a good work environment. In short: keep your employees happy and skilled.

## COVID-19 accelerated the openness to outsourcing

While most industries were impacted by the pandemic in some shape or form, the finance and accounting sector was hardly affected. Some finance and accounting services, such as insolvency work, advice on cost-cutting and restructuring, are actually expected to benefit from increased demand in 2020 and 2021.

The effect of COVID-19 on the sector during this timeframe is expected to be minimal. [Industry revenue is expected to pick up after 2021](#), as economic conditions improve, and business confidence rises. In general, the COVID-19 pandemic only increased the demand for outsourcing. European businesses are coming to realise that outsourcing their finance and accounting tasks can make them more flexible and resilient in difficult times.

## Nearshoring countries want to keep their prices competitive

Prices in nearshoring countries are rising. This makes service providers in these countries less competitive than offshore service providers, which makes European companies more open to outsourcing to more remote destinations. You can choose to form subcontracting partnerships with these nearshoring providers or to compete with them.

European companies prefer to outsource services to providers within the same country, a practice also known as domestic outsourcing. When outsourcing abroad, they prefer providers in nearshore locations because of language, proximity, cultural similarities and minimal time difference. Europeans increasingly expect finance and accountings to be available and responsive 24/7, which means some overlap in business hours between the two companies is desirable.

Traditionally, the buyer markets for finance and accounting services are Western and Northern European countries. The most popular nearshoring locations for buyers in these countries are Central and Eastern European (CEE) countries such as Poland, Bulgaria and Romania. Not only do these countries offer the usual nearshoring benefits, but they are also members of the European Union. So their contracts and payments are governed and protected by the same European legislation as in the buyers' countries.

### Tips:

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

Differentiate yourself from domestic and nearshore providers to remain competitive. Emphasise how you are different in your marketing message. Do not compete only on price, but also analyse what other advantages you can offer, such as access to skills or specialised industry expertise.

Partner up with nearshore service providers, for example in CEE countries, that may be looking for cheaper providers with available personnel. Many service providers in developing countries have not yet recognised this opportunity.

## 3. Which European countries offer most opportunities for finance and accounting services outsourcing?

Northern and Western European countries are traditionally the biggest outsourcing markets. While the largest countries offer opportunities based on their size, some smaller countries are also interesting markets to focus on, because of their advanced economies or because they are investing a lot in finance and accounting. The

language skills you can offer are a key factor in deciding which European markets you should target.

## Germany is Europe's largest FAO market

Germany is the largest economy in Europe, home to 19% of the European Union's population. The German economy is widely considered the stabilising force within the European Union, historically showing a higher growth rate than other member states. In fact, according to the Economist, [Germany will be the first major European economy to recover from the current crisis](#). This expectation is based on both the country's healthy finances before the crisis and its large industrial sector, the reboot of which also benefits suppliers abroad.

Germany is also the largest FAO market in Europe. It is estimated to be [worth around €494 million by 2025](#). This is an average annual growth rate of 3%.

Although its size makes Germany an interesting market, companies there are less open to offshore outsourcing than in countries like the United Kingdom and the Netherlands. However, as German businesses continue to face skills shortages and become more experienced in offshoring, their attitude to it is improving. In addition, the COVID-19 crisis may create more opportunities for you on the German market, as it has [softened Germany's generally stiff corporate culture](#) and shown companies what is possible with remote working and outsourcing.

Language barriers are relatively high, especially in the sales process. But finance and accounting services in themselves are not very language dependent. You can increase your chances of success by collaborating with a German-speaking partner rather than approaching end users directly. If you meet these language requirements, you could also target German-speaking companies in Austria and Switzerland.

## The United Kingdom remains attractive despite Brexit

The United Kingdom is the second-largest economy in Europe. Finance and banking is the sector that makes the biggest contribution to the UK's GDP. Outsourcing finance and accounting services is a common practice in this sector, boosting the demand for FAO services in the United Kingdom.

[The United Kingdom is suffering from a finance and accounting skills shortage](#). And on top of that, there is a so-called war on talent due to rising wages. The significant rise in average wages (5.2% in 2019) is prompting many finance and accounting professionals to switch jobs to get a better salary, resulting in even higher salaries and companies struggling to keep their finance team together.

Around 74% of finance and accounting recruiters in the United Kingdom believe skills shortages will be their top hiring challenge for 2020. And 46% believe the current talent shortage is worse now than it was five years ago. This makes the United Kingdom an interesting target market for finance and accounting services providers.

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.

In our study about [the demand for IT outsourcing in Europe](#) you can read how the United Kingdom's withdrawal from the European Union (Brexit) has made British companies more cautious about outsourcing, which has contributed to a decline in outsourcing after 2016.

## The Netherlands is a fast-growing hub for finance and accounting services

The Netherlands has the sixth-highest GDP per capita in Europe. An impressive [60% of all Forbes 2000 IT-companies have established operations in the Netherlands](#), making the country a real IT hotspot. The country appears to be among the economies that suffered least due to the pandemic, as [the Dutch GDP is expected to return to its 2019-level at the end of 2021](#).

The Netherlands is considered to be the fastest-growing hub for finance innovation. Some examples of successful Dutch financial innovations are [Mollie](#) and [Adyen](#). Dutch companies are also frontrunners in adopting tech innovations.

Companies in the Netherlands are traditionally fairly open to outsourcing. Language barriers to doing business in the Netherlands are generally low, as most Dutch people speak English.

## **Nordic countries can save costs by outsourcing to you**

The [Nordic countries](#) individually are smaller than other European markets, but they are relatively open to outsourcing their finance and accounting services. [Sweden and Norway are the region's powerhouse, but Finland and Denmark are also strong performers in the finance and accounting market.](#) With the [highest finance and accounting agent salaries in Europe](#), Nordic companies can achieve considerable cost savings by outsourcing their finance and accounting services, especially by offshoring to developing countries.

Like the Netherlands, the Nordic economies are expected to be among the less affected by the COVID-19 crisis. In fact, [the Danish GDP is projected to be the first in Northern and Western Europe to return to its pre-pandemic level.](#) Most people in the Nordic countries have a good command of English.

## **Switzerland has a large finance and banking market**

Switzerland is known for its finance and banking market and has a very strong economy; it has the [second highest GDP per capita in Europe](#) (surpassed only by Luxembourg). Swiss companies are very internationally oriented and doing business in English comes naturally to them, so there are relatively few barriers to outsourcing.

In addition to that, the current pandemic has been a wake-up call for Switzerland's labour market. [Especially in technology and accounting, the skills shortage is very high.](#) This means that Swiss companies are looking for technology and accounting talent abroad.

## **4. What trends offer opportunities on the European market for finance and accounting?**

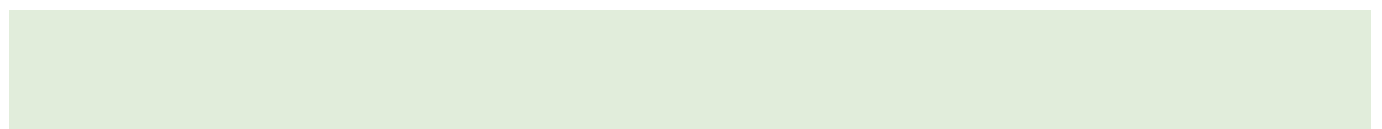
Although you should stay up to date on the latest trends and techniques in finance and accounting services, you cannot tap into each trend. Focus on those that suit your business and may boost your growth. For more information, see our study on [trends for ITO/BPO](#).

### **High demand for added value providers**

The most in-demand finance and accounting roles for 2021 are: accounting manager, accounts receivable / accounts payable (AR/AP) roles, controller, financial analyst, internal auditor, loan administrator, payroll manager and staff and senior accountants. The specific demand for these finance and accounting roles shows the increasingly high demand for added value partners.

Besides these so-called hard skills, there is also an increasing demand for soft skills. For instance, finance and accounting professionals must be able to work remotely, innovate, and adapt to the fast-changing business environment.

The soft skills most in demand for finance and accounting employees in 2021 are: the ability to work independently in virtual teams, attention to detail, being comfortable with change, commitment to continual learning, creativity and innovation, customer service capabilities, problem-solving and writing and verbal skills.



## Tips:

Become an added value partner. Invest in the soft and hard skills of your employees and incorporate your (new) status as a value added partner in your marketing.

Offer analytical services, including Financial Planning & Analysis but also beyond that.

Invest in the relationship with your clients to create a true partnership based on reliability and trust. For more information on managing sourcing relationships, see the webinar by the Global Sourcing Association on [collaborating in a pandemic](#).

## Technological developments

Technological developments play an important role in European companies' decision to outsource finance and accounting services. Technological innovations can enable them to increase their productivity and lower their overall operational costs. However, the investments required to stay on top of the latest developments are often too high. Outsourcing finance and accounting services allows European companies to benefit from technological developments without having to invest in IT resources, implementation and maintenance.

European buyers are also looking to improve the efficiency and/or functionality of their existing systems. This means service providers need to offer (add-on) tools that improve these systems and incorporate new technology.

The main technological developments in finance and accounting services outsourcing are:

### Automation and artificial intelligence

Artificial Intelligence (AI) and machine learning are shaping the BPO industry. [Their increasing popularity also shape the finance and accounting industry](#), taking over the repetitive and simple manual tasks. AI-based accounting software equips FAO professionals with [intelligent tools](#) to manage their accounting tasks. It helps them analyse large data volumes and generates more accurate analytics faster and cheaper.

### Cloud-based technology

Cloud-based finance and accounting is getting more and more popular. It reduces overhead costs, because (standard) software can be configured and updated from one central location. Clients and providers can access real-time information via the cloud in a safe and easy way. And the cloud can also help to streamline business processes.

Other benefits of [cloud-based finance and accounting technology](#) are: easy document sharing, real-time analytical data to support business decisions and comprehensive reporting. With more European companies moving to the cloud, there are less barriers to outsourcing.

This trend is sometimes referred to as real-time finance and accounting.

## Tips:

The future of FAO does not lie in repetitive and simple tasks. If you want to stay relevant in this market, you have to stay on top of the technological developments.

For more information on analysing large datasets, see our study about [big data](#).



This study was carried out on behalf of CBI by [Globally Cool B.V.](#) in collaboration with Laszlo Klucs.

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