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**SERVICE OFFSHORING TAKES OFF IN EUROPE**  
**Nearly half of Europe's top firms plan more offshoring in coming years**

Issued jointly by UNCTAD and Roland Berger Strategy Consultants

**EMBARGO**

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Four out of 10 European firms have begun to relocate service operations offshore, according to the first comprehensive [survey on the offshoring strategies of leading European companies](#) released today. The survey, conducted jointly by UNCTAD and Roland Berger Strategy Consultants, polled a representative sample of Europe's top 500 companies, covering more than 20% of their total revenue.

Firms headquartered in the United Kingdom, Benelux, and Germany account for 90% of the number of service jobs already offshored. British companies, with more than 60% of all service jobs offshored, lead in terms of total volume (figure 1). The figures are expected to increase, as close to half of all respondents plan to offshore more services in the next few years.

"Companies in Europe seem to fall into two categories: a significant portion have already offshored in the past and is planning on further activities, whereas others have no experience in offshoring and are not considering it for the near future", says Thomas Eichelmann, senior partner and member of the global executive committee of Roland Berger. "Basically, competition in their own markets as well as availability, costs, and infrastructure are the root causes that drive companies to offshore and determine which target countries they choose."

Overall, the respondent firms are very satisfied with their experiences. About 80% consider their projects successful, and only 3% are dissatisfied. While benefits go beyond the obvious cost savings, to include extended and improved quality of services as well as access to skills and infrastructure, cost reduction is the prime driver. Cost savings are typically in the range of 20% to 40% (figure 2), often exceeding the companies' original forecasts. Every third company that has offshored services also reports that improvements in service quality have surpassed their expectations.

The survey reveals that the selection of target countries goes beyond the mere benchmarking of hard facts (e.g. costs, skills and time zone) and is influenced by soft factors such as following competitors, promotion by target countries and internal lobbying by foreign affiliates. This is the case for more than 40% of the companies surveyed (figure 3). In terms of target destinations, more than half of all offshoring projects have been undertaken within Europe. The top European locations include the United Kingdom, Ireland, Spain and Portugal in Western Europe, and Poland, Hungary and Romania in Eastern Europe. Almost four out of 10 projects go to Asia, and to India in particular. In job terms, Asia's share is much higher, since projects offshored to that region tend to be the largest.

For some companies, other regions are entering the radar screen. "We are currently checking potential locations in Central and South America, namely Mexico and Brazil, to offshore front office services", says a representative of a company based in south western Europe. "We realized that huge efforts are being

made to establish this region as attractive target destinations for service offshoring. This region is more attractive for us than Asia, especially regarding the language fit."

The full range of services from front office to back office functions is considered for offshoring. Finance, accounting, IT support and human resources and other back office services are involved in some 60% of all current or planned offshoring projects of the European companies interviewed. A third of the companies mentioned offshoring of front office services, such as customer call centres. Overall, there are no "sacred cows"; most services are potential candidates for offshoring. More than 20% of respondents did not explicitly exclude any business process from offshoring considerations. "We systematically revise our services on a regular basis, seeking opportunities to benefit from offshoring", said a representative of a large company in the transportation industry, "but we do what we can to avoid having our company's name publicly connected to offshoring so as to avoid a backlash from the public".

While European companies generally lag behind their US rivals in offshoring, more than 50% of the firms do not consider the US framework for offshoring to be applicable in Europe. The main perceived differences are the regulations and flexibility of the European labour markets, diversity of culture and the status of English as a world language.

From a policy perspective, countries need to identify the niches in which they can offer an attractive base for services exports. "The offshoring of services opens many opportunities for new jobs and exports in developing countries", says Karl P. Sauvant, Director of UNCTAD's Investment Division. "Whereas only a few countries already receive such services, the potential is there for others to benefit as well, provided they can offer the right mix of costs, skills and infrastructure, and that they market their locations effectively."

Companies that have offshored services are convinced that their home countries also benefit from offshoring, particularly in the form of improved competitiveness and lower prices. This suggests that offshoring may be important for the overall competitiveness of European business as compared to their United States competitors.

UNCTAD ([www.unctad.org](http://www.unctad.org)) is the focal point within the United Nations for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development.

Roland Berger Strategy Consultants, founded in 1967, is one of the world's leading strategy consultancies. With 32 offices in 22 countries, and over 1,685 employees, it has successful operations in all major international markets. In 2003, it generated more than 530 million euros worth of revenues. Its strategy consultancy is an independent partnership owned by more than 160 partners. ([www.rolandberger.com](http://www.rolandberger.com)).

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## ANNEX

### Tables and figures

#### Fig. 1: ORIGIN AND TARGET REGIONS BASED ON PROJECTS MENTIONED IN INTERVIEWS

##### **UK, Germany, and Benelux account for 90% of the number of service jobs offshored**

UK companies lead in terms of total volume

*Origin and target regions based on projects mentioned in interviews*

Service jobs offshored by home countries [% of total number service jobs offshored]

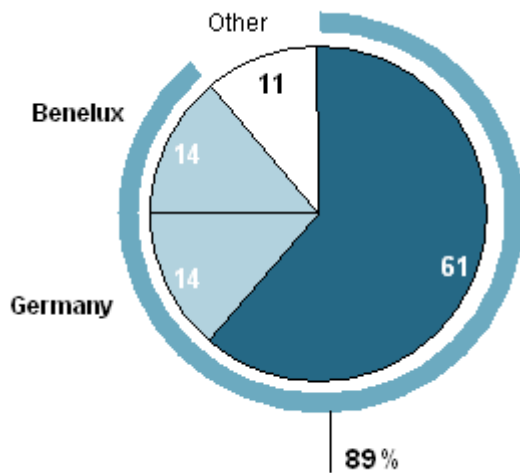
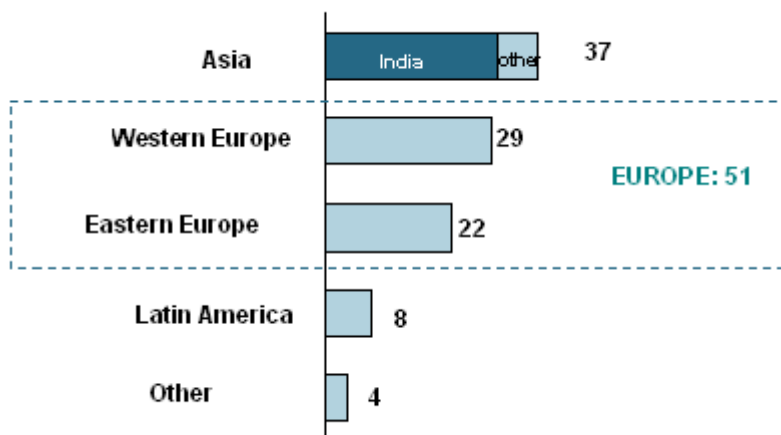


Fig. 2: BENEFITS FROM OFFSHORING

Target region [% of all projects]



Asia has attracted large offshoring projects, e.g.

- Software development offshored to India by Dutch company (1,100 jobs)
- Payroll, billings, and software development offshored to India by British company (650 jobs)

Fig. 3: APPROACH FOR COUNTRY SELECTION

**Cost reduction is considered the main benefit from offshoring**

Benefits from offshoring [% of companies that have offshored]

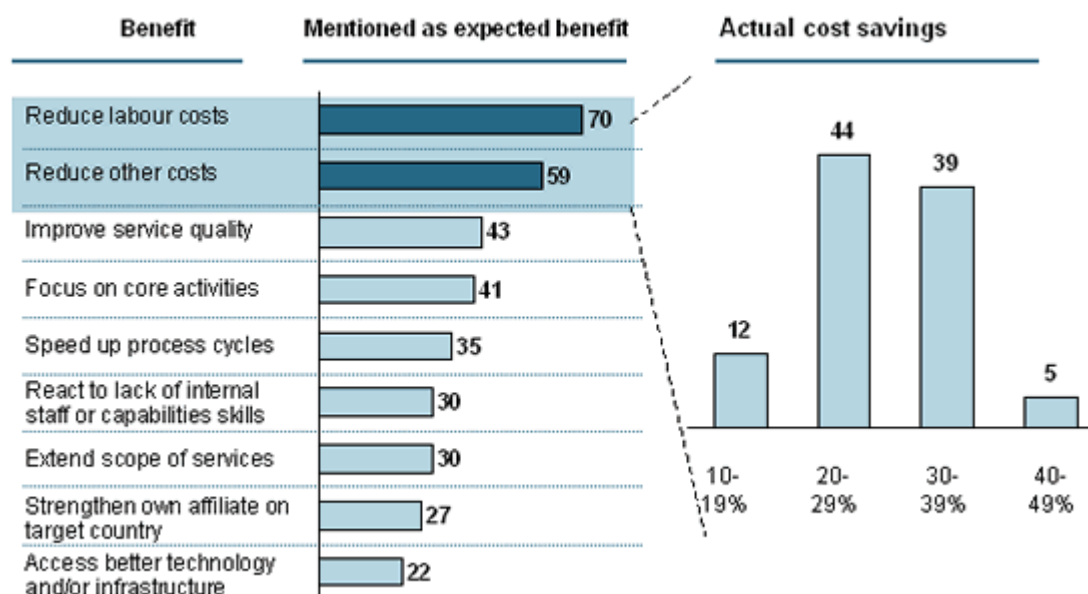
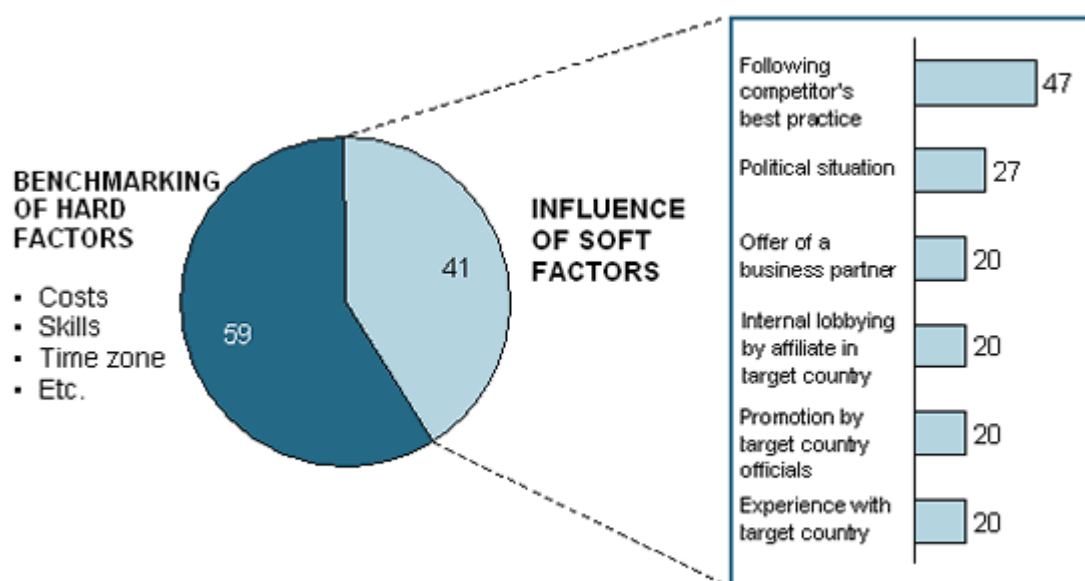


Fig. 4: SOFT FACTORS INFLUENCE DECISIONS ON TARGET COUNTRIES FOR MORE THAN 40% OF THE COMPANIES

Approach for country selection [% of companies]



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