

**EUROPE AND THE NEARSHORE:
BETWEEN GEOPOLITICS,
RECESSION AND RESILIENCE**



**BY
SEAN
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February
2024



Valletta, Malta

INTRODUCTION

War in Ukraine. Persistently high inflation. Looming recession in two of the region's largest economies, Germany and the United Kingdom.¹ Life in Europe has been fraught over the past year as geopolitical upheaval converged with pocketbook worries that invariably impact customer experience.

Consumer Confidence in the Euro Zone

Seasonally Adjusted, 20 Countries With € As the Official Currency



Source: IMF, Regional Economic Outlook (April 2023), p. 2

The 2023 Ryan Strategic Advisory Front Office CX Omnibus Survey registers the concerns of enterprises as they adapt to an uncertain business landscape. However, common worries have not engendered a common set of sourcing strategies. Instead, executives across Europe are exploring a range of domestic, nearshore, and offshore service delivery models for provisioning end-users with customer services.



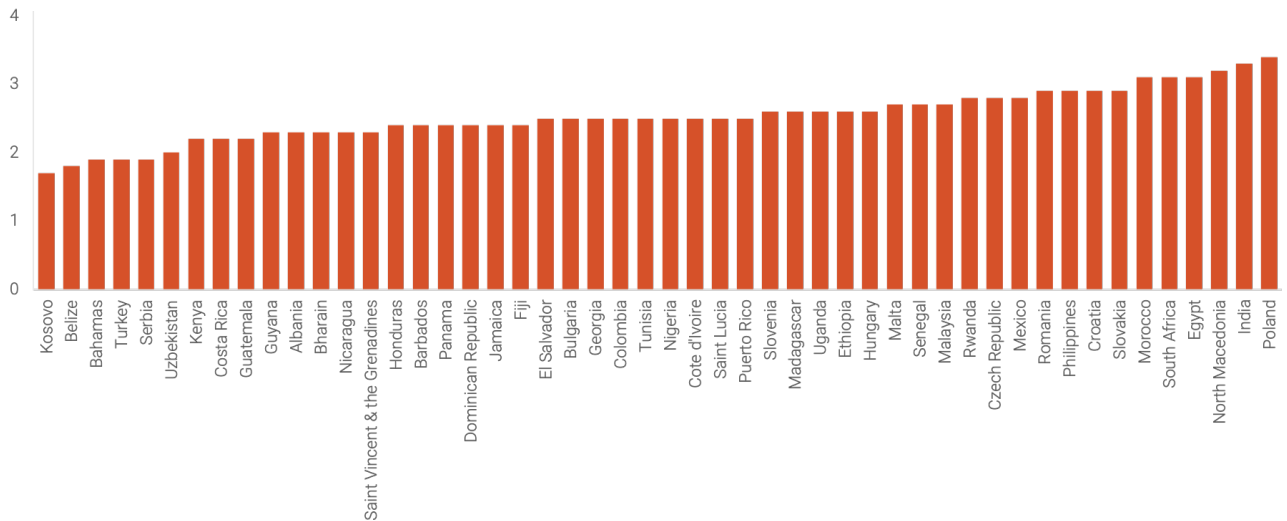
Skopje, North Macedonia

¹ "According to the latest World Economic Outlook, Germany's economy is forecast to contract by 0.1%, and Britain's by 0.3%, in 2023. France and Italy are on track to record 0.7% growth in 2023. IMF, Regional Economic Outlook: Europe (April 2023), p. 29.

Offshore Location Favorability

Respondents from the UK, Spain, France, Italy & Germany

Using a scale of 1 – 8 (1 = not at all favorable, 8 = very favorable), please provide your degree of favorability to the following offshore locations for contact center delivery (choose one for each country)



Source: Ryan Strategic Advisory, 2023 Front Office CX Omnibus Survey, p. 96.

Yet, the 2023 Omnibus Survey also shows the resilience of key delivery destinations. A host of offshore markets notched high degrees of favorability among CX decision-makers in the UK, Spain and France. Meanwhile Poland, Egypt, and several small destinations enjoy cross-market support in European demand locations.

DEMAND-MARKET TRENDS

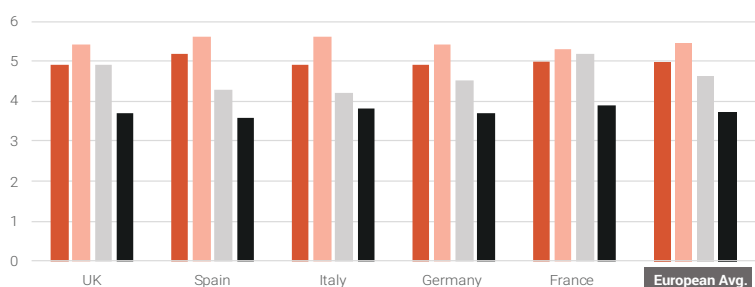
Across Europe, enterprises that engage third-party outsourcers increasingly favor mid-size services providers (\$500mn-999mn in annual revenue). In France and Spain though, there is a greater acceptance of larger outsourcing partners, a preference that likely reflects the continued presence of BPO behemoths that grew out of these nations and continue to actively service the domestic market.

Mid-Size BPOs are Gaining Favor...

But Less So in France

Whether you currently do or do not work with an outsourcer for some or all of your contact center delivery needs, please indicate your level of interest in engaging with the following type of providers using a scale of 1 – 8 (1 = no interest, 8 = significant interest)

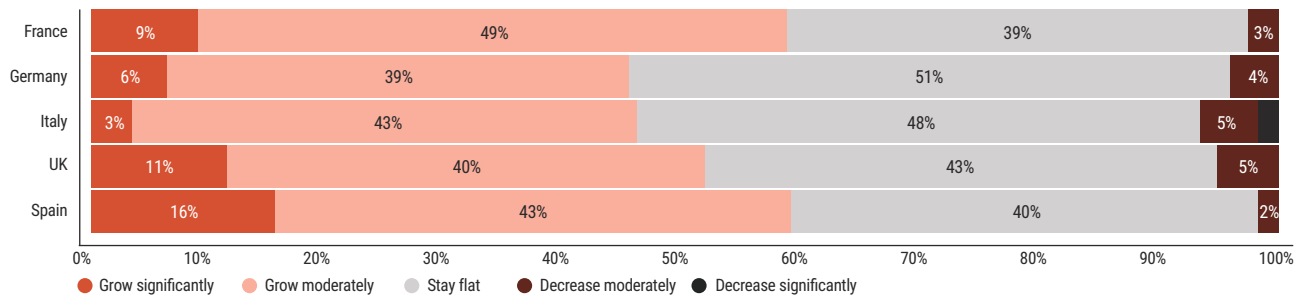
- Global Outsourcer (Above US\$1bn)
- Med-Large Outsourcer (\$500-999mn)
- Small-Med Outsourcer (\$100-499mn)
- Emerging Outsourcer (\$5-99mn)



Source: Ryan Strategic Advisory, 2023 Front Office CX Omnibus Survey, p. 65

Domestic delivery is becoming yet more popular in France thanks largely to remote working alternatives. Early during the COVID-19 pandemic, hybrid hubs sprang up around cities like Lyon, Lille and Pau, where the cost of living runs about 30% less than in Paris.² Many of these hybrid hubs have subsequently grown. Now France appears to be the place where hybrid CX is most likely to continue expanding.

In 2023, I Expect My Organization's Hybrid CX Capacity Will



Source: Ryan Strategic Advisory, 2023 Front Office CX Omnibus Survey, p. 81.

In other demand markets though, domestic CX management is more difficult. Two factors, above all, drive enterprises toward offshore solutions. First, costs for domestic delivery can be exorbitant. Nowhere is this more evident than in Germany, where a series of wage laws finalized last year and still being introduced make the already high wage market even more expensive.

Second, enterprises opt for offshore delivery to achieve continuity in operations. Captives in Europe worry about ensuring business continuity – a lot. In fact, respondents in the UK, Spain, France, Italy and Germany all cited this as their single biggest challenge.³ Such unanimity has proven rare in the seven-year history of the Omnibus Survey.

Undoubtedly, the COVID-19 pandemic led to glitches as some enterprises hastily moved on-site customer care to remote delivery. During this time, business continuity became a first-order priority. Geopolitical uncertainties and widespread angst about recession appear to be keeping it there. Thus, third-party outsourcers would do well to position their offerings as a fail-safe approach to ensuring business continuity for European clients.



Casablanca, Morocco

² Based on cost of living data from Numbeo, accessed 6 June 2023: https://www.numbeo.com/cost-of-living/compare_cities.-jsp?country1=France&city1=Paris&country2=France&city2=Lyon

³ Ryan Strategic Advisory, 2023 Front Office CX Omnibus Survey, pp. 46-53.

OFFSHORE TRENDS

CX decision-makers catering to Europe's principal demand markets typically favor different sets of countries as offshore destinations. Historical ties ensure that UK end-users can enjoy native-level English customer services from India, South Africa and Jamaica, among other markets. Likewise, Spanish CX buyers favor Latin American options like El Salvador and Mexico. A similar pattern explains the favorability of French enterprises for northern and central African nations, including Rwanda, Senegal and Morocco.

Europe's Top Offshore Destinations

 UK	 France	 Germany	 Italy	 Spain
India	Rwanda	Egypt	Slovenia	El Salvador
South Africa	Senegal	Czech Republic	Croatia	Mexico
Poland	Morocco	Poland	Romania	Panama
Philippines	Madagascar	Hungary	North Macedonia	Colombia
Malta	Ivory Coast	Slovakia	Poland	Honduras

Source: Ryan Strategic Advisory, 2023 Front Office CX Omnibus Survey, pp. 98, 102-105.

While hardly surprising, the continued favoritism for these different offshore markets underlines a fundamental point: For all the growth of digital channels and AI-assisted translation services, native-level language delivery and cultural familiarity remains of vital importance to outsourcers and their European clients.

Cost matters, too. Given nearly two dozen different outsourcer characteristics, buyers in the UK, France and Italy all cited "competitive price points" in the top quarter of the attributes they find attractive. (In Spain, it fell just shy of the top-quarter threshold.)

In previous years, highly cost-centric outsourcing decisions had given way to value-driven service delivery. This blast from the past should set a cautionary tone for nearshore operators. So long as concerns about recession linger, outsourcers will need to develop value propositions that go beyond promises of tech-driven efficiencies and long-term productivity enhancements; immediate cost savings continue to influence partnership agreements.



NEARSHORE LEADERS

Poland continues to dominate CX in Central Europe

Despite the variations in service delivery models across Europe, CX decision-maker preferences converge on certain locales as nearshore destinations of choice. Poland and Egypt stand out as go-to hubs for outsourcers seeking scalable multilingual delivery in Europe's nearshore.

Poland's resilience as a favored nearshore destination is remarkable. Shortly after the conflict in Ukraine began, forecasters speculated that a westward shift in European nearshore investment may occur, as outsourcers sought to mitigate risk by shrinking sites in Central Europe and adding to headcounts in places like Portugal or Greece. Such a shift has yet to materialize.

As a NATO and EU member, Poland is deeply embedded in Western multilateral institutions. This anchor of stability has helped ensure that business in Poland has continued at a brisk pace over the past year. Overall, while the number and value of foreign direct investment projects launched in Europe barely grew in 2022, as compared to 2021, Poland saw a 16% increase in the number of new projects, including 71 BPO and ITO investments.⁴

Where Poland's BPO Sector Is Growing

Larger dots reflect higher seat count

Source: Ryan Strategic Advisory based on data from Pro Progressio.



Poland's expanding outsourcing sector owes little to new sites in its historic business centers, Warsaw and Krakow. Rather, as with other mature offshore destinations like India and Mexico, it is Poland's abundant secondary cities that offer the mix of ample talent pools, sound infrastructure, and improving accessibility that foreign executives fancy. These sites include Wrocław, the Tri-City region (Gdańsk, Gdynia and Sopot), Łódź, Poznań and Lublin.

An abundant supply of class-A office space in many Polish cities, as well as numerous smaller sites and lower-grade facilities, means that outsourcers looking to expand are spoiled for choice. And by tapping the human talent spread throughout the country, Poland offers a rare mix of basic outsourcing strengths with a growing reputation for AI-powered advanced technology solutions.

⁴ fDi, *The fDi Report 2023: Global Greenfield Investment Trends*, p. 14.

Egypt - North Africa's CX powerhouse

Egypt also retained its heavyweight status as a destination of choice in the European nearshore.⁵ Many outsourcers see the capital of this country as a one-stop shop for multilingual services, especially when it comes to satisfying the demand for widely spoken minority languages in Europe, principally English, French and German. And the weakening of the Egyptian pound over the past year made the country yet more appealing for exporters like outsourcers.

The rationale for BPO delivery from Egypt goes beyond just cost savings. In 2022, some outsourcers appear to have crafted a two-prong offshore strategy, whereby English-language delivery from South Africa is coupled with multilingual capacity from Egypt. This could suggest that Africa's two outsourcing heavyweights are seen as complementary in global service delivery strategies. Meanwhile, others are looking to bolster their Arabic capacity to cater to fast-growing consumer markets in the Middle East.

Today, about two-thirds of Egypt's BPO activity occurs in Cairo, with most of the remainder taking place around Alexandria.⁶ Despite this concentration, there is scant evidence that saturation may become a problem. European outsourcers have enjoyed steady labor arbitrage opportunities in Egypt in recent years. Cairo has an immense multilingual labor force. And both the capital and Alexandria have reliable enough infrastructure to facilitate work-from-home delivery, thus relieving any potential build-up of wage pressures in central business districts.



Cairo, Egypt

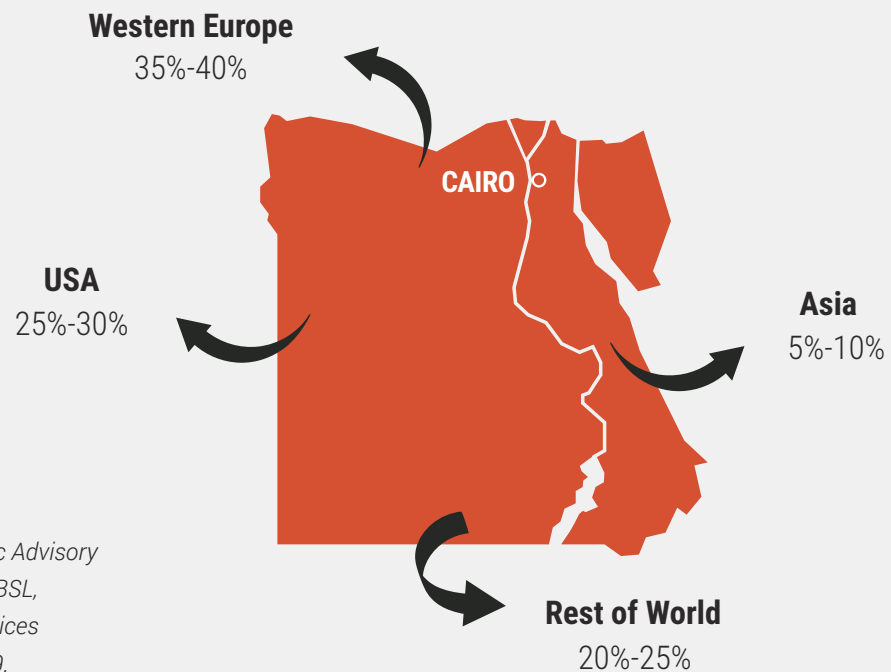
⁵ From June 2022 to June 20, 2023, the Egyptian pound has lost over 39% of its value against the US dollar.

⁶ Based on an assessment of over 150 global services centers, over 100 of which are in Cairo. See ABSL, EMEA's Business Services Landscape 2023, pp.88-89.

Robust support from the Information Technology Industry Development Agency (ITIDA) has also proven vital. In 2022, the investment promotion agency unveiled a four-year plan to boost services exports through language and tech training programs, as well as incentives for both existing and new investors. The result: At least 29 multinational outsourcers and IT firms have announced investments that will create another 34,000 jobs in the BPO and ITO sectors in the coming years.⁷

Egypt's Services Exports

By % Volume



Source: Ryan Strategic Advisory based on data from ABSL, EMEA's Business Services Landscape 2023, p. 89.

SUCCESSSES AND STRUGGLES IN SMALLER NEARSHORE MARKETS

Aside from Poland and Egypt, a clutch of smaller destinations retain significant nearshore appeal. Slovakia, Hungary, and Croatia enjoy elevated levels of favorability in Germany, Italy or the UK. Each relies on multilingual CX, increasingly through digital channels where accent concerns are muted. Croatia also offers sizable populations of residents who speak Italian, German, and of course the native Slavic tongue.*

⁷ ITIDA, "Egypt's IT Offshoring and Business Services Sector Sees Strong Growth Momentum with 29 New Agreements with Technology MNCs," 1 Dec. 2022:

<https://itida.gov.eg/English/PressReleases/Pages/Egypt-IT-offshoring-and-business-services-sector-sees-strong-growth-momentum.aspx>

* The Cyrillic language is most often called Serbian or Serbo-Croatian, though since the Yugoslav war in the 1990s putting a name on the language has proven a politically contentious task.

Malta continues to enjoy a degree of favorability among CX decision-makers in the UK. And among customer experience buyers in the German market, Georgia tied for fifth in the list of desirable offshore destinations. This preference reflects the success of recent investments by global outsourcers to utilize the country as an English-German alternative. Still, costs for German-language delivery could increase over the medium term due to scalability ceilings.

Alas, while some destinations appear to be gaining traction, others are undoubtedly losing it. Out of 50 offshore options, CX decision-makers in France and Germany prefer at least 46 others to Kosovo. Serbia, the Balkan neighbor with which tiny Kosovo has repeatedly clashed over the past year, fared almost as poorly. Given the growing list of local and global operators providing CX from Belgrade, this is unfortunate for Serbia.

Outsourcers have an increasing bias toward stable destinations. Still, this does not appear to be affecting wider perceptions of other countries in the Balkans. Indeed, in addition to Croatia's ongoing favorability, North Macedonia has emerged as a heavily favored location for outsourced CX services in the eyes of CX decision-makers in France, Germany and Italy.

Nearshore Favorability of North Macedonia



CONCLUSIONS

Over the past year, the much-anticipated end of the pandemic in Western Europe gave way not to bliss but worries about war, inflation, and recession. Facing the prospect of hard times of unknown duration, CX decision-makers in the UK, France, Spain, Germany and Italy have pursued a variety of outsourcing strategies.

Still, a few common trends are rising to the fore of outsourcer preferences. Be it domestic delivery or offshore, cost savings matter more in 2023 than in past years. And regardless of the demand market, the ability of an outsourcing partner to deliver business continuity is key.

Despite these shifts, Poland and Egypt continue to appeal as nearshore destinations. Across the UK, France, Germany and Italy, these two markets are widely popular among CX decision-makers, attesting to the resilience of the Polish and Egyptian BPO sectors. A host of other nearshore markets have also matured as niche destinations of late. In other words, the European nearshore continues to offer vibrant sourcing options, even amid economic uncertainty.

The logo for Ryan Strategic Advisory is centered within a large orange-bordered box. It consists of three lines of text: "RYAN", "STRATEGIC", and "ADVISORY". Each word is in a bold, white, sans-serif font. The words are flanked by orange rectangular bars: two bars on the left of "RYAN", one bar on the right of "STRATEGIC", and one bar on the left of "ADVISORY".

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For more information please visit www.ryanadvisory.com.

OCTOPUS BPO

For two decades, Egypt has drawn BPO investors seeking multilingual capacity, competitive price points, and accessibility. Over the past seven years, Egypt has consistently ranked as one of the five most favored destinations by CX decision-makers responding to the Ryan Strategic Advisory Front Office CX Omnibus Survey. And last year, it was the top location for CX decision-makers in Germany.

However, as the capital of Cairo has matured as an outsourcing destination, some savvy operators have opted to launch service delivery from the country's second-largest city, Alexandria. Attrition rates tend to be lower than in Cairo, according to Egyptian BPO insiders. Moreover, Egypt's second city boasts a multilingual heritage found in few other places. Many Alexandrians speak not only Arabic and English but also German, French, Italian and Spanish. Today, a bigger chunk of Egypt's outsourcing activity originates from Alexandria.



Few outfits have developed such a complete strategic vision around service delivery from Alexandria as Octopus BPO. “Young and favorable demographics in Alexandria ensure the workforce is available,” explains Khaled El-Amrawi, the CEO of Octopus BPO. In fact, the average Alexandrian is less than 24 years old. “And the city’s historic port has brought a cosmopolitan and international outlook,” notes El-Amrawi.

Octopus BPO launched operations in mid-2020. The company’s founders were steeped in software development and technology outsourcing, and sought to bring a tech-oriented perspective to customer service. Since then, it has grown steadily, now employing around 1,000 full-time agents at its original site in Alexandria. The site itself lies within a five-kilometer radius of half the city’s nearly six million residents, ensuring commute times of around 20 minutes or less for most agents. On-site amenities abound, including a healthcare clinic and fitness facilities.

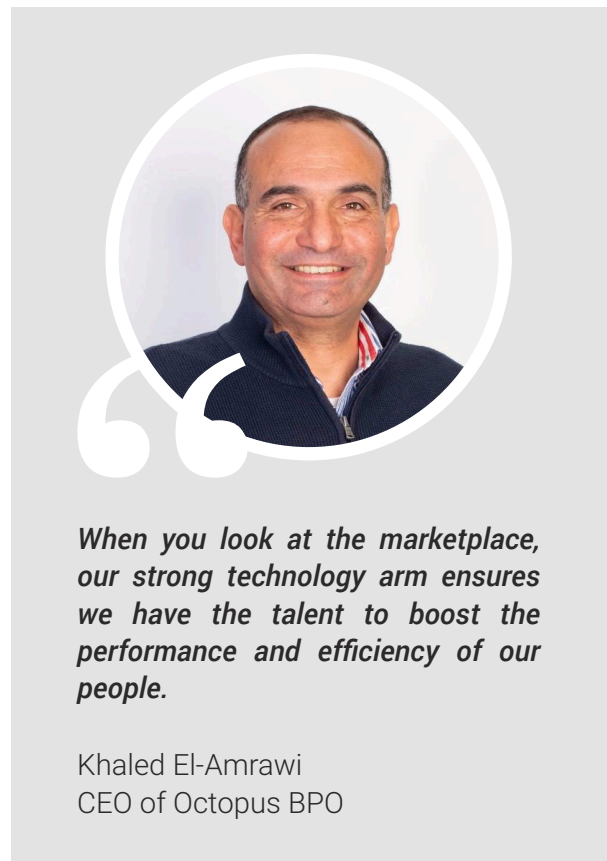
Beyond multilingual customer service, Octopus BPO carved out a role for itself in tech-oriented solutions. Nearly half of Octopus BPO employees are dedicated to IT support, computer programming, or data science. Recently, the company's tech heritage has positioned it as an emerging leader in AI-driven CX. "When you look at the marketplace, our strong technology arm ensures we have the talent to boost the performance and efficiency of our people," says El-Amrawi.

In so doing, Octopus BPO has targeted full omnichannel care for retail and e-commerce, as well as niche sectors. Customer service for charging stations across Europe has proven a rich vertical, as has renewable energy more generally. The firm rapidly customizes solutions to meet client needs. "Because we are young, we are very flexible," says El-Amrawi, "allowing us to customize solutions to client needs *quickly*."

As part of this, Octopus BPO has a data science team that is constantly monitoring the metrics it gathers. In so doing, it has developed in-house sentiment analysis tools so that it can provide feedback to the client on end-user reactions. It has also built its own forecasting models to help optimize staffing in advance of seasonal volume spikes.



Alexandria, Egypt



Multilingual capabilities; flexibility; advanced technology solutions—all these features exist to help derive value from customer service delivery. "Big global players may have equally large outsourcing partners that can help bring these resources," acknowledges El-Amrawi, "but we offer these resources to smaller and boutique enterprises that are often overlooked."

Already 2024 has proven exciting. With growing demand for its multilingual and tech-empowered solutions, a growing roster of mid-size clients in Europe and North America are partnering with Octopus BPO. The firm recently inaugurated a second site in Alexandria with a capacity for over 1,600 seats. Over the coming months, it will largely be filled by agents servicing end-users in Western Europe and, increasingly, those in North America. By the end of 2024, Octopus BPO expects to reach 2,000 agents.

"The outsourcing market is undergoing a sea change as AI and rising automation take over routine tasks," says Ahmed Refky, a global CX advisor. "That benefits providers that can fuse multilingual and tech talent to bring better experiences to customers."