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Two-Speed Europe: Why 1 Million Jobs Will Move Offshore

by Andrew Parker

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with David Metcalfe and Sonoko Takahashi

EXECUTIVE SUMMARY

As European firms — especially in the UK — ramp up their spending with offshore service providers in countries like India, they will increasingly displace substantial numbers of employees from their current roles. Europe will lose a cumulative 1.2 million jobs to offshore locations by 2015 — with the lion's share of the impact falling in the UK. Financial firms will move most aggressively offshore. Computing and clerical staff will suffer most. Protectionist measures will fail, as inventive companies use stealth tactics to avoid the barriers put in their way. Despite the pain involved in job losses in Europe, the European countries that use offshore services least — such as France and Germany — will likely lose as a result, as aggressive offshore user countries like the UK get an economic boost from offshore efficiencies.

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Forrester surveyed 247 user companies and interviewed 19 international, European, and offshore service providers, including Accenture, CSC, Cognizant, EPAM Systems, Infosys, Reksoft, T-Systems, Tata Consultancy Services, and Wipro Technologies.

Related Research Documents

"Mapping Europe's Offshore Spending Impact"
July 7, 2004, Trends

"Europe's Offshore Outsourcing Plans: Business Technographics® Europe"
June 21, 2004, Data Overview

"Near-Term Growth Of Offshoring Accelerating"
May 14, 2004, Trends

"Forecasting Europe's Outsourcing Stampede"
November 13, 2003, Report

EUROPE FACES A TWO-SPEED OFFSHORE PROCESS

European firms have an increasingly viable option to move IT and services jobs to lower-cost locations like India and Russia — a process referred to as offshoring or nearshoring.¹ What motivates European firms to consider the offshore approach?

- **A strong emerging skills base in low-cost countries.** Countries like India, Poland, Malaysia, and China offer a reservoir of highly educated, motivated individuals — many possessing useful European language skills — who flock to take up well-paid jobs in the services sector. Each year, India's educational system trains a staggering 2 million English speakers with technical and quantitative skills.² Russia possesses up to 40% more scientists per capita than the UK, Germany, or France.³
- **Low-cost global communications and computing infrastructure.** Ubiquitous computing arising from the spread of global Internet access and, above all, the increasing sophistication of international voice and data communications combine to make remote delivery of IT and business services more practical and economically viable. Wipro, for example, uses its KNet internal knowledge portal to boost the efficiency of project teams working in multiple locations by sharing information in real time. KNet also helps Wipro get new team members in its offshore development centers up to speed more quickly when they start work for a given client; they can access shared knowledge through the portal to become productive 40% more quickly than was typical before Wipro deployed KNet.
- **Overpricing of scarce skills.** European IT and services professionals command substantial salary premiums compared with similarly qualified people working in other disciplines. The annual charge-out rate for a systems architect in the UK stands at approximately €130,000 per year, compared with €41,000 for a comparable individual in India.⁴ In contrast, the chief accountant of a midsize London company earns approximately €105,000 annually, and a typical London-based marketing director earns between €90,000 and €100,000.⁵ The relative ratios show how IT skills in Europe have not returned to realistic salaries in relation to other areas of expertise.
- **Global cost competition.** In sectors like financial services, high tech, and auto manufacturing, global competition to drive down operational and administrative costs has accelerated fiercely during the past 10 years. Companies like ABN AMRO Bank and Deutsche Bank face overseas competitors in their home markets, as well as relying on overseas subsidiaries for large contributions of revenues and profitability. This exposure to global competition forces these firms to bring their cost base in line with that of competitors from the US — such as American Express and Citigroup — which have already made aggressive use of cheaper offshore operations and services.

Offshore's Job Impact Zeroes In On The UK

Forrester's research into offshore services spending by European firms shows that the UK and Ireland lead offshore services use in Europe by far — and will for years to come.⁶ But how will that pattern play out in terms of its impact on European jobs? To understand the long-term trends, Forrester drew on recent survey data and its existing services spending forecast to project the number of IT and services jobs that will move offshore from Europe between 2004 and 2015. Our basic forecasting methodology parallels the US offshore job forecast that Forrester first published in November 2002, and updated in May 2004.⁷ To create our European offshore job forecast, we:

- **Took the UK as our reference country for offshore impact.** Forrester's survey data and insights from leading experts all point to the UK as the most advanced European country in terms of offshore services use. UK activity aligns closely with trends in the US. Looking at UK offshore usage, we established a set of offshore impact assumptions for each category of UK employment, based on those that Forrester first calculated for the US economy.
- **Adjusted impact assumptions for other Western European nations.** Our research into offshore IT and services shows that the jobs impact in each country will parallel the level of offshore services spending by firms in that country. We adjusted the job impact assumptions for each country in line with the relative levels of offshore services spending in that country when compared with the UK spending level.
- **Separated third-party service usage from captive offshore activity.** European companies like Prudential and British Airways already operate offshore IT facilities and other service centers that they own themselves. Forrester calls these captive offshore facilities. We left any such captive offshore facilities out of our analysis of the European employment impact of offshore services use.
- **Applied our job impact assumptions by country and by job category.** To arrive at final numbers of jobs displaced by the use of offshore services, we applied our job impact assumptions to each of 26 categories of employment in each European country studied. We took statistics from the International Labor Organization on the numbers of employees by category as our base data.⁸ The forecast omits job categories that Forrester considers unaffected by firms' use of offshore IT and business services.


Europe Divides Into Three Offshore Job Impact Zones — One Fast, Two Slow

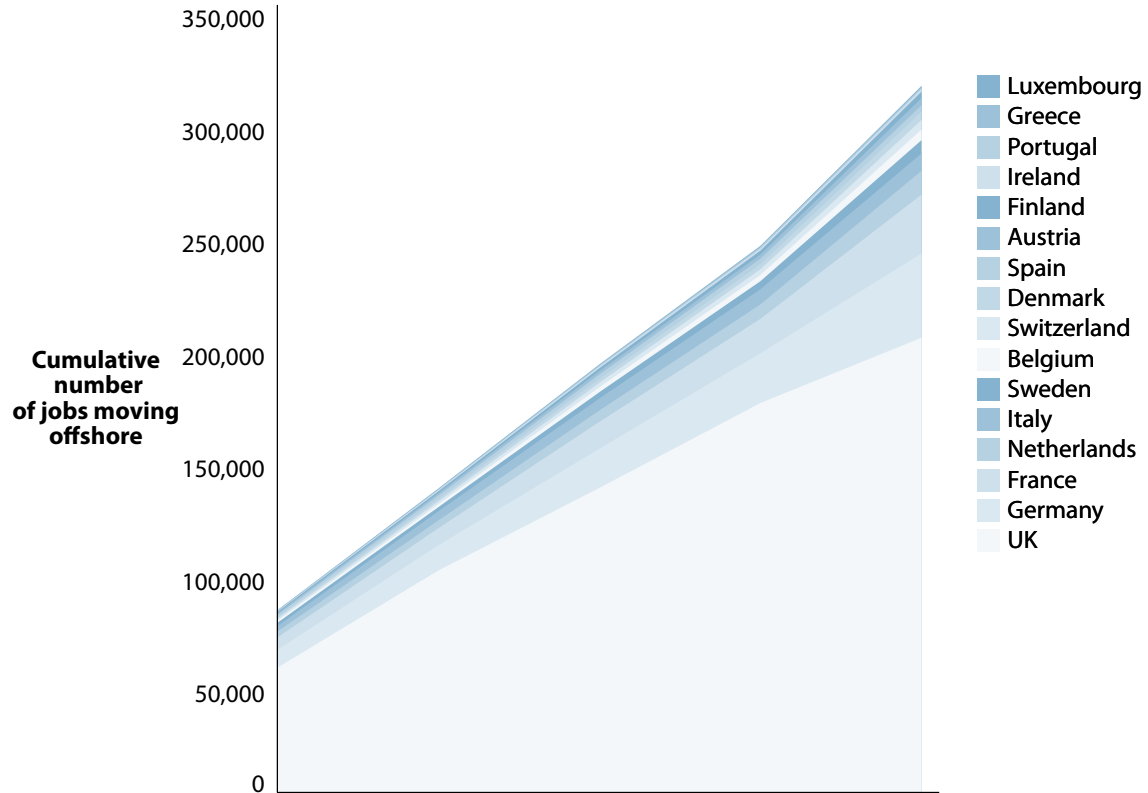
Our forecast shows that Europe will experience a far lower level of job displacement to offshore locations for the foreseeable future than will occur in the US. Across the 16 countries we considered, a cumulative total of a little less than 1.2 million jobs will move to

offshore locations by 2015 (see Figure 1 and see Figure 2). That compares with a cumulative figure of 3.3 million jobs moving offshore over the same period in the US — which has a smaller population overall than the 16 European countries we studied. But Europe's offshore picture plays out spectacularly differently in specific countries:

- **The UK will undergo similar upheavals to the US.** Employment changes in the UK caused by the use of offshore services will match those of the US proportionally. In 2004, some 56,000 UK workers will see their jobs moving to offshore locations; by 2015, the cumulative figure will climb to an arresting total of 760,000 jobs. If overall employment in the UK remains close to today's figure of approximately 28 million, offshore activity will displace 3% of all employment in the UK over the 10 to 15 years of significant activity. To put these figures into context, economists calculate that structural job turnover in the UK each year amounts to some 1 million jobs — meaning that offshoring will account for no more than 6% of all job losses in the UK this year.⁹
- **Europe's nearshore locations will see limited job movement offshore.** Countries like Ireland, Greece, Spain, and Portugal face far lower employment impacts from the offshore trend. Why? Because firms in these countries show a far lower tendency to use outsourcing *and* they will act as low-cost IT and services locations in their own right. Taking Portugal as an example, Forrester predicts that only a cumulative 2,600 jobs will be displaced to offshore locations like India and Brazil by 2015 — less than 0.01% of the country's total workforce.
- **Germany leads the slower movers.** With spending on all forms of outsourcing running at just 32% of IT services spending overall, German companies have a moderate to low tendency to rely on third-party outsourcing providers.¹⁰ By comparison, outsourcing in the UK captures 48% of all IT services spending. Management caution, tight employment legislation, trade union resistance, and the high numbers of smaller companies with limited offshore scope all add to German firms' lower level of offshore services usage. Germany will see just 8,000 jobs move offshore by the end of this year, rising to 140,000 by 2015. Offshore activity will accelerate toward the end of this decade as global competition pressures build.
- **France and Italy also figure in this group.** Closely aligned with Germany in terms of offshore job impact, France and Italy see similar factors holding back the offshore enthusiasm of business management. France will lose just 5,500 jobs to offshore providers by the end of 2004. Italy, which is similar to France in population and overall employment, will lose just 2,500 jobs to offshore service providers in 2004. Like Germany, these countries will speed up offshore job shifts from 2008 on, as companies become more creative about overcoming offshore hurdles.

Figure 1 Forecast: European Jobs Moving Offshore By Country, 2004-2008

 The spreadsheet detailing this forecast is available online.



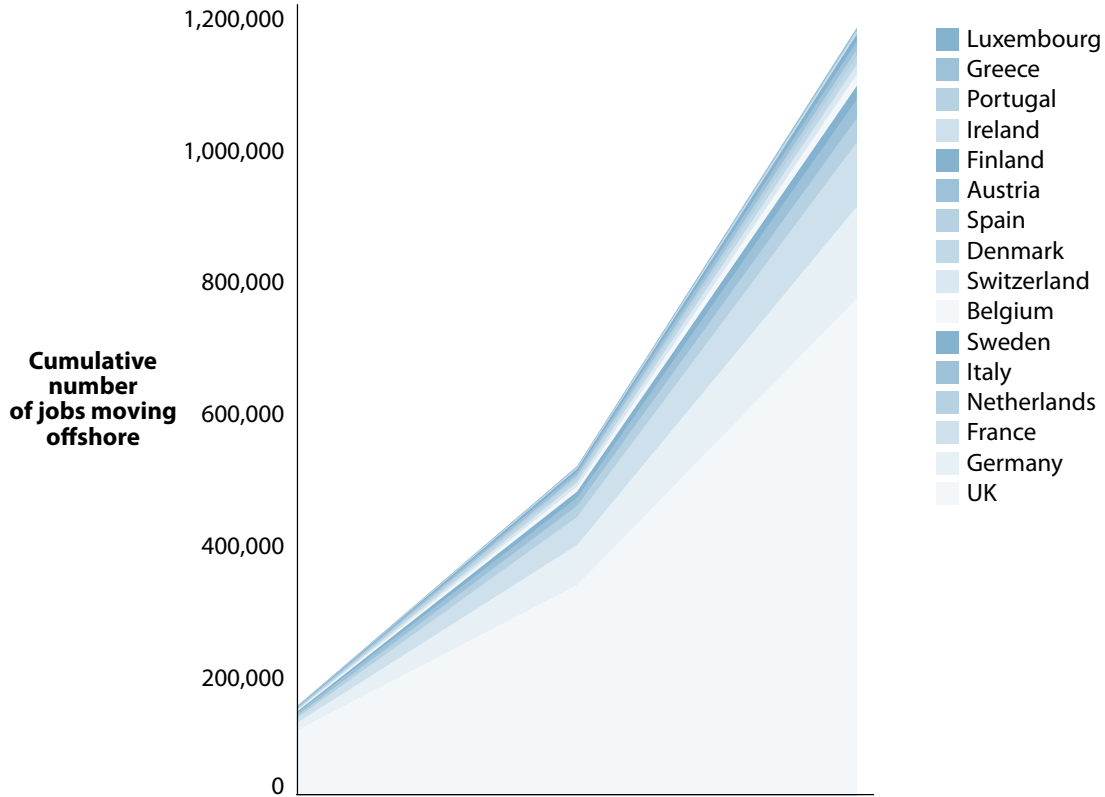
	2004	2005	2006	2007	2008
UK	56,034	99,704	136,817	174,958	204,280
Germany	8,008	11,354	17,632	22,377	37,864
France	5,541	7,636	12,067	15,427	26,425
Netherlands	2,676	3,481	5,113	6,506	10,698
Italy	2,463	4,125	5,360	6,806	7,811
Sweden	1,425	1,845	2,816	3,592	5,942
Belgium	953	1,381	2,236	2,832	4,800
Switzerland	880	1,221	2,006	2,551	4,298
Denmark	877	1,181	1,786	2,267	3,753
Spain	873	1,489	1,955	2,480	2,834
Austria	738	1,002	1,483	1,896	3,226
Finland	590	812	1,318	1,688	2,901
Ireland	287	513	701	896	1,043
Portugal	213	356	466	594	685
Greece	171	313	415	527	612
Luxembourg	52	75	117	148	248
Total	81,783	136,487	192,290	245,545	317,422

(numbers have been rounded)

Source: Forrester Research, Inc.

Figure 2 Forecast: European Jobs Moving Offshore By Country, 2005-2015

[The spreadsheet detailing this forecast is available online.](#)



	2005	2010	2015
UK	99,704	320,969	758,401
Germany	11,354	61,056	139,914
France	7,636	42,839	98,174
Netherlands	3,481	16,794	36,663
Italy	4,125	12,518	28,834
Sweden	1,845	9,213	20,240
Belgium	1,381	7,610	17,621
Switzerland	1,221	6,667	15,233
Denmark	1,181	5,889	13,102
Spain	1,489	4,465	10,303
Austria	1,002	5,342	12,065
Finland	812	4,667	10,730
Ireland	513	1,639	3,868
Portugal	356	1,102	2,552
Greece	313	982	2,316
Luxembourg	75	394	902
Total	136,487	502,145	1,170,918

(numbers have been rounded)

Source: Forrester Research, Inc.

UK FINANCE FIRMS WILL LEAD IN MOVING JOBS OFFSHORE

Based on Forrester's forecast, UK workers will feel the most immediate and intense pain from their employers' moves offshore. But how will this trend play out sector by sector and job category by job category? Outside its detailed job impact model, Forrester has examined overall offshore behavior by industry. We found a low level of offshore services use across all sectors of the economy, but certain sectors move ahead of the pack:

- **Financial firms drive a full 30% of employment movements.** Banks and insurers have gone furthest down the offshore road; firms like HSBC Bank have built their own captive offshore operations in India and other offshore locations, and AVIVA and others are turning to offshore service providers like India's Wipro. Based on Forrester's vendor interviews, we estimate that financial services firms in Europe today drive approximately 30% of all offshore services spending — and will likely move approximately the same percentage of all jobs that go offshore from Europe. That means that 2004 will see some 24,000 financial services jobs displaced offshore from Europe — of which approximately 17,000 will be UK-based. This impact will grow to reach a cumulative total of more than 350,000 financial services jobs displaced across Europe by 2015.
- **Manufacturing and TMT each push 15% of jobs displaced.** The manufacturing and telecom, media, and technology (TMT) industries will make the next highest contribution to jobs moving offshore. These sectors each drive around 15% of Europe's offshore services spending — meaning that both industries will displace approximately 12,000 jobs this year. By 2015, cumulative job displacement in each industry will reach some 175,000, with the UK responsible for around 114,000 job moves for each sector.
- **Retail/CPG and utilities sectors move 8% and 6% of overall jobs impacted.** Other substantially affected industries will include retail and CPG — where an 8% contribution will push some 6,000 to 7,000 jobs offshore this year. The energy and utilities industry will hit 6% of the total 2004 job impact across Europe — moving nearly 5,000 jobs offshore by December 31, 2004.

IT Workers Take The Biggest Hit

With inflated salary rates still rife in the IT sector and an exploding new offshore IT services sector ready to step in, IT jobs will move offshore most rapidly from the UK — with Continental countries matching that trend but at a lower level of impact.

- **Commodity apps development skills move offshore fastest.** Across the whole of Europe, Forrester expects that almost 150,000 pure IT jobs will move offshore by 2015 (see Figure 3). A further group — representing perhaps 100,000 or more IT-oriented clerical staff in jobs like data entry — will swell this impact still further. Most of these

jobs will be concentrated among low-level, generic applications development work and IT-related clerical or operator jobs. This picture reflects the heavy bias of early offshore services users like SAP and IBM toward applications development and maintenance and simple call center work.


- **The impact diversifies as user companies spread the offshore net.** Maturing offshore users typically move beyond application development and maintenance into related IT disciplines like packaged software implementation, application outsourcing, and remote infrastructure management. Over time, the displacement of applications development work will be joined by job losses among staff like database administrators, network administrators, and systems architects.
- **Even the IT management tier will face job cuts.** Although many European firms will hold on to experienced IT managers and repurpose them into other work, the evidence shows that IT managers will also face job displacement offshore. These will show up among the 119,000 computing professional jobs that Forrester expects to move offshore by 2015, and among the more than 74,000 managers in the general management category that will lose their jobs to offshore activity over the same time period.

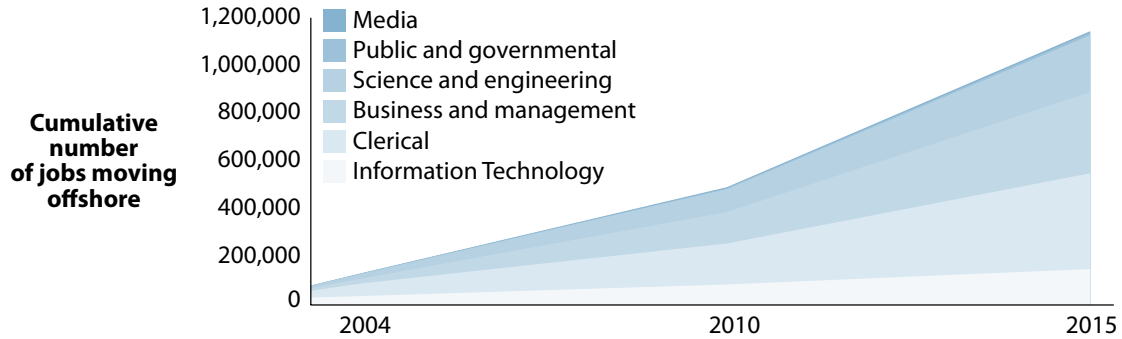
Clerical And Admin Staff Get Burned

Representing a further 35% of all offshored jobs from Europe during 2004, clerical staff will rank alongside IT workers in their susceptibility to offshoring.

- **Clerical job displacement picks up as BPO offshore gathers momentum.** Contact center services have dominated early European experiments with offshore BPO. But as this market matures — and vendors like Spectramind and Progeon broaden their capabilities — the impact of BPO on clerical workers in Europe will spread in parallel. Forrester projects that the number of clerical workers affected by offshore services use in Europe will jump from 27,000 this year to more than 340,000 in 2015, with the UK responsible for up to 230,000 of those displaced jobs.
- **Junior finance and administrative staff feel the heat.** As activities like finance and accounting evolve through internal shared services rationalization to externalized BPO, offshore service providers will pick up a growing share of business in delivering these functions for European clients. Pioneers like MyTravel in the UK — which has moved its finance and accounting function offshore with Xansa — point the way. The result? More than 95,000 junior sales, finance, and administrative staff will see their jobs heading offshore by 2015.

Figure 3 Forecast: European Jobs Moving Offshore By Job Type, 2004-2015

 The spreadsheet detailing this forecast is available online.



Breakdown by job type	2004	2010	2015
Information technology	30,855	85,731	150,304
Computing professionals	24,151	65,951	118,712
Junior computing staff and operatives	6,705	19,780	31,592
Clerical	28,606	171,142	399,929
Library staff	602	9,662	25,624
Cashiers and tellers	726	12,032	31,832
Clerical workers	27,278	149,448	342,472
Business and management	10,671	131,678	339,499
Production and operations managers	1,803	28,619	75,967
Other management	1,786	27,901	74,154
Business professionals	467	7,938	20,961
Legal professionals	1,304	7,231	16,577
Junior and assistant administrators	2,928	19,194	44,179
Junior and assistant finance and sales staff	1,107	19,207	50,641
Business services agents and trade brokers	55	1,166	3,034
Hospitality staff	1,221	20,420	53,986
Science and engineering	10,547	95,724	237,713
Architects, engineers, and related professionals	6,437	35,914	82,341
Safety and quality inspectors	77	1,361	3,583
Mathematicians and statisticians	278	1,434	3,280
Physical and engineering science technicians and operatives	668	12,726	33,334
Optical and electronic equipment operators	809	4,432	10,157
Life science technicians	36	844	2,181
Metal workers	688	12,588	33,064
Machine and electrical fitters	1,371	23,448	61,890
Pure scientists	182	2,976	7,883
Public and governmental	797	14,182	37,323
Social science and related staff	231	4,275	11,221
Public services administrators	215	3,927	10,316
Social work junior staff	351	5,979	15,786
Media	308	3,690	6,150
Media and entertainment professionals	308	3,690	6,150
Total	81,783	502,145	1,170,918
			(numbers have been rounded)

Source: Forrester Research, Inc.

- **Even senior professionals will see job erosion.** Deloitte's use of qualified doctors as part of its Indian staff for a BPO payments service for US health insurers shows how the shift offshore impacts even the most highly qualified staff in developed countries. Europe's job casualties by 2015 will include almost 17,000 legal professionals, more than 82,000 qualified architects and engineers, and almost 8,000 pure scientists.
- **Non-obvious job categories get sucked in.** Alongside the programmers and call center agents, European firms employ people in jobs like catering, secretarial support, equipment testing and maintenance, and skilled crafts like prototype modeling and assembly. With the erosion of the core work in Europe, a small but measurable percentage of these types of jobs will be displaced offshore, too — witness the 26,000 library and related jobs and 2,200 life science technicians whose jobs will be displaced by the end of 2015.

Strict Labor Market Regulations Will Slow Offshoring — Not Stop It

Opponents of offshore activity prescribe all kinds of measures to hold back the offshore tide. But these naysayers face an overwhelming force that only draconian, counter-productive intervention in European economies can halt. If governments and unions combine to institute direct legal and social barriers to offshore, then smart employers will simply find roundabout ways to move employment to cheaper locations over time:

- **Redundancies.** All European countries permit employers to lay off staff under certain conditions and restrictions. Multinational firms will not hesitate to use whatever pretext they need — other than direct offshore replacement of employees — to thin out over-costly staff in Europe. A later expansion in India or China may look suspicious, but governments will struggle to frame legislation to hinder such maneuvering.
- **Retirement.** With aging populations across Europe, the number of people moving out of the workforce through retirement will continue to rise for several years from today. When employers hire new IT and clerical staff in Ostrava or Guangzhou, what sanctions will be available to governments or unions to discourage them?
- **Churn and new hires.** Natural rates of job churn in companies run at up to 20% per year in some industries — with many individuals moving on of their own accord to pursue new opportunities. As with retirement, this offers plenty of opportunity for thinning down in Europe through natural attrition. If new hires then occur offshore, the firms can innocently argue that no jobs in Europe have been directly lost in the process.
- **Diverting new investment.** Many firms will look closely at the option of opening the new factory in Poznan or Pune, instead of Paris, when their next round of expansion goes into action. Again, as no jobs will be lost directly through such decisions, any effort to fight such moves through protectionist legislation will simply be dead in the water.

WHAT IT MEANS

EUROPE — EXCEPT FOR THE UK — TAKES ANOTHER COMPETITIVENESS DIVE

Offshore services represent seriously bad news for Europe — but not for the reasons that have been splashed across the region's headlines. It's not the jobs lost that will damage European interests for years to come. Instead it's the lost competitiveness that will result for countries like Germany, France, Italy, and the Netherlands as they fail to exploit the offshore profitability boost for key industries like finance, auto manufacturing, and aerospace. The outcomes will include:

- **More consolidation in Europe's finance sector.** Facing years of declining margins against international peers, firms like Deutsche Bank, Crédit Agricole, and Allianz will continue attempts to boost profitability through M&A activity. Unless their managers can maintain a frantic level of growth and integration efficiency, they risk becoming even hotter takeover targets themselves — despite the best efforts of their political guardians.
- **A large European IT services firm falling to Indian ownership.** Dominant Indian services firms like Wipro and Tata Consultancy Services already bear comparison with all but the largest international IT services firms; Wipro alone recently passed the 30,000 headcount threshold globally. Beyond mere organic growth, these firms increasingly see acquisition as a means to build their global footprint — as Wipro's acquisition of US specialist consulting firm NerveWire shows. With Europe's economy faltering and IT services stock prices depressed, it won't take much further erosion of competitiveness in the region for a major European player like France's Altran or Germany's IDS Scheer to look like a target.
- **French and German offshore users missing the Indian bus.** By 2008, late-moving firms in countries like France and Germany will have missed the optimal time to offshore jobs to India. At this stage, slowing capacity growth, increased wages, and key skill shortages will threaten India's lead in offshore attractiveness. To get the best cost reductions offshore as they ramp up their usage, these firms should turn to locations like China where the offshore boom-to-bloat cycle will still be in an earlier, underinflated phase.

SUPPLEMENTAL MATERIAL**Online Resource**

The underlying spreadsheets detailing the forecast in Figure 1, Figure 2, and Figure 3 are available online.

The online version of Figure 1, Figure 2 and Figure 3 is an interactive tool to show the growth in employment impact resulting from the use of offshore services by midsize and larger companies across Europe. The spreadsheet containing the forecast offers a number of variable fields that allow the user to change certain assumptions and track the impact in terms of changed employment patterns, country by country, between now and 2015.

Companies Interviewed For This Document

Accenture	LogicaCMG
Capgemini	NIIT
Cognizant Technology Solutions	Reksoft
Computer Sciences Corporation	Siemens Business Services
Deloitte	SinnerSchrader
EDS	Tata Consultancy Services
EPAM Systems	TietoEnator
Getronics	T-Systems
IBM	Wipro
Infosys Technologies	

ENDNOTES

- ¹ Forrester defines offshoring as the use of services delivered by a provider based in a country at least 500 miles away from the G7 country where the buyer is located and where the country of delivery has a cost base at least 50% lower than the buyer company's country. Similarly, we define nearshoring as the use of services delivered by a provider based in a country less than 500 miles from the G7 country and where the cost base in the delivery location is between 20% and 30% less.
- ² Source: "Making Offshore Decisions: AT Kearney's 2004 Offshore Location Attractiveness Index," AT Kearney, 2004.
- ³ Russia's continued high-quality education system and enthusiasm for technical disciplines means that it counts more scientists/researchers per head of population than Western European countries do. See the June 4, 2004, Tech Choices "Debunking Russian Offshore Myths."
- ⁴ Source: Unpublished research by Forrester involving service provider interviews, desk research, and survey studies during the first quarter of 2004.
- ⁵ Source: current salary survey data from Hays: www.hays-ap.co.uk.
- ⁶ The UK and Ireland will spend €768 million of the total €1.1 billion of European spending on offshore services in 2004 — that represents almost 70% of all European offshore spending this year. See the July 7, 2004, Trends "Mapping Europe's Offshore Spending Impact."
- ⁷ Forrester has increased its estimate of how many US services jobs will go offshore in the near term. Long term, we believe that our previous projection of 3.3 million by 2015 is still accurate. See the May 14, 2004, Trends "Near-Term Growth Of Offshoring Accelerating."
- ⁸ Forrester's offshore job impact forecast for Europe covers the 15 Western European countries that constituted the EU until this year's expansion, plus Switzerland. Forrester has not included Norway in this forecast, because the ILO maintains employment statistics for Norway according to a pattern that is incompatible with that for other countries for the purposes of this study.
- ⁹ Source: Vallanti, Gomez Salvador, and Messina, "Gross Job Flows In Europe," London School of Economics, 2003.
- ¹⁰ Forrester estimates that in 2003, German, Austrian, and Swiss companies combined spent approximately €6.8 billion on all forms of outsourcing, out of a total of €21.5 billion of overall IT services spending. See the November 13, 2003, Report "Forecasting Europe's Outsourcing Stampede."

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