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2023-2025  
**GLOBAL  
SOFTWARE  
OUTSOURCING**  
TRENDS

# Introduction

The global IT outsourcing market was valued at \$333.7 billion in 2019 and is expected to reach \$397.6 billion by 2025, growing at a CAGR of 3.7% from 2020 to 2025. (Source: MarketsandMarkets)

The Asia Pacific region is expected to be the fastest-growing market for IT outsourcing services, with a CAGR of 6.5% from 2020 to 2025. (Source: MarketsandMarkets)

In 2020, the global IT services market (which includes outsourcing services) was valued at \$748.8 billion, with the largest segment being application development and management. (Source: Statista)

In 2020, the global market for cloud services (which includes cloud-based outsourcing) was valued at \$266.4 billion and is expected to grow to \$832.1 billion by 2025, growing at a CAGR of 25.8% from 2020 to 2025. (Source: MarketsandMarkets)

The global market for artificial intelligence (AI) outsourcing was valued at \$1.14 billion in 2020 and is expected to reach \$5.96 billion by 2026, growing at a CAGR of 29.3% from 2021 to 2026. (Source: MarketsandMarkets)

The global software outsourcing industry is currently in a state of growth, with increasing demand for software development services and a growing number of companies turning to outsourcing as a means to meet their technology needs. The COVID-19 pandemic has also contributed to this growth, as many businesses have shifted to remote work, creating a greater need for digital solutions and online collaboration tools.

According to a report by Grand View Research, the global software outsourcing market size was valued at USD 92.5 billion in 2021 and is expected to grow at a compound annual growth rate (CAGR) of 5.8% from 2022 to 2028. The report attributes this growth to the increasing demand for custom software development services and the need for cost-effective software solutions.

Additionally, the report notes that Asia Pacific is the largest regional market for software outsourcing, accounting for more than 50% of the global market share in 2021. However, Eastern Europe is emerging as a strong contender, thanks to its highly skilled workforce, cultural compatibility, time zone compatibility, cost-effectiveness, and proximity to major markets.

The global software outsourcing industry is expected to continue its growth trajectory in the coming years, with businesses of all sizes and industries turning to outsourcing as a means to meet their technology needs while remaining competitive in a rapidly evolving digital landscape.

According to a report by MarketsandMarkets, the global software application outsourcing market size was valued at USD 149.5 billion in 2021 and is projected to reach USD 257.8 billion by 2026, at a CAGR of 8.2% from 2021 to 2026.

# Geo-political Influence on Software Outsourcing Dynamics 2023-2025

The period of 2023-2025 is likely to see significant changes in the software outsourcing industry, and geopolitical factors are expected to play a major role in shaping these dynamics. Here are some of the ways in which geopolitical factors can influence the software outsourcing industry during this period:

**Political Stability:** One of the most important factors that can influence software outsourcing dynamics is political stability. Clients who are looking to outsource their software development projects need to have confidence in the stability of the country they are outsourcing to. Political instability or uncertainty can create risks for clients and make them reluctant to outsource to certain countries. For example, if a country is going through a period of political unrest or frequent changes in government, clients may be hesitant to outsource their projects to that country.

**Trade Policies:** Trade policies, tariffs, and restrictions on the movement of goods and people across borders can also impact the software outsourcing industry. Changes in these policies can affect the cost of outsourcing and the ease of doing business across borders. For example, if a country imposes tariffs or other trade barriers, it

can make outsourcing more expensive and less attractive for clients. On the other hand, if a country has trade agreements in place that facilitate the movement of goods and people across borders, it can make outsourcing more appealing.

**Economic Factors:** Economic factors such as inflation, currency exchange rates, and economic growth can also impact the outsourcing industry. A strong local currency can make outsourcing more expensive, while economic instability can make outsourcing riskier. Clients will be looking for countries where they can get the most value for their money, and where economic conditions are stable and predictable.

Companies that rely on software outsourcing should be aware of these geo-political warnings and take steps to mitigate the risks associated with outsourcing. This could include diversifying their outsourcing partners, investing in cybersecurity measures, and staying up-to-date with the latest regulations and geopolitical developments.

# Software Outsourcing Trends 2023-2025

Software outsourcing is likely to continue to evolve rapidly in the coming years. Businesses that stay abreast of these trends and partner with outsourcing providers that can help them stay ahead of the curve will be well-positioned for success.

## 1. Increased demand for remote and distributed teams:

The COVID-19 pandemic has accelerated the shift towards remote work and virtual collaboration. As a result, we may see an increase in demand for outsourcing teams that can work remotely and collaborate effectively across different locations and time zones.

**2. Focus on security and data privacy:** With the increasing amount of sensitive data being shared and stored online, security and data privacy have become major concerns for businesses. As a result, outsourcing providers may need to invest in robust security measures and compliance frameworks to meet the growing demands of their customers.

**3. Greater adoption of emerging technologies:** Emerging technologies such as artificial intelligence, machine learning, blockchain, and the Internet of Things (IoT) are transforming various industries. As businesses look to adopt these technologies, they may turn to outsourcing providers with expertise in these areas.

## 4. Increased collaboration between outsourcing providers and clients:

Successful outsourcing partnerships are built on strong communication and collaboration. To foster stronger relationships, outsourcing providers may need to invest in tools and processes that enable effective collaboration with their clients.

## 5. Greater emphasis on outcome-based pricing models:

As businesses seek to maximize their ROI, outsourcing providers may need to move away from traditional time-and-materials pricing models towards outcome-based pricing models. These models tie payment to the achievement of specific outcomes and can help to align the

## INCREASED DEMAND FOR REMOTE AND DISTRIBUTED TEAMS



There has been an increased demand for remote and distributed teams in the software outsourcing industry. The COVID-19 pandemic has accelerated the adoption of remote work and virtual collaboration, and this trend is expected to continue in the coming years.

Remote and distributed teams offer several advantages to software outsourcing customers. For one, they can access a global talent pool and find the best software developers and engineers regardless of their physical location. Remote teams can also work around the clock, providing 24/7 coverage and faster turnaround times.

Another benefit of remote and distributed teams is that they can reduce overhead costs. Customers do not need to invest in office space, equipment, or infrastructure for their remote teams, which can significantly reduce their operating costs.

However, remote and distributed teams also come with their own set of challenges. Communication

and collaboration can be more difficult when team members are not in the same physical location. Cultural differences and time zone differences can also pose challenges to effective teamwork.

To overcome these challenges, outsourcing providers need to invest in tools and processes that facilitate remote collaboration, such as video conferencing, project management software, and collaborative document sharing tools. They also need to establish clear communication protocols and ensure that team members have the necessary skills to work effectively in a remote environment.

Overall, remote and distributed teams can provide significant benefits for software outsourcing customers. By tapping into a global talent pool and embracing the flexibility and productivity advantages of remote work, outsourcing customers can achieve their business objectives more effectively and efficiently.



## FOCUS ON SECURITY AND DATA PRIVACY

Security and data privacy have become major concerns for software outsourcing customers. With the increasing amount of sensitive data being shared and stored online, businesses need to ensure that their outsourcing providers have robust security measures in place to protect their data.

Outsourcing providers need to implement security controls and best practices to safeguard their customers' data. This includes implementing secure access controls, encryption, and data backup procedures. They also need to comply with relevant security and privacy regulations such as GDPR, CCPA, and HIPAA, depending on the nature of the data they are handling.

To meet the growing demands of their customers, outsourcing providers may need to invest in security certifications such as ISO 27001 or SOC 2 to demonstrate their commitment to security and data privacy.

In addition to implementing security measures, outsourcing providers need to establish clear data privacy policies and procedures to ensure that data is handled in accordance with relevant regulations and

best practices. This includes establishing procedures for data handling, data retention, and data disposal.

Outsourcing customers can also take steps to protect their data by conducting due diligence when selecting outsourcing providers. This includes assessing the provider's security posture, evaluating their compliance with relevant regulations, and establishing clear data privacy policies and procedures in their contracts.

Overall, security and data privacy are critical considerations for software outsourcing customers, and outsourcing providers that prioritize these concerns will be well-positioned to succeed in the market.

Security and data privacy are critical considerations for software outsourcing customers. By partnering with outsourcing providers that prioritize security and data privacy, customers can protect their sensitive data, comply with regulations, maintain business continuity, and preserve customer trust.

## GREATER ADOPTION OF EMERGING TECHNOLOGIES



Emerging technologies such as artificial intelligence (AI), machine learning, blockchain, and the Internet of Things (IoT) are transforming various industries, and software outsourcing customers are increasingly seeking expertise in these areas.

AI and machine learning are being used to automate routine tasks, improve decision-making, and provide personalized experiences to customers. Outsourcing providers with expertise in AI and machine learning can help customers leverage these technologies to improve their operations, reduce costs, and drive innovation.

Blockchain technology is being used to secure transactions, enable smart contracts, and provide transparency and traceability in supply chains. Outsourcing providers with blockchain expertise can help customers leverage this technology to improve their security, reduce fraud, and streamline their operations.

The Internet of Things (IoT) is being used to connect devices and enable real-time monitoring and control of physical systems. Outsourcing providers with IoT expertise can help customers leverage

this technology to improve their operations, reduce downtime, and provide better customer experiences.

To stay ahead of the curve, outsourcing providers need to stay up-to-date with emerging technologies and invest in developing their expertise in these areas. They need to provide training and development opportunities for their staff and establish partnerships with technology vendors to access the latest tools and resources.

Outsourcing customers can also take steps to leverage emerging technologies by seeking out providers with expertise in these areas and incorporating these technologies into their digital transformation strategies.

Overall, the adoption of emerging technologies is likely to accelerate in the coming years, and outsourcing providers that can help their customers stay ahead of the curve will be well-positioned to succeed in the market.





## INCREASED COLLABORATION BETWEEN OUTSOURCING PROVIDERS AND

Increased collaboration between outsourcing providers and clients is beneficial for both parties. By working closely together, outsourcing providers can better understand their clients' business needs, priorities, and objectives, and deliver services that align with those goals. Clients, in turn, can leverage the expertise and capabilities of outsourcing providers to improve the quality and efficiency of their operations.

Some of the benefits of increased collaboration between outsourcing providers and clients include:

**Better communication:** Collaboration facilitates better communication between outsourcing providers and clients, ensuring that everyone is on the same page regarding project goals, timelines, and expectations.

**Enhanced transparency:** Collaboration can also enhance transparency, allowing clients to have greater visibility into the work being performed by outsourcing providers and ensuring that they are receiving the level of service they require.

**Improved responsiveness:** With increased collaboration, outsourcing providers can be more


responsive to clients' needs, adjusting their services as required to meet changing business requirements.

**Higher quality output:** Collaboration allows outsourcing providers to better understand their clients' business processes and workflows, resulting in higher quality output that meets their clients' expectations.

**Increased innovation:** By working closely together, outsourcing providers and clients can share ideas and insights, resulting in increased innovation and the development of new solutions to business challenges.

Increased collaboration between outsourcing providers and clients is a win-win situation. By working together, both parties can achieve better results and deliver greater value to their customers.





## GREATER EMPHASIS ON OUTCOME-BASED PRICING MODELS CLIENTS



Outcome-based pricing models for software outsourcing customers are becoming increasingly popular. In these models, customers pay for the results achieved by the outsourcing provider, rather than the time and resources spent on the project. This approach aligns the interests of both parties, ensuring that the outsourcing provider is motivated to deliver high-quality results in a timely manner, while the customer is assured of receiving a satisfactory outcome.

Some of the benefits of outcome-based pricing models for software outsourcing customers include:

**Cost predictability:** Customers know exactly how much they will pay for the outcome, which provides greater cost predictability and helps them manage their budgets more effectively.

**Improved quality:** Since outsourcing providers are paid for results, they are motivated to deliver high-quality outcomes that meet or exceed customer expectations.

**Increased flexibility:** Outcome-based pricing models can be more flexible than traditional pricing models, allowing customers to adjust the scope of

the project as needed without incurring additional costs.

**Better risk management:** Outcome-based pricing models shift the risk of the project from the customer to the outsourcing provider, which can help customers manage risk more effectively.

**Greater alignment of interests:** Outcome-based pricing models align the interests of the outsourcing provider and the customer, ensuring that both parties are focused on achieving the same outcomes.

Outcome-based pricing models can provide significant benefits for software outsourcing customers. By focusing on results rather than inputs, these models can help customers achieve their business objectives more effectively and efficiently.

# Never a Better Time for Software Development Outsourcing 2023-2025

There are several reasons why 2023-2025 may be an opportune time for software development outsourcing:

**Recovery from the pandemic:** Many companies have been impacted by the COVID-19 pandemic, and outsourcing can be a cost-effective way to recover from the economic downturn. Outsourcing can help companies reduce their overhead costs and access skilled resources without increasing their fixed costs.

**Increased adoption of remote work:** Remote work has become more prevalent due to the pandemic, making it easier for companies to collaborate with outsourced development teams located in different parts of the world. This means that companies can benefit from a wider pool of talent without the need for physical office space.

**Greater emphasis on digital transformation:** The pandemic has accelerated the need for companies to adopt digital solutions, which has increased the demand for software development outsourcing. Outsourcing can help companies

quickly develop and implement digital solutions to stay competitive in the market.

**Emergence of new technologies:** Emerging technologies like artificial intelligence, machine learning, and blockchain are changing the software development landscape. Outsourcing can provide companies with access to expertise in these new technologies, allowing them to stay ahead of the competition.

**Competitive pricing:** The global software development outsourcing market is highly competitive, which has driven down the cost of outsourcing services. This means that companies can benefit from high-quality development services at a lower cost.

These factors suggest that the coming years may be an opportune time for software development outsourcing, with companies able to access a wider pool of talent, benefit from competitive pricing, and leverage new technologies to stay ahead of the competition.

# Eastern Europe as Software Outsourcing Region for 2023-2025

Eastern Europe offers a highly skilled workforce, cultural compatibility, time zone compatibility, cost-effectiveness, government support, and proximity to major markets, making it an attractive destination for software development outsourcing in 2023-2025.

**High-Quality Talent:** Eastern Europe has a strong pool of highly skilled developers with expertise in various technologies and programming languages. The region has a strong tradition of mathematics and engineering education, resulting in a large pool of highly educated and experienced software engineers.

**Cultural Compatibility:** The cultural compatibility of Eastern Europe with Western Europe and North America is a significant advantage. English is widely spoken and is the language of business in many Eastern European countries, which makes communication easier between clients and providers.

**Time Zone Compatibility:** Eastern Europe is in the same or similar time zones as many European countries, making communication and collaboration more comfortable than with providers in other regions such as Asia.

**Cost-Effective:** Compared to Western Europe and North America, Eastern Europe offers lower development costs while still maintaining high-quality standards. The rates for software development in Eastern Europe are generally lower than those in Western Europe and North America, while the quality of work is still high.

**Government Support:** Eastern European countries have actively been promoting their software development industries, offering tax incentives and other support to encourage the growth of the IT sector and the client.

**Proximity to Major Markets:** Eastern Europe is geographically close to many of the world's major markets, including Western Europe and North America. This proximity enables software outsourcing providers to offer flexible services with shorter project turnaround times and faster response times to clients' requests.

# Getting Software Outsourcing Partnerships Right from the Start

Getting software outsourcing partnerships right from the start is crucial for the success of any project. Here are some tips to help ensure a successful partnership:

**Clearly define project goals:** Clearly define the project goals and communicate them to the outsourcing partner. Make sure both parties have a shared understanding of the project scope, timelines, budget, and expected outcomes.

**Choose the right partner:** Take the time to research and choose the right outsourcing partner. Look for a partner that has experience in your industry, with the technologies you require and can provide the necessary resources to meet your project goals.

**Establish open communication:** Establish open communication channels with the outsourcing partner. Make sure that there is a clear and regular communication plan in place to provide status updates, address any issues, and ensure that both parties are aligned on project progress.

**Define a detailed contract:** Define a detailed contract that outlines the terms and conditions of the outsourcing partnership, including expectations,

responsibilities, and deliverables. Make sure both parties agree to the contract terms before starting the project.

**Ensure quality control:** Establish a quality control process to ensure that the software development meets the required standards. This can include regular code reviews, testing, and quality assurance measures.

**Build a strong relationship:** Building a strong relationship with the outsourcing partner is essential for the long-term success of the project. Encourage open communication, provide feedback, and establish a collaborative working environment to foster a strong working relationship.

By following these tips, companies can establish a successful outsourcing partnership and ensure the delivery of high-quality software development projects.

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EMPOWERING YOUR BUSINESS  
THROUGH TECHNOLOGY

## About Us

Kodevent has become a trusted partner for startups and rapidly-growing tech companies by maintaining a strong, customer-centric approach, adhering to global standards in custom software development, and striving for top-tier quality. Kodevent's team of enthusiastic and passionate engineers is dedicated to reliability and consistently delivering the best possible results. We collaborate with a team of professionals who provide mutual support to deliver excellence in all major technologies. Our focus is always on providing high-quality solutions that meet and exceed our clients' expectations.

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