CBI MARKET SURVEY

THE SOFTWARE, IT SERVICES AND OUTSOURCING MARKET IN SPAIN

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Report summary

This CBI market survey discusses, among other things, the following highlights for the market for software, IT services and outsourcing in Spain:

- The software and IT services market amounts to almost € 7 billion.
- In the EU, Spain is one of the medium sized markets.
- The Spanish market for ICT grew 10% in 2005.
- Both software and IT services are expected to keep on growing in 2006.
- Outsourcing is common in Spain, offshoring, however, is less common.
- Spanish companies are considering offshore outsourcing user support and network data management.
- Spanish companies offshore to the well-known offshore countries, but also to Tunisia.
- Spain is looking to profile itself as an offshore destination.

This survey provides exporters of the software and IT services sector with sector-specific market information related to gaining access to Spain. By focusing on a specific country, this survey provides additional information, complementary to the more general information and data provided in the CBI market survey "The software, IT services and outsourcing market in the EU", which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.nl/marketinfo.

There is a clear relationship between chapter 1 and 2. Chapter 1 discusses information on the end market for software and IT services in the country. The structure and growth of this end market determine the opportunities for offshore outsourcing, which is the topic of chapter 2.

1. Market description: consumption and supply

Demand

The Spanish software and IT services market is a medium sized market in Europe with a volume of almost € 7 billion. It is comparable with the Swedish market, while the Belgian market is smaller. The IT sector as a whole continues the growth that was initiated in 2003. Within this segment it is hardware and IT services that are the heavy weights. Together these two represent 73% of the total IT sector.

Software

Table 1.1 gives the value of the Spanish software market, which was worth € 2.6 billion in 2005. Software spending is set to grow strongly in Spain.

Market segmentation

Applications form 49% of the Spanish software market. Customer relationship management (CRM), product lifecycle management (PLM), human resources (HR), and certain vertical applications should be the main locomotives of growth in 2005/2006 and beyond. System infrastructure software, which represents 29% of the total Spanish software market, should exceed 5% growth starting in 2006, thanks to data warehousing, security, and system upgrade projects.

Table 1.1 Spanish software market in € million, 2003 – 2007

	2003	2004	2005	2006*	2007*
Systems software	1,119	1,213	1,357	1,482	1,607
Application software	1,008	1,065	1,157	1,206	1,270

* forecast
Source: EITO (2006)

IT services

It is anticipated that IT services will grow significantly in Spain during the period 2006 and 2007 (see table 1.2), with outsourcing playing the major role as Spanish companies need to optimise the use of their internal and external resources to counter the competition coming from new EU members and other emerging economies. The overall IT services market is pushed by ongoing government investments and a willingness to catch up with the rest of Western Europe in terms of hardware and software implementation.

Table 1.2 Spanish IT services market in € million, 2003 – 2007

	2003	2004	2005	2006*	2007*
Professional services	3,011	3,216	3,460	3,788	4,153
Support services	1,157	1,176	1,280	1,380	1,484

* forecast
Source: EITO (2006)

Other highlights:

- Contract staff forms 26% of the total Spanish IT services market. The market returned to growth in 2005 (+5%). New requirements around portals, open source, and integration platforms should get this market going again.
- Systems integration forms 24% of the total Spanish IT services. New projects are still slow to start, with clients still wanting to reduce costs and get a return on past investments.
- Outsourcing generated 25% of all IT services segments and was the major market for growth in 2004 and 2005 (over 8%). Application management is the smallest but most dynamic market segment, and should yield average growth rates above 12% until 2009.

Vertical sectors

- In 2005 the public and finance sectors will be leading the Spanish market in terms of growth. Strongly pushed by central and local government investments and initiatives, the public sector is the largest sector for future IT spending. This segment will maintain its dynamism in 2006 (+8.6%).
- The telecom and utilities sectors grew at market pace (+5.9%) due to increasing enterprise architecture needs for telecom firms and the liberalization of the electricity market in the utilities sector. Projections are above market trends (over 8%).
- Less dynamic in terms of IT innovation adoption, retail and services sectors are slowing the recovery.

Supply

Production in the Spanish market for information technologies amounted to almost € 10 billion in 2005, an increase of 8% compared to 2004. Almost half of the Spanish software market consists of local production whereas most IT services in the market are provided by local firms or subsidiaries of foreign companies. Experts estimate that only 7% of the IT services are directly provided by foreign firms through the import of services. For DC exporters, suppliers of software and IT services can be potential clients, for example by means of outsourcing.

Many companies operating in Spain are subsidiaries of international companies, mostly from the U.S., Germany, Japan and France. Some of the top players in the IT industry are foreign firms (Hewlett-Packard, IBM, Siemens, Compaq, Tech Data, Ingram Micro or Cisco). But some local firms (such as Grupo Informatica El Corte Ingles, Indra or Soluziona, to name a few) are also considered leaders in the local market. Table 1.3 gives some websites for the players mentioned.

Table 1.3 Major Spanish IT service companies

Company	websites
Azertia	http://www.azertia.com
Coritel	http://www.coritel.es
EDS	http://www.eds.com/about/locations/spain/
Gedas Iberia	http://www.gedas.es/
HP	http://www.hp.com/country/es
Ibermatica	http://www.ibermatica.com
IBM	http://www.ibm.com/es/
Informativa El Corte Ingles	http://www.ieci.es/wwwieci4/html
Indra	http://www.indra.es/

Source: Internet sources (2006)

The market for IT services is concentrated with 10 firms providing nearly 70% of the IT services in the Spanish market. In this segment, most direct clients are in the finance sector, public administration and general industrial activities. The most important regions in the IT sector are either in Madrid or Catalonia (region around Barcelona). Other interesting regions are Andalusia (Southern Spain), the Basque Country and Valencia.

Trends

- Software spending is expected to rise fast in the coming years.
- IT services continues its growth.

Opportunities and threats

- IT companies in Spain are often subsidiaries of large foreign companies, which makes market entry for DC exporters more difficult.
- The market for IT services is dominated by large companies that have a market share of over 70%.

Useful sources

- Asociación de Empresas de Electrónica, Tecnologías de la Información y Telecomunicaciones de España (AETIC) - http://www.aetic.es
- Country Commercial Guide Spain (CCG) - http://www.buyusainfo.net/docs/x_529858.pdf
- European Information Technology Observatory (EITO) - http://www.eito.com

2. Offshore outsourcing

The market

Outsourcing in Spain takes up 35% of the total consulting sector. This makes it an important sector in the Spanish market. A movement toward the externalisation of services that do not belong to the core business of the company can also be seen in Spain. Of the total outsourcing sector IT services outsourcing is the largest of outsourcing services with 54%. Application management is responsible for 33% and BPO takes up the other 13%.

In 2005, Spain imported IT products and software for almost € 6 billion. This was an increase of 9% compared to 2004. The import of this sector valued 35% of the total imports of the technological sector. More than half of the large and medium sized companies practise outsourcing. Most of them use partial outsourcing. In general, an outsourcing contract has a duration of 1 year in Spain.

The development of offshoring in Spain is partly limited by most Spanish companies' need for control over their activities. The rise of offshoring also has a negative side for the Spanish Software and IT services market. Some foreign companies that have had work offshored to Spain leave the country and go to Eastern Europe, due to financial considerations.

What is (offshore) outsourced

According the PPI survey by Synstar (2004), the most ideally outsourced service by Spanish companies was infrastructure support and maintenance (45%) and user support (28%). Spanish companies consider offshore outsourcing the following IT functions :

- User support (44%)
- Network data management (43%)
- Business continuity (33%).

Reasons to outsource

The most important advantages of outsourcing, according to Spanish companies, include

- allows to focus on the job in hand (32%)
- guaranteed service levels (22%)
- cost control (20%)
- access to skill that we lack in house (19%)

49% of the IT directors believe that there is an IT skills shortage in Spain. System integration (80%) and security (64%) are skills that are believed to be in short supply. When looking at the number of IT jobs going offshore, Spain is not so big. Compared to the UK, Germany, France, the Netherlands, Sweden and Belgium, it is the last in this list. This also has to do with the fact that Spain is mainly focussing on presenting itself as an interesting outsourcing location to other EU countries. Prices are already fairly low in Spain itself and Spanish companies like to keep control over their activities.

Offshore destinations

Tunisia and Morocco are important offshore destinations for Spain, both because of their proximity to Spain and because of the language. Latin America is also a major destination region. Main reasons for offshoring to these countries are the cultural, social and language fit. (source: http://www.consultoras.org)

Spain as an offshore destination

Spain wants to profile itself as a nearshore destination for European companies. Spain is known to have the lowest prices for software and IT services in Western Europe; the quality of the work is good and the cultural differences are smaller than with other parts of the world. Consulting agencies also place Spain in the top ten of nearshore locations. However, Spain faces strong competition here from other nearshore destinations in the new EU countries and other Eastern European countries. Prices are often even lower there. In addition, offshore destinations in Asia (even cheaper) and Latin America (language) are fierce competitors for Spain in the fight for offshore work.

Opportunities and threats

- The Spanish market is not totally open with regard to offshoring. Therefore it can be a hard market to work on for DC exporters.
- The market presents itself as a nearshore destination to EU countries, which makes it a competitor for DC exporters.

Useful sources

- CeBIT Trade Fair - http://www.cebit.de
- Country Commercial Guide Spain (CCG) - http://www.buyusainfo.net/docs/x_529858.pdf
- EUROITX - http://www.euroitx.com

3. Trade structure

In this paragraph, the general distribution channel for software and IT-services will be discussed. These channels apply to each EU-market and, therefore, also to the Spanish market.

The most important channels for trade software related services are:
1. Establishing your own sales office.
2. Consultant/broker.
3. Direct contact with Spanish software manufacturer.
4. Spanish software manufacturer setting up his own factory in a developing country.

The most important channels for IT services are:
1. Establishing your own sales office.
2. Consultant/broker.
3. Partnerships with large service providers (system integrators).
4. Contacting end-user organisations directly.
5. Contacting local offices of multinationals in the home country of the services provider.

Some names of some main players and their websites can be found in chapter 1. For more information about the trade structure for outsourcing software related services, please refer to the CBI market survey "The software, IT services and outsourcing market in the EU".

Specific trade structure facts for Spain
- Spanish companies prefer face to face contact when closing a deal.
- The most common Spanish forms of representation agreements are:

1. Distribution Agreements
2. Agency Agreements
3. Commission Agency Agreements

Useful sources
- Country Commercial Guide Spain (CCG) - http://www.buyusainfo.net/docs/x_529858.pdf
- EUROITX - http://www.euroITX.com

4. Prices and margins

It is quite difficult for suppliers of software related services and IT services to give exact prices, and it is also hard to obtain information about current price levels. Licence prices for software can usually be found on the websites of software suppliers. Information on implementation costs can be found in reports concerning business software, also giving ranges of costs for software and implementations.

What is known about Spain is that prices for software and IT services are low compared to other EU countries. This while the quality is perceived as rather high. Still prices in Spain are much higher than in typical offshore areas such as Asian countries and Eastern European countries. Prices in new EU member countries are also still a little lower. Price pressure has abated slightly.

According to Salary Expert (http://www.salaryexpert.com), a software engineer working in Spain earns an average annual salary of € 65,550. When benefits and bonuses are added to this salary, the average total compensation for this position would be € 68,026.

Useful sources
Price information can be obtained through trade organisations, trade press or trade fairs. Other possibilities include checking for prices on the Internet, asking for prices at distributors, agents and other distribution channels. Also take a look at websites of competitors.

For more information please also refer to the CBI market survey "The software, IT services and outsourcing market in the EU".

5. Market access requirements

Since software and IT services outsourcing are in the field of services, they are not subject to import duties and/or quota. However, there are non-tariff barriers that DC service providers are facing when they wish to enter the EU market.

Requirements for market access
As an exporter from a developing country preparing to access Spain, you should be aware of the market access requirements of your trading partners and the Spanish government. Requirements are demanded through legislation, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns.

Legislative requirements
National legislation in EU countries is compulsory for all products traded within the country concerned. Therefore, as an exporter from a developing country you have to comply with the legislative requirements that are applicable to your products. For information on legislation for software and IT services go to 'Search CBI database' at http://www.cbi.nl/marketinfo, select your market sector, and the EU country of your interest in the category search, click on the search button and click on legislative requirements for an overview of all documents on legislation in your country of interest.

Non-legislative requirements
Social, environmental and quality related market requirements are of growing importance in international trade and are often requested by European buyers through labels, codes of conduct and management systems. For information on non-legislative requirements applicable to software and IT services, go to 'Search CBI database' at http://www.cbi.nl/marketinfo select your market sector and the EU country of your interest in the category search, click on the search button and click on your subject of interest under non-legislative requirements for an overview of all documents on the subject concerned in your country of interest.

For more information please also refer to the CBI market survey "The software, IT services and outsourcing market in the EU".

Useful sources
- CBI – http://www.cbi.nl
  Search for market access requirements

6. Business practices

Selecting a suitable trading partner
There are many ways to find potential business partners in Spain. We focus here on the internet and sources in your own country.

Internet
Some examples of available sources:
- Asociación de Empresas de Electrónica, Tecnologías de la Información y Telecomunicaciones de España (AETIC) - http://www.aetic.es
- Eastern Michigan University's ICT website - http://www.emich.edu/ict_usa

All kinds of trade partners available for several sectors.
- Europages – http://www.europages.com
- Kellysearch - http://www.kellysearch.com/
- Kompass – http://www.kompass.com (mostly fee based, but the free part is very useful too)
- Sedisi Spanish Association of IT Firms - http://www.sedisi.es
- Spain Industry – Directory of Importers, Exporters and Businesses - http://www.spaindustry.com
- Thomas Global Register Europe - http://www.trem.biz/

For more details about how to search some of databases, please refer to the CBI Export Manual "Digging for Gold".

Your own (DC) country

- Public and private trade promotion bodies
- Diplomatic and consular representatives
- The Spanish chamber of commerce in your country. Find it at http://www.worldchambers.com.
- The Spanish Embassy in your country. Find it at http://www.embassyworld.com.
- Trade associations for individual product groups.

Also refer to CBI's "Export Planner" at http://www.cbi.nl, an export manual that provides information on the different steps to be taken during the export process to the EU market.

Reaching an agreement with your trade partner

When dealing with a Spanish trade partner it is important to know what problems they face during outsourcing projects. Spanish companies mention that the most important problems they face when outsourcing are the following:

- Supplier does not deliver (most important reason)
- Lack of a constructive working partnership
- Lack of mutual trust

Playing to these difficulties when coming to terms with a trade partner is very important when a provider wants to come to terms with a Spanish trade partner.

Cultural tips

When dealing with a Spanish company it is very important to take the Spanish culture on business and social occasions into account.

- Face-to-face meetings with Spanish business representatives are very important to break into this market. Initial communication by phone or fax is far less effective than a personal meeting. Spaniards expect a personal relationship with suppliers.
- Dining is usually associated with establishing business relationships in Spain, so be prepared for your business associate(s) to join you at any or all of your daily meals. A large portion of your communication will take place over lunches and dinners. They are an extremely important part of business life in Spain.
- Time is very relaxed. It is wise for foreigners to be punctual, but Spaniards do not put a great emphasis on time themselves. The Spaniards often consider deadlines an objective that will be met if possible, but do not become overly concerned if the deadline is not achieved.
- Although many Spanish businesspeople speak English, it is a good idea for foreigners to have all of your materials printed in Spanish.
- Business cards should be two-sided, one side having English and the other side containing Spanish. When presenting your business card, place the card with the Spanish side facing your Spanish colleague
- Be prepared for chaotic business negotiations. Often numerous people will be speaking simultaneously.
- Negotiations are usually extremely time consuming, so do not be in a rush to close a deal in Spain.

For more information on the Spanish business culture and culture in general, please also refer to http://www.kwintessential.co.uk. Hit "country profiles" and choose a country. For information on negotiating and coming to terms with your trade partner please refer to CBI 's "Export Planner".

Sales promotion
Software and IT services can be promoted through several sources:

Trade press
The most important magazine is VNU:
- VNU - http://www.vnunet.es/

Trade fairs
Beside the trade press, trade fairs are also a good opportunity to do sales promotion. The most important trade fair on software and IT services in Spain is the SIMO.
- Feria Internacional de Informatica y Telecomunicaciones,Nuevas Tecnologias (SIMO) - http://www.simo.ifema.es

For more information also refer to the CBI 's "Export planner" and CBI's "your image builder".

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